



ANNUAL REVIEW 2015

BANK OF JAPAN



BANK OF JAPAN

ANNUAL REVIEW 2015

Year Ended March 31, 2015

OUR POLICY AND OPERATIONS



Bronze horse-watering station in the courtyard



Foreword by the Governor	5
About the Bank of Japan	7
I. Core Purposes	8
II. Capital	9
III. The Bank's Officers	10
IV. Organization	14
The Bank's Business Operations	21
I. Monetary Policy	22
II. Financial System Policy	23
III. Enhancement of Payment and Settlement Systems and Market Infrastructure	25
IV. International Operations	26
V. Issuance, Circulation, and Maintenance of Banknotes	26
VI. Services Relating to the Government	27
VII. Communication with the Public	27
The Bank's Review of Fiscal 2014	29
I. Introduction	30
II. Review of Economic and Financial Developments and Monetary Policy Meetings	30
III. Performance Reviews of Measures Taken Under the Strategic Priorities	37
The Bank's Organizational Management in Fiscal 2014	49
I. Statement of Accounts and Budget for Expenses	50
II. IT Investment	50
III. Human Resources	50
IV. Organizational Management Measures	51
V. Internal Audits	52
The Bank's Accounts:	
Financial Statements and Other Documents for Fiscal 2014	53
I. Assets and Liabilities, Profits and Losses, and Capital Adequacy Ratio	54
II. Financial Statements	63
III. Schedule for the Financial Statements	72
IV. Expenses	78
Appendixes	81
■ Appendix 1: Overview of Audits of the Bank of Japan	82
■ Appendix 2: The Bank of Japan's Strategic Priorities for Fiscal 2014–2018	84
Information	93

For more information about the Bank of Japan, visit the Bank's web site
(<http://www.boj.or.jp/en/index.htm>).

An online version of this Annual Review is available in PDF on the Bank's web site
(<http://www.boj.or.jp/en/about/activities/act/data/ar2015.pdf>).



FOREWORD BY THE GOVERNOR



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

The *Annual Review* provides excerpts from the Japanese original *Gyōmu Gaikō Shō* (Outline of Business Operations), which is prepared pursuant to Article 55 of the Bank of Japan Act. The *Gyōmu Gaikō Shō* for fiscal 2014 and the *Annual Review 2015* have been drawn up and released to explain to readers the implementation of the Bank's business operations during fiscal 2014. Throughout the fiscal year, the Bank, in accordance with "The Bank of Japan's Strategic Priorities for Fiscal 2014-2018," continued to address various issues and move forward with a number of action plans, while ensuring the timely conduct of its business operations and organizational management in view of changes in circumstances. The Bank will proceed with its efforts as the country's central bank to achieve the sustainable growth and development of Japan's economy. I hope this year's *Annual Review* will help readers to gain an overview of the Bank's efforts.

A handwritten signature in cursive script that reads "Haruhiko Kuroda".

Haruhiko Kuroda

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).

Table 1
History of the Bank of Japan

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

I. CORE PURPOSES

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

Article 1

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

contributing to the maintenance of stability of the financial system.

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

Article 2

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

II. CAPITAL

The Bank is capitalized at 100 million yen in accordance with Article 8, paragraph 1 of the Act. As of the end of March 2015, 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.² Dividend payments as a proportion of paid-up capital are limited to 5 percent or below in each fiscal year.³

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	40,099	40.1
Financial institutions	2,199	2.2
Public organizations	171	0.2
Securities companies	23	0.0
Other firms	2,496	2.5
Total	100,000	100.0

Note: 1. Rounded down to the nearest 1,000 yen. As of the end of March 2015.

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

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

3. Stipulated by Article 53, paragraph 4.

III. THE BANK'S OFFICERS

The Bank's officers are the Governor, Deputy Governors, Members of the Policy Board, Auditors, Executive Directors, and Counsellors.⁴ Of the above, the Governor, Deputy Governors, and Members of the Policy Board make up the Policy Board.⁵

The Governor, Deputy Governors, and Members of the Policy Board are appointed by the Cabinet, subject to the consent of the House of Representatives and the House of Councillors. Auditors are appointed by the Cabinet. Executive Directors and Counsellors are appointed by the Minister of Finance based on the Policy Board's recommendation.⁶

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.⁷ 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.⁸

For duties and powers of the Bank's officers, see Table 3.⁹

Table 3

Duties and Powers of the Bank's Officers

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

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

5. Stipulated by Article 16, paragraph 2.

6. Stipulated by Article 23.

7. Stipulated by Article 24.

8. Stipulated by Article 25.

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

Policy Board Members^{1, 2}



Standing from left to right: Yutaka Harada, Takehiro Sato, Sayuri Shirai, Koji Ishida, Takahide Kiuchi, and Yukitoshi Funo
Seated from left to right: Kikuo Iwata, Haruhiko Kuroda, and Hiroshi Nakaso

Haruhiko Kuroda

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

Date of Birth

October 25, 1944

Education

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

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

Notes: 1. Members are as of August 14, 2015.

2. The texts of speeches by Policy Board members are available on the Bank's web site (http://www.boj.or.jp/en/announcements/press/koen_speaker/index.htm).

Kikuo Iwata

Deputy Governor

Date of Birth
October 3, 1942

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

1973 Lecturer, Sophia University
1976 Associate Professor, Sophia University
1983 Professor, Sophia University
1998 Professor, Gakushuin University
2013 Present position

Sayuri Shirai

Date of Birth
January 2, 1963

Education
Keio University
(1987, B.A. in Sociology and 1989, M.A. in Economics)
Columbia University
(1993, Ph.D. in Economics)

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

Takehiro Sato

Date of Birth
August 2, 1961

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

1985 Joined The Sumitomo Bank, Ltd.
1999 Joined Morgan Stanley Japan, Ltd.
2006 Executive Director, Chief Economist for Japan, Morgan Stanley Japan Securities Co., Ltd. (MSJS)⁶
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.⁷
Present position

Yutaka Harada

Date of Birth
September 1, 1950

Education
The University of Tokyo
(1974, B.A. in Agricultural Economics)
University of Hawaii
(1979, M.A. in Economics)
Gakushuin University
(2012, Ph.D. in Economics)

1974 Joined the Economic Planning Agency
1995 Director, Social Research Division, Social Policy Bureau
1997 Director, Overseas Research Division, Research Bureau
1998 Director, Price Policy Division, Price Bureau
1999 Vice President, Policy Research Institute, Ministry of Finance
2002 Executive Research Fellow, Economic and Social Research Institute, Cabinet Office
2004 Chief Economist, Daiwa Institute of Research, Ltd.
2012 Professor, Waseda University
2015 Present position

Hiroshi Nakaso

Deputy Governor

Date of Birth
October 12, 1953

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

1978 Joined the Bank of Japan
1997 Director, Head of Financial System Division, Financial and Payment System Department
2000 Deputy Director-General, Financial and Payment System Department
Transferred to the Bank for International Settlements
2001 Deputy Director-General, Financial Markets Department and International Department, Bank of Japan
2003 Director-General, Financial Markets Department
2008 Executive Director
2010 Assistant Governor
2013 Present position

Koji Ishida

Date of Birth
June 22, 1947

Education
The University of Tokyo
(1970, B.A. in Economics)

1970 Joined The Sumitomo Bank, Ltd.
2001 Managing Director and General Manager, Planning Department, The Sumitomo Bank, Ltd.
Managing Director and General Manager, Corporate Planning Department, Sumitomo Mitsui Banking Corporation (SMBC)³
2004 Senior Managing Director (Representative Director), Sumitomo Mitsui Financial Group, Inc. (SMFG)⁴
2006 President, SMBC Leasing Co., Ltd.
2007 President, Sumitomo Mitsui Finance and Leasing Co., Ltd. (SMFL)⁵
2011 Present position

Takahide Kiuchi

Date of Birth
November 29, 1963

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

1987 Joined Nomura Research Institute, Ltd. (NRI)
2002 Head of Japanese Economic Research Unit and Senior Economist, NRI
2004 Joined Nomura Securities Co., Ltd. (NSC)
Deputy Head of Economic Research Department and Head of Japanese Economic Research Section, Financial and Economic Research Center, NSC
2007 Managing Director, Head of Economic Research Department and Chief Economist, Financial and Economic Research Center, NSC
2012 Present position

Yukitoshi Funo

Date of Birth
February 1, 1947

Education
Kobe University
(1969, B.A. in Business Administration)
Columbia University
(1976, MBA)

1970 Joined Toyota Motor Corporation (TMC)
2000 Director, TMC
2003 President, Toyota Motor Sales, U.S.A., Inc. (TMS)
2005 Chairman and Chief Executive Officer, TMS
2006 Chairman and Chief Executive Officer, Toyota Motor North America, Inc. (TMA)
2009 Executive Vice President and Member of the Board, TMC
2013 Senior Advisor to the Board, TMC
Chief Executive Officer, Institute for International Economic Studies
2015 Present position

Notes: 3. Established in 2001 through merger of The Sumitomo Bank, Ltd. and The Sakura Bank, Ltd.

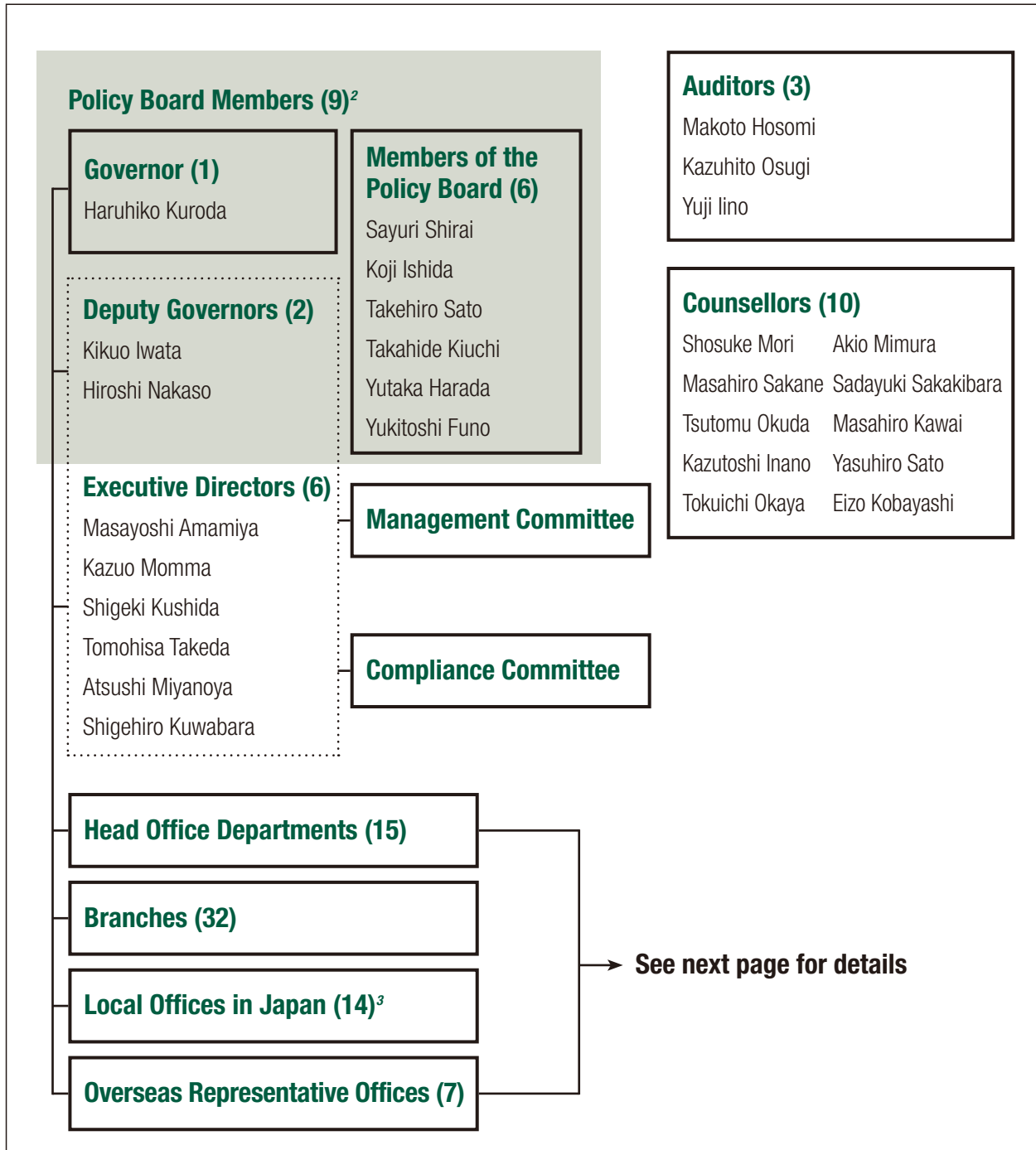
4. Established in 2002 as a holding company, and SMBC then became a wholly-owned subsidiary of SMFG.

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

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

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

IV. ORGANIZATION

Organization Chart of the Bank¹

Notes: 1. As of August 14, 2015.

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	Ryota Yanagihara (Director-General) Junichi Iwabuchi (Director-General, Senior Secretary to the Governor) Yoji Onozawa (Director-General for Management Strategy, Budget, and Accounting)
Internal Auditors' Office	Tatsushi Kurihara (Director-General)
Monetary Affairs Department	Shinichi Uchida (Director-General)
Financial System and Bank Examination Department	Kimihito Etoh (Director-General)
Payment and Settlement Systems Department	Ryuichi Shogan (Director-General)
Financial Markets Department	Hiromi Yamaoka (Director-General)
Research and Statistics Department	Toshitaka Sekine (Director-General)
International Department	Shigeto Nagai (Director-General)
Currency Issue Department	Yutaka Okada (Director-General)
Operations Department	Mitsuru Nomura (Director-General)
Information System Services Department	Yasuhiro Yamada (Director-General)
Public Relations Department	Norikazu Takahashi (Director-General)
Personnel and Corporate Affairs Department	Nobuyasu Yoshioka (Director-General)
Administration Department	Takeshi Nakamura (Director-General)
Institute for Monetary and Economic Studies	Kenichirou Watanabe (Director-General)

Overseas representative offices		Telephone numbers	General managers/ chief representatives
New York	Bank of Japan Chief Representative Office for the Americas Bank of Japan Representative Office in New York 140 Broadway, 18th Floor, New York, NY 10005, U.S.A.	+1-212-269-6566	Tetsuya Sakamoto (General Manager for the Americas and Chief Representative in New York)
Washington, D.C.	Bank of Japan Representative Office in Washington, D.C. 2100 Pennsylvania Ave., N.W., Suite 505, Washington, D.C. 20037, U.S.A.	+1-202-466-2228	Takeshi Mori (Chief Representative in Washington, D.C.)
London	Bank of Japan Chief Representative Office for Europe Bank of Japan Representative Office in London Basildon House, 7-11 Moorgate, London EC2R 6AF, U.K.	+44-20-7606-2454	Ken Matsushita (General Manager for Europe and Chief Representative in London)
Paris	Bank of Japan Representative Office in Paris 17 Avenue George V, 75008 Paris, France	+33-1-4720-7295	Hiroshi Ota (Chief Representative in Paris)
Frankfurt	Bank of Japan Representative Office in Frankfurt Taunusanlage 21, 60325 Frankfurt am Main, Germany	+49-69-9714310	Takeshi Shirakami (Chief Representative in Frankfurt)
Hong Kong	Bank of Japan Representative Office in Hong Kong Suite 1012, One Pacific Place, 88 Queensway, Central, Hong Kong	+852-2525-8325	Ken Chikada (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	Kenji Wada (Chief Representative in Beijing)

Functions of Committees/Departments/Offices

COMMITTEES AND HEAD OFFICE DEPARTMENTS

Management Committee

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

Compliance Committee

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

Secretariat of the Policy Board

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

Internal Auditors' Office

Audits the Bank's business operations.

Monetary Affairs Department

Plans and formulates monetary policy measures.

Financial System and Bank Examination Department

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

Payment and Settlement Systems Department

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

Financial Markets Department

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

Research and Statistics Department

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

International Department

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

Currency Issue Department

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

Operations Department

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

Information System Services Department

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

Public Relations Department

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

Personnel and Corporate Affairs Department

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

Administration Department

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

Institute for Monetary and Economic Studies

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

BRANCHES AND OFFICES

Branches

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

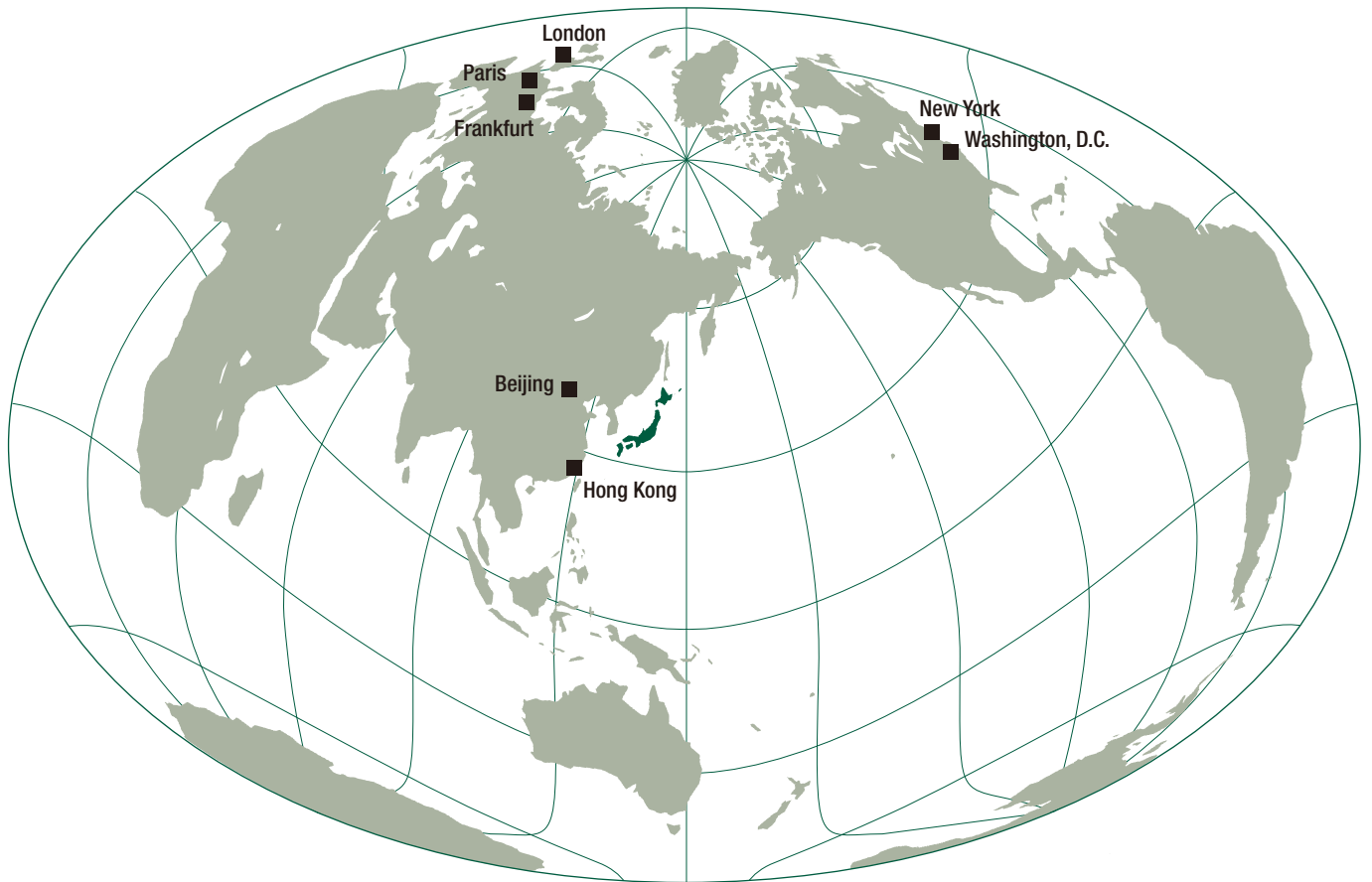
Local Offices in Japan

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

Overseas Representative Offices

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

Overseas Representative Offices¹



Note: 1. For details, see page 15.

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 in accordance with the "price stability target" of 2 percent in terms of the year-on-year rate of change in the consumer price index (CPI), with the aim of achieving price stability and thereby contributing to the sound development of the national economy, as stipulated in Article 2 of the Bank of Japan Act (hereafter the Act). Monetary policy is decided by the Policy Board at Monetary Policy Meetings (MPMs), and money market operations—the Bank's day-to-day provision and absorption of funds in the market—are carried out based on the guideline decided at each MPM. The Bank held 14 MPMs in fiscal 2014.

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

policy released after the relevant MPM.

In order to make appropriate policy decisions, the Bank conducts research and analysis on economic and financial developments at home and abroad. Major findings are reflected in the Bank's releases including the *Monthly Report of Recent Economic and Financial Developments*, the Outlook Report, and the *Regional Economic Report*. The Bank also conducts fundamental studies on economic and financial issues; it publishes the major findings in the *Bank of Japan Working Paper Series*, the *Bank of Japan Research Laboratory Series*, and in research papers released by the Institute for Monetary and Economic Studies (IMES), specifically in the *Monetary and Economic Studies* and the *IMES Discussion Paper Series*.¹

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 2014.²

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

2. The summaries of these two issues in English are available on the Bank's web site; for excerpts from these summaries, see pages 30–35. The full texts are available in Japanese on the web site (<http://www.boj.or.jp>).

II. FINANCIAL SYSTEM POLICY

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

Specifically, the Bank may provide financial institutions suffering a shortage of liquidity with the following: (1) loans against collateral in the form of securities, pursuant to Article 33; and/or (2) other forms of liquidity, in its role as the lender of last resort, pursuant to Articles 37 and 38 of the Act.

In order to be ready to act effectively as the lender of last resort, the Bank strives to gain an accurate grasp of the business conditions at financial institutions and to encourage the maintenance of sound financial conditions, offering guidance and advice as necessary, through the conduct of on-site examinations (examinations that the Bank carries out by visiting the premises of financial institutions pursuant to Article 44 of the Act) as well as off-site monitoring (monitoring that is conducted through meetings with executives and staff of financial institutions, as well as through analysis of various documents submitted by these institutions) (Tables 1 and 2). In addition, through activities such as

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

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

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

Principle 1

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

Principle 2

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

Principle 3

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

Principle 4

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

Table 1

Number of Financial Institutions That Conduct Transactions with the Bank as of the End of Fiscal 2014¹

	Financial institutions that hold current accounts at the Bank		Financial institutions that have concluded agreements for bilateral electronic lending with the Bank	Financial institutions that have concluded loans-on-bills agreements with the Bank	Financial institutions that have concluded intraday-overdraft agreements with the Bank	
	Of which: Financial institutions that have concluded on-site examination contracts with the Bank					
City and regional banks	126	(126)	126	(126)	126	(126)
Trust banks	15	(15)	15	(15)	10	(10)
Foreign banks	52	(53)	52	(53)	39	(40)
<i>Shinkin</i> banks	258	(258)	258	(258)	138	(136)
Financial instruments business operators	35	(35)	35	(35)	30	(30)
Bankers associations	33	(33)	0	(0)	0	(0)
Other institutions	19	(19)	10	(10)	9	(9)
Total	538	(539)	496	(497)	327	(325)

Note: 1. Figures in parentheses indicate the number of institutions as of the end of fiscal 2013.

Table 2

Number of Financial Institutions Examined

	Fiscal 2012	Fiscal 2013	Fiscal 2014
Domestically licensed banks ¹	31	29	33
<i>Shinkin</i> banks	47	55	40
Other institutions ²	20	26	12
Total	98	110	85

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 Payments and Market Infrastructures (CPMI) at the Bank for International Settlements (BIS).

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

financial services and market transactions, the Bank takes initiatives to reinforce the infrastructures of financial and capital markets—exchanging views with market participants, supporting the formulation of additional rules on and revisions of market practices, and compiling and releasing statistics on market transactions, while giving due consideration to developments internationally. As part of its initiatives, the Bank has continued to enhance its business continuity arrangements in preparation for times of disaster or other emergency, and has provided active support to market participants in developing effective business continuity planning (BCP) in financial markets, payment and settlement systems, and the financial system.

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

IV. INTERNATIONAL OPERATIONS

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

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

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

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

V. ISSUANCE, CIRCULATION, AND MAINTENANCE OF BANKNOTES

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

authorized issuer of coins, and then put into circulation.

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

VI. SERVICES RELATING TO THE GOVERNMENT

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

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

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

VII. COMMUNICATION WITH THE PUBLIC

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

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

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

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

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

The Bank's Review of Fiscal 2014

I. Introduction

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

- A. First Half of Fiscal 2014 (April–September 2014)
- B. Second Half of Fiscal 2014 (October 2014–March 2015)

III. Performance Reviews of Measures Taken Under the Strategic Priorities

- A. Plan and Formulate Monetary Policy Measures That Facilitate Policy Conduct
- B. Ensure Stability and Improve the Functioning of the Financial System
- C. Enhance Payment and Settlement Services and Reinforce Market Infrastructure
- D. Conduct Stable and Efficient Central Banking Operations
- E. Contribute to the Response to Globalization on the International Financial Front
- F. Contribute to the Regional Economic and Financial Environment
- G. Strengthen External Communication

I. INTRODUCTION

In March 2014, the Bank of Japan formulated and released "The Bank of Japan's Strategic Priorities for Fiscal 2014–2018."¹ In this document, the Bank adopts a new five-year framework, the content of which will be kept basically unchanged for the whole period, with a view to (1) clarifying the Bank's objectives to be achieved over the medium term and (2) properly evaluating its progress in achieving these. The Bank conducts and makes public performance reviews of measures taken under the Strategic Priorities every fiscal year.

This section provides a brief review of economic and financial developments and decisions made at Monetary Policy Meetings (MPMs) in fiscal 2014, followed by performance reviews of measures taken under the

Strategic Priorities. Each performance review is divided into two parts: a description of progress in implementing specific measures during fiscal 2014, for each of the strategic objectives for its business operations laid out in the Strategic Priorities; and the Bank's evaluation of that progress. The Bank's performance with regard to the strategic objectives for its organizational management is described in "The Bank's Organizational Management in Fiscal 2014" (see pages 49–52).

The Bank will conduct an interim review of the Strategic Priorities during the five-year period in order to address any changes in its environment. It will revise the content flexibly in response to any significant changes in its environment. A thorough review of the entire contents of the Strategic Priorities will be conducted separately.

II. REVIEW OF ECONOMIC AND FINANCIAL DEVELOPMENTS AND MONETARY POLICY MEETINGS²

A. First Half of Fiscal 2014 (April–September 2014)

1. Economic developments

- a. Looking back at the first half of fiscal 2014, Japan's economic activity continued to recover moderately as a trend with a virtuous cycle from income to spending having been maintained in both the household and corporate sectors, although effects such as those of the decline in demand following the front-loaded increase prior to the consumption tax hike were observed and some weakness on the production side was protracted somewhat.

Exports were somewhat weak or more or less flat, particularly in reflection of the sluggishness in emerging economies and the effects of the expansion of overseas production, mainly in automobiles. As for domestic demand, public investment more or less leveled off at a high level. Business fixed investment followed a moderate increasing trend as corporate profits improved. Private consumption remained resilient as a trend with the employment and income situation improving steadily, and the effects of the decline in demand following the front-loaded increase waned on the whole toward end-September, albeit

1. For the text of "The Bank of Japan's Strategic Priorities for Fiscal 2014–2018," see Appendix 2 on pages 84–89.

2. The review provided here comprises excerpts from the summaries of the latest two issues of the *Semiannual Report on Currency and Monetary Control* submitted to the Diet in December 2014 and June 2015. The full texts of both issues in Japanese and summaries in English are available on the Bank's web site.

unevenly. As for housing investment, the decline following the front-loaded increase continued. Industrial production declined clearly in the April-June quarter due to the effects of the decline in demand following the front-loaded increase, and thereafter continued to show some weakness with continued inventory adjustments.

- b. On the price front, excluding the direct effects of the consumption tax hike, the producer price index (PPI) relative to three months earlier followed a moderate uptrend. The year-on-year rate of increase in the consumer price index (CPI, all items less fresh food) was around 1¼ percent, but gradually slowed toward end-September. Inflation expectations appeared to be rising on the whole.

2. Financial developments

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

Long-term interest rates were generally stable in the range of 0.45–0.65 percent, as the Bank progressed with its Japanese government bond (JGB) purchases under quantitative and qualitative monetary easing (QQE). More concretely, long-term interest rates as a whole had been in a narrow range of around 0.6 percent since April, and toward end-August, they temporarily declined to the range of 0.45–0.50 percent on the back of declines in U.S. and European long-term interest rates. Thereafter, with the U.S. long-term interest rates rising again and the yen depreciating, long-term interest rates in Japan temporarily increased and were in the range of 0.50–0.55 percent at end-September.

The Nikkei 225 Stock Average fell at one point, reflecting the situation in Ukraine, but increased since August with a rise in U.S. stock prices and

the depreciation of the yen, and was in the range of 16,000–16,500 yen at end-September.

In the foreign exchange market, the yen had been in a narrow range of 101–103 yen as a whole against the U.S. dollar since April. Since late August, the yen depreciated against the U.S. dollar, reflecting, in part, market participants' awareness of the difference in the direction of monetary policy between Japan and the United States. The yen was in the range of 109–110 yen against the U.S. dollar at end-September. The yen somewhat appreciated against the euro, due mainly to the release of European economic indicators that were weaker than market expectations and to additional monetary easing by the European Central Bank (ECB), and it traded at the 138–139 yen level against the euro at end-September.

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

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

- c. The monetary base (currency in circulation plus current account balances at the Bank) increased significantly as asset purchases by the Bank

progressed, and the year-on-year rate of growth was at around 40 percent. The year-on-year rate of growth in the money stock (M2) continued to be in the range of 3.0–4.0 percent.

3. MPMs³

- a. Seven MPMs were held in the first half of fiscal 2014.

At the MPM held in April, the Policy Board judged that Japan's economy continued to recover moderately as a trend, albeit with some fluctuations due to the consumption tax hike. At the MPMs held in May through September, it judged that the economy continued to recover moderately as a trend, although a subsequent decline in demand following the front-loaded increase prior to the consumption tax hike was observed.

- b. In its conduct of monetary policy, the Policy Board decided at all the MPMs held in the first half of fiscal 2014 to continue with the following guidelines with regard to money market operations and asset purchases that were determined when QQE was introduced in April 2013.

Guideline for Money Market Operations

The Bank will conduct money market operations

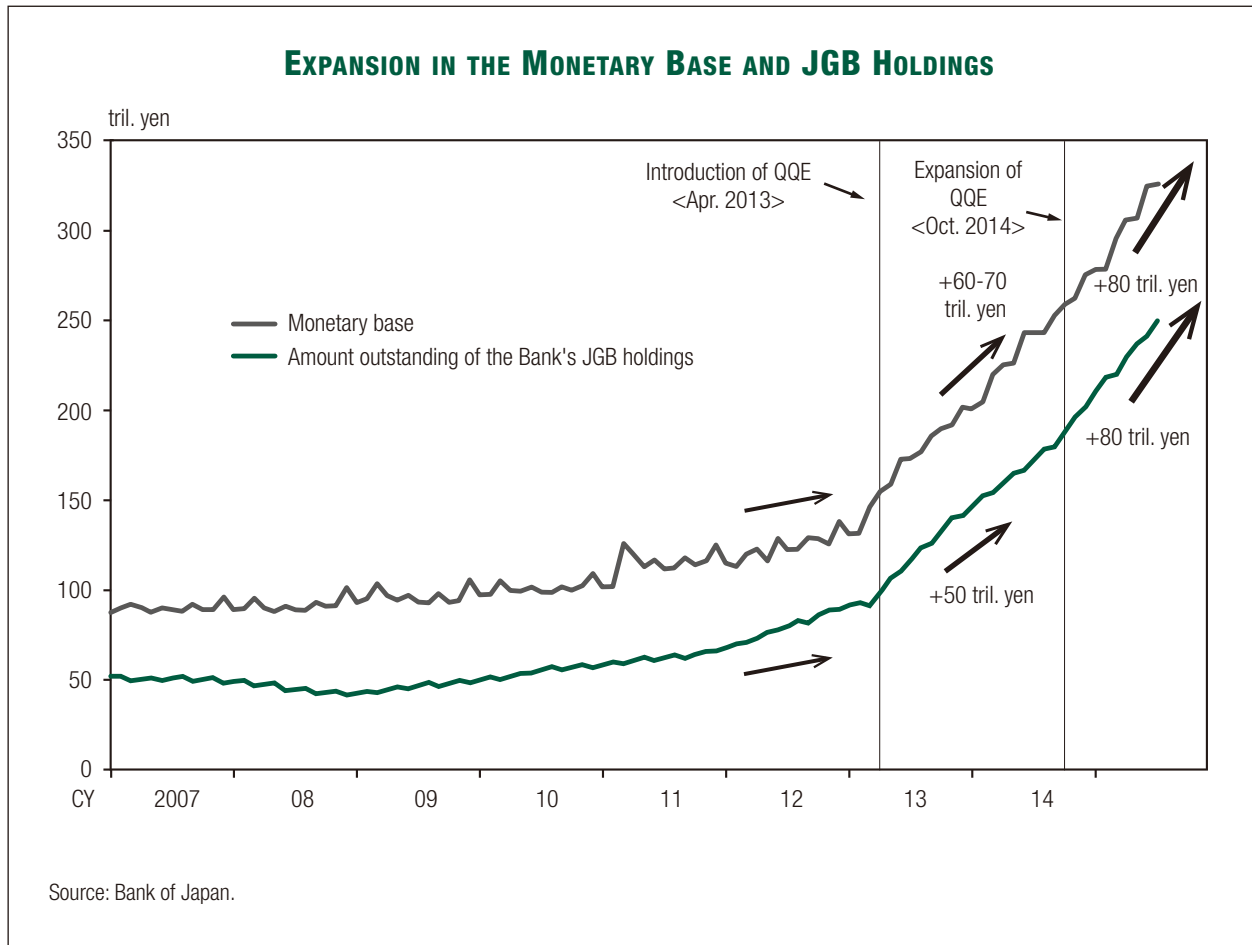
so that the monetary base will increase at an annual pace of about 60–70 trillion yen.

Guidelines for Asset Purchases

- (1) The Bank will purchase JGBs so that their amount outstanding will increase at an annual pace of about 50 trillion yen, and the average remaining maturity of the Bank's JGB purchases will be about seven years.
- (2) The Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at annual paces of about 1 trillion yen and about 30 billion yen, respectively.
- (3) As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2.2 trillion yen and about 3.2 trillion yen, respectively.

With regard to the future conduct of monetary policy, the Policy Board confirmed the following at all the MPMs held in the first half of fiscal 2014: "The Bank will continue with QQE, aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate."

3. Information related to MPMs is available on the Bank's web site (http://www.boj.or.jp/en/mopo/mpmsche_minu/index.htm).



B. Second Half of Fiscal 2014 (October 2014–March 2015)

1. Economic developments

- a. Looking back at Japan's economy during the second half of fiscal 2014, the effects of the decline in demand following the front-loaded increase prior to the consumption tax hike waned and exports increased. These helped production pick up. In this situation, a virtuous mechanism for generating income kept on working and Japan's economy continued its moderate recovery trend, additionally supported by other favorable conditions, such as a decline in crude oil prices.

Exports picked up against the backdrop of

developments in overseas economies. As for domestic demand, public investment remained at a high level but entered a moderate declining trend toward the end of the fiscal year. Business fixed investment followed a moderate increasing trend as corporate profits improved. With the decline in private consumption following the front-loaded increase prior to the consumption tax hike gradually subsiding, private consumption was resilient against the background of steady improvement in the employment and income situation, although recovery in some areas was sluggish. Housing investment, which had continued to decline following the front-loaded increase prior

to the consumption tax hike, gradually bottomed out and showed some signs of picking up toward the end of the fiscal year. Against the backdrop of these developments in demand both at home and abroad, industrial production started to pick up.

- b. On the price front, excluding the direct effects of the consumption tax hike, the PPI relative to three months earlier declined, reflecting the significant fall in international commodity prices. The year-on-year rate of increase in the CPI (all items less fresh food) narrowed, mainly due to the effects of the decline in energy prices, and was about 0 percent through the end of the fiscal year. Inflation expectations appeared to be rising on the whole from a somewhat longer-term perspective.

2. Financial developments

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

Long-term interest rates remained at low levels, as the Bank progressed with its JGB purchases under QQE. More concretely, long-term interest rates had followed a declining trend from the second half of the fiscal year, reflecting the Bank's expansion of QQE at end-October and declines in U.S. and European long-term interest rates, and temporarily declined to about 0.2 percent in mid-January. Thereafter, they adjusted on rises in crude oil prices and in the U.S. long-term interest rates, and were about 0.4 percent at end-March.

The Nikkei 225 Stock Average fell at one point in October, owing to the heightening of investors' risk aversion that reflected cautious view on overseas economies, but increased thereafter, against the background of the Bank's expansion of QQE at end-October, robust business performance, and depreciation of the yen against

the U.S. dollar; it was in the range of 19,000–19,500 yen at end-March.

In the foreign exchange market, the yen depreciated against the U.S. dollar from end-October, due in part to market participants' awareness of the difference in the direction of monetary policy between Japan and the United States, reflecting the Bank's expansion of QQE, and was about 120 yen against the U.S. dollar at end-March. The yen temporarily depreciated against the euro, due to the Bank's expansion of QQE at end-October, but thereafter appreciated against the euro following additional monetary easing by the ECB, and it traded at the 129 yen level against the euro at end-March.

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

Firms' credit demand increased moderately, mainly for working capital and funds related to mergers and acquisitions. With regard to firms' funding, the year-on-year rate of increase in the amount outstanding of lending by domestic commercial banks was in a positive range of about 2.5–3.0 percent. In contrast, the year-on-year rate of change in the amount outstanding of corporate bonds was negative. Meanwhile, the year-on-year rate of change in that of CP was positive.

- c. The monetary base increased significantly as asset purchases by the Bank progressed, and the year-on-year rate of growth was in the range of around 35–40 percent. The year-on-year rate of growth in the M2 was in the range of around 3.0–3.5 percent.

3. MPMs⁴

- a. Seven MPMs were held in the second half of fiscal 2014.

At the MPM held in October, the Policy Board judged that Japan's economy continued to recover moderately as a trend, although some weakness particularly on the production side was observed due mainly to the effects of the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike, and at the November MPM, it deemed that the economy continued to recover moderately as a trend, although some weakness particularly on the production side remained due mainly to the effects of the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike. At the MPMs held in December and January, the Policy Board judged that Japan's economy continued to recover moderately as a trend, and effects such as those of the decline in demand following the front-loaded increase prior to the consumption tax hike had been waning on the whole, and at the February and March MPMs, it deemed that the economy continued its moderate recovery trend.

- b. In its conduct of monetary policy, the Policy Board decided at the MPM held on October 31 to expand QQE as follows. At all the subsequent MPMs, the Policy Board decided to maintain the guidelines for money market operations and asset purchases.

(1) Accelerating the pace of increase in the monetary base

The Bank will conduct money market operations so that the monetary base will increase at an annual pace of about 80 trillion yen (an addition of about

10–20 trillion yen compared with the past).

(2) Increasing asset purchases and extending the average remaining maturity of JGB purchases

(a) The Bank will purchase JGBs so that their amount outstanding will increase at an annual pace of about 80 trillion yen (an addition of about 30 trillion yen compared with the past). With a view to encouraging a decline in interest rates across the entire yield curve, the Bank will conduct purchases in a flexible manner in accordance with financial market conditions. The average remaining maturity of the Bank's JGB purchases will be extended to about 7–10 years (an extension of about 3 years at maximum compared with the past).

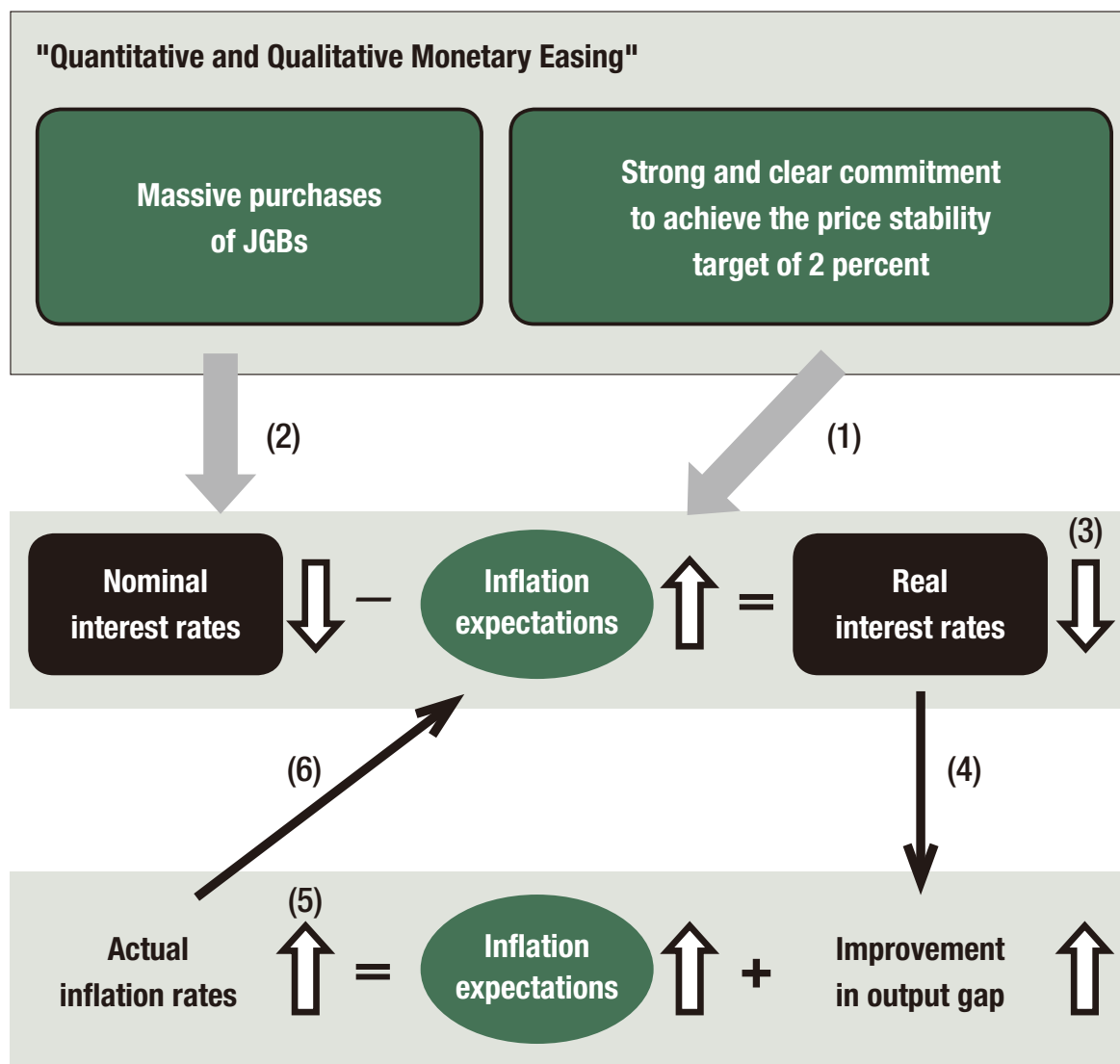
(b) The Bank will purchase ETFs and J-REITs so that their amounts outstanding will increase at an annual pace of about 3 trillion yen (tripled compared with the past) and about 90 billion yen (tripled compared with the past), respectively. The Bank will make ETFs that track the JPX-Nikkei Index 400 eligible for purchase.

With regard to the future conduct of monetary policy, the Policy Board confirmed the following at all the MPMs held in the second half of fiscal 2014: "The Bank will continue with QQE, aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate."

4. Information related to MPMs is available on the Bank's web site (http://www.boj.or.jp/en/mopo/mpmsche_minu/index.htm).

TRANSMISSION MECHANISM OF QQE¹

The start of the transmission mechanism of QQE that the Bank envisages is as follows: (1) inflation expectations will be raised through a strong and clear commitment to achieving the price stability target of 2 percent; and concurrently, (2) downward pressure will be put on nominal interest rates across the entire yield curve through massive purchases of JGBs; thereby (3) decreasing real interest rates. With this start of the mechanism, (4) the decline in real interest rates will stimulate private demand, which will lead to an improvement in the output gap. Then, (5) with the output gap improving—together with a rise in inflation expectations as described in (1)—actual inflation rates will rise, and (6) if people experience actual price increases, their inflation expectations will increase further, and this process from (1) to (6) will be reinforced further. Under this mechanism, a virtuous cycle in which the inflation rate rises toward the price stability target together with an improvement in the real economy will be created.



Note: 1. See "Quantitative and Qualitative Monetary Easing: Assessment of Its Effects in the Two Years since Its Introduction" (http://www.boj.or.jp/en/research/wps_rev/rev_2015/rev15e03.htm).

III. PERFORMANCE REVIEWS OF MEASURES TAKEN UNDER THE STRATEGIC PRIORITIES

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

1. Progress in implementing specific measures

- (1) With a view to contributing to monetary policy conduct, the Bank conducted research and analysis regarding developments in economic activity, prices, and the financial environment both at home and abroad from multiple perspectives, in light of a number of changes in economic and financial conditions, including fluctuations in crude oil prices and the consumption tax hike.
- (2) The Bank conducted multi-perspective analysis on the effects and impacts of QQE, including effects on real interest rates and portfolio rebalancing. Based on the results of its analysis, the Bank planned and formulated the following monetary policy measures.
 - (a) Expansion of QQE, which included making ETFs that track the JPX-Nikkei Index 400 eligible for purchase.
 - (b) Extension and enhancement of the fund-provisioning measure to stimulate bank lending and other measures, including the introduction of a new framework enabling financial institutions that do not have a current account at the Bank to use these measures through their central organizations.
- (3) The Bank enhanced dialogue with market participants through the following actions.
 - (a) Commenced monthly release from October 2014 of the "Outline of Outright Purchases of Japanese Government Bonds," which had previously been released on an ad hoc basis.
 - (b) Increased the release frequency of "Japanese Government Bonds held by the Bank of Japan," from May 2014, and of "T-Bills Purchased by the Bank of Japan," from November 2014.
 - (c) Introduced the "Bond Market Survey," the first of which was conducted in February 2015.
 - (d) Brought forward the release date of the "Tokyo Money Market Survey," with effect from the August 2014 survey.
 - (e) Decided on the establishment of the "Bond Market Group," the first meeting of which was held in June 2015.
 - (f) Expanded the "Meeting on Market Operations," with effect from the February 2015 meeting.
- (4) The Bank implemented operational changes to the Securities Lending Facility, thereby further facilitating its money market operations as well as contributing to smooth settlement of Japanese government securities (JGSs): from May 2014, the Bank made the facility available twice a day; and from March 2015, it raised the upper limit on the amount of sales per issue, and extended the number of business days permitted for consecutive sales transactions per issue with the same counterparty.
- (5) Progress was made in fundamental research on: monetary policy; the macroeconomy; finance-related topics such as legal and accounting systems, and information security; and financial history. The Bank communicated its research findings to the public through the release of research papers and presentations at academic conferences both at home and abroad.

2. Evaluation of progress

With a view to contributing to monetary policy conduct, the Bank conducted research and analysis regarding developments in economic activity, prices, and the

financial environment both at home and abroad from multiple perspectives. The Bank conducted multi-perspective analysis on the effects and impacts of monetary policy. Based on the results of its analysis, the Bank planned and formulated monetary policy measures with flexibility, such as the expansion of QQE. The Bank conducted money market operations properly, in line with monetary policy conduct, while enhancing dialogue with market participants as well as fine-tuning the content of money market operations and making changes to their implementation.

Based on the above, the Bank considers that, in fiscal 2014, it achieved its intended objective in terms of providing a firm underpinning for monetary policy conduct. In fiscal 2015, the Bank will continue to conduct research and analysis that appropriately reflects changes in economic and financial conditions, plan policy measures with flexibility, and conduct money market operations properly.

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

1. Progress in implementing specific measures

- (1) In line with the "On-Site Examination Policy for Fiscal 2014" decided by the Policy Board, the Bank sought to conduct its on-site examinations more efficiently and effectively, and carried out the examinations of 85 financial institutions. It conducted thorough assessments, for example, of financial institutions' business operations and the state of their property as well as their resilience against risks, including the actual business conditions of their financial group as a whole and the risk management of their overseas branches.
- (2) The Bank continued to maintain a firm grasp of business conditions, such as business operations, risk management, and profitability, at financial institutions. In doing so, it improved its off-site monitoring by, for example, increasing the range of topics covered in and raising the frequency of interviews with financial institutions as well as actively exchanging opinions with senior management. In particular, the Bank focused on business conditions at systemically important financial institutions by taking into account the systemic implications of, for example, the active expansion of their global business and the accompanying risks.
- (3) The Bank continued to work to strengthen information sharing between its on-site examinations and off-site monitoring, and facilitated necessary improvements in management procedures at financial institutions regarding their business activities and risks.
- (4) The Bank enhanced the contents of the *Financial System Report*, setting out possible factors that may affect the financial system and key management tasks and challenges for financial institutions. Subsequently, it was active in holding a total of 20 seminars and meetings involving financial institutions and economists.
- (5) The Bank enhanced its research and analysis on the stability of the financial system as a whole by, among other things, refining its macro stress-testing model and revising the Financial Activity Indexes.
- (6) The Bank, together with the Financial Services Agency (FSA), instituted semiannual meetings with the aim of strengthening cooperation on the macroprudential front. Meetings were held in June and December 2014.
- (7) With regard to the selection of financial institutions to conduct transactions with the Bank and the operation of the Loan Support Program, the Bank executed its business operations appropriately and established more efficient operational frameworks.

2. Evaluation of progress

The Bank enhanced its assessment particularly of business operations and risk management at financial institutions and facilitated necessary improvements, through conducting on-site examinations in line with the "On-Site Examination Policy for Fiscal 2014" and improving off-site monitoring as well as strengthening information sharing between on-site examinations and off-site monitoring. In particular, it focused on business conditions at systemically important financial institutions taking into account the extent of any systemic implications. In addition, the Bank made use of the *Financial System Report* to deepen dialogue with financial institutions on their key management tasks and challenges.

The Bank enhanced its research and analysis on the stability of the financial system as a whole, mainly by utilizing information gained from its on-site examinations and off-site monitoring as well as refining its analytical tools. It also strengthened cooperation on the macroprudential front with the relevant authority.

During fiscal 2014, there were no circumstances that required the Bank to provide loans pursuant to Articles 37 and 38 of the Bank of Japan Act (hereafter the Act).

Based on the above, the Bank considers that, in cooperation with relevant parties, it steadily implemented measures for ensuring stability and improving the functioning of the financial system in fiscal 2014. In light of its progress to date, the Bank will work to ensure a still firmer grasp of business conditions at financial institutions in fiscal 2015, and will be forward-looking in assessing risks. It will also work to share with relevant parties a common understanding of the current situation and of issues facing financial institutions and the financial system.

C. Enhance Payment and Settlement Services and Reinforce Market Infrastructure

1. Progress in implementing specific measures

- (1) The Bank made progress as scheduled in developing the details of the second phase of the new Bank of Japan Financial Network System (BOJ-NET) project. In May 2014, it announced that it planned to implement the second phase on October 13, 2015.
- (2) With regard to the extension of the operating hours of the new BOJ-NET, the Bank conducted public consultation and, in May 2014, decided the details based on a report by the Forum Towards Making Effective Use of the New BOJ-NET, announcing that it planned to introduce the extension of operating hours from February 15, 2016. The Bank also conducted deliberations, as scheduled, on operational aspects of the new BOJ-NET.
- (3) The Bank encouraged the enhancement of Japan's retail payment systems through activities including the following: researching and releasing its findings regarding comparable initiatives to enhance bank transfer services abroad; holding an international seminar on the topic in November 2014; and conducting a wide-ranging exchange of opinions with involved parties.
 - (a) In a report released in December 2014, the Japanese Bankers Association (JBA) and the Japanese Banks' Payment Clearing Network (Zengin-Net) expressed their intent to deliberate on extending the operating hours of the Zengin Data Telecommunication System (Zengin System) and realizing financial electronic data interchange (EDI).
- (4) The Bank conducted deliberations as scheduled toward realizing payment and settlement for cross-

border transactions in yen or JGBs, including exchanging views with overseas central banks.

- (5) The Bank conducted oversight of financial market infrastructures both at home and abroad, in accordance with "The Bank of Japan Policy on Oversight of Financial Market Infrastructures." This involved assessing whether financial market infrastructures met the requirements set out in the "Principles for Financial Market Infrastructures" and encouraging any improvements to operations and risk management measures needed to ensure observance.
- (6) The Bank supported market participants' efforts to move to a T+1 JGB settlement cycle for outright transactions.
 - (a) A working group at the Japan Securities Dealers Association (JSDA) indicated in a report released in November 2014 its aim to achieve a consensus among market participants by around spring 2015 on when to implement the T+1 settlement cycle for outright transactions of JGBs.
- (7) The Bank contributed to discussions with market participants on topics such as the administration and regulation of financial benchmarks, as follows.
 - (a) The Bank cooperated with the JBA TIBOR Administration and contributed to discussions with market participants on the reform of interest rate benchmarks.
 - (b) As secretary to the Tokyo Foreign Exchange Market Committee, the Bank contributed to the development of a guideline complementing the Committee's Code of Conduct.
- (8) In March 2015, the Bank hosted the Global Meeting of Foreign Exchange Committees, held for the first time in Tokyo at the Bank's Head Office, bringing together representatives of foreign exchange

committees from eight major financial centers, and led discussions as the chair.

- (9) In December 2014, in cooperation with financial institutions and other relevant parties, the Bank implemented a joint exercise focusing on the use of back-up facilities in market-wide business continuity arrangements in the money market, the securities market, and the foreign exchange market.

2. Evaluation of progress

The Bank has made progress as scheduled in developing the details of the second phase of the new BOJ-NET project and in deliberations on other projects that make effective use of the improved functionality of the new BOJ-NET. It contributed to progress in deliberations on enhancing Japan's payment and settlement services and improving the safety and efficiency of financial market infrastructures by actively encouraging improvements in, for example, bank transfer services and by conducting oversight in accordance with international standards.

The Bank participated in discussions with market participants on topics such as the shortening of the JGB settlement cycle as well as the administration and regulation of financial benchmarks; it also provided support for both these initiatives.

Based on the above, the Bank considers that it has made steady progress in fiscal 2014 in terms of the measures it has taken to contribute to the enhancing of payment and settlement services and the reinforcing of financial market infrastructure in Japan. In fiscal 2015, it will implement the second phase of the new BOJ-NET in a smooth and reliable manner, introduce the extension of operating hours, and work to promote deliberation on how to realize payment and settlement for cross-border transactions that makes effective use of the BOJ-NET.

D. Conduct Stable and Efficient Central Banking Operations

1. Progress in implementing specific measures

- (1) The Bank ensured the smooth supply of clean banknotes from its Head Office and branches and maintained the cleanliness of banknotes in circulation by examining the banknotes it received. The Bank proceeded as scheduled with the project to expand the scope of surveys regarding the cleanliness of banknotes.
- (2) The Bank made preparations, as scheduled, to replace automatic banknote examination machines.
- (3) The Bank continued to maintain a firm grasp of changes in cash delivery routes and conducted cash transportation and other operational procedures efficiently.
- (4) In order to ensure the smooth circulation of coins, the Bank enabled the receipt and payment of coins to be made at a coin delivery center, which is outside the Bank's premises and managed by a private security and transportation company, starting from April 2015.
- (5) The Bank conducted money market operations appropriately in accordance with the guidelines decided at MPMs for money market operations and asset purchases.
- (6) The first phase of the new BOJ-NET project was launched in January 2014, and the system has since been operating smoothly and reliably.
- (7) The Bank maintained precise and deliberate execution of treasury funds and JGS services even after revisions such as the concentration of business operations that use optical character readers (OCRs) for sorting and calculating revenue items to particular locations in November 2013.
- (8) The Bank made progress, as scheduled, in preparing for the necessary changes to the JGB book-entry

system that will accompany the across-the-board revisions to the tax system for Japanese bonds.

- (9) In cooperation with the relevant ministries and government agencies, the Bank implemented institutional changes to inflation-indexed JGBs in January 2015, and made revisions to its services relating to the payment of treasury funds in foreign currencies in October 2014.
- (10) The Bank concentrated some of the business operations of its agents at the Head Office in February 2015, given the declining trend in workloads, thereby improving the stability and efficiency of operations at the Bank's agents overall.

2. Evaluation of progress

With regard to business operations relating to banknote issuance, the Bank made progress in securing confidence in banknotes and coins, making preparations, as scheduled, to replace automatic banknote examination machines. The Bank also reviewed its operational frameworks to reflect changes in cash delivery routes, thereby improving efficiency.

The Bank continued precise and deliberate execution of banking operations and services relating to treasury funds and JGSs, while making institutional changes and reviewing its business processes. In addition, the stability and efficiency of business operations at the Bank's agents improved by concentrating some of the operations at the Head Office, given the declining trend in workloads.

Based on the above, the Bank considers that, in fiscal 2014, it has achieved the desired results in terms of conducting stable and efficient central banking operations, while reviewing its business process in response to changes in its operational environment. In fiscal 2015, the Bank will continue constantly to pursue excellence in central banking services, in view of trending changes in its operations and workloads.

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

1. Progress in implementing specific measures

- (1) The Bank, as the central bank of Japan, actively participated in meetings such as those organized by the Bank for International Settlements (BIS), the Financial Stability Board (FSB), the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), the Group of Twenty (G-20), the Group of Seven (G-7), the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), and the Association of Southeast Asian Nations Plus Three (ASEAN Plus Three), thereby achieving the following.
 - (a) The Bank played a part in discussions at global forums on fostering economic growth as well as on strengthening the robustness of the financial system based on its analysis of current overseas economic and financial developments, while also promoting understanding of its conduct of monetary policy.
 - (b) In the field of financial regulation and supervision, the Bank, together with the FSA, contributed to the compilation of consultative papers and agreement on the final standards, taking due account of the situation in Japan.
 - (c) In the fields of global financial markets, financial market infrastructures, financial benchmarks, and statistics, the Bank contributed, for example, by writing and compiling various reports.
 - (d) At EMEAP-related meetings, the Bank played a key role in research and analysis on economic and financial conditions as well as on payment and settlement systems in the Asian region.
 - (e) At some EMEAP- and BIS-related committees, the Bank's staff played leading roles, for example, by moderating discussions as the chair.
- (f) A senior member of the Bank's staff served as member of the Executive of the Irving Fisher Committee on Central Bank Statistics (IFC) and played a part in the compilation of related reports.
- (2) The Bank actively exchanged information with overseas authorities on business conditions at systemically important financial institutions, mainly through supervisory colleges.
- (3) The Bank obtained swift access to a wide range of information, for example on economic and financial conditions, the financial system, and central banking operations, through individual exchanges of opinion with major central banks as well as active strengthening of relations with monetary authorities in Asia.
- (4) In February 2015, the Bank agreed on the establishment of a cross-border collateral arrangement—i.e., an arrangement whereby the central bank in a partner country provides liquidity in its domestic currency utilizing JGSs and Japanese yen held at the Bank as collateral—with the Bangko Sentral ng Pilipinas, the central bank of the Republic of the Philippines. The Bank also proceeded with its consideration of and efforts to coordinate an expansion in the number of Asian partners participating in such arrangements.
- (5) Under the framework of ASEAN Plus Three, the Bank, as the central bank of the co-chair country, together with the Ministry of Finance, played a key role in coordinating liquidity-provision exercises based on the Chiang Mai Initiative Multilateralization (CMIM).
- (6) The Bank contributed to the stability and development of financial and capital markets in Asia and established and strengthened medium- to long-term relationships with overseas authorities through providing technical assistance, holding seminars,

and exchanging personnel, mainly with central banks in Asia. Of the personnel exchanges, 27 involved receiving staff (255 people) from other central banks in Asia, while six involved sending the Bank's staff to overseas counterparts.

2. Evaluation of progress

The Bank, as the central bank of Japan, actively participated in meetings such as those organized by the BIS and the EMEAP, and contributed to discussions on ensuring the stability of the international currency and financial system, both as interested participant and as moderator. It boosted bilateral monetary cooperation in the Asian region and provided technical assistance, most of which also went to the Asian region. The Bank maintained and strengthened cooperation with overseas authorities, especially central banks, and obtained swift access to a wide range of information, for example on economic and financial conditions, the financial system, and central banking operations.

Based on the above, the Bank considers that, in fiscal 2014, it has made the requisite contribution as the central bank of Japan with regard to ensuring the stability of the international currency and financial system as well as securing the stability and development of financial and capital markets in Asia. In fiscal 2015, it will continue to work in cooperation with relevant parties to deepen and extend initiatives, particularly in Asia.

F. Contribute to the Regional Economic and Financial Environment

1. Progress in implementing specific measures

(1) The Bank, at its Head Office and branches, conducted central banking operations, including business operations relating to banknote issuance as well as services relating to treasury funds and JGSs, in a stable manner by holding working-level meetings

with financial institutions that have current accounts at the Bank as well as ministries and government agencies, as necessary.

(a) The Bank continued, as appropriate, to exchange banknotes and coins damaged by the Great East Japan Earthquake.

(2) At each of the following branches, the Bank, in cooperation with the respective local finance bureaus, requested that financial institutions take special measures in response to disasters: Sendai, Matsumoto, Kyoto, Kobe, Hiroshima, Takamatsu, and Kochi.

(3) The Bank gained a detailed grasp of regional financial and economic conditions via its Head Office, branches, and local offices, by, for example, conducting interviews with local businesses and financial institutions, as well as holding meetings to exchange opinions with local chambers of commerce and industry. The Bank made use of its findings in conducting monetary policy.

(a) With regard to demand for rebuilding and reconstruction following the disaster caused by the Great East Japan Earthquake, the Bank maintained a thorough grasp of the situation by making use of its network of branches and offices in the disaster-stricken areas, such as in Sendai City and Fukushima City.

(4) The Bank disseminated the results of its research and analysis on regional economic developments as well as the thinking behind its policies and business operations to each region by, for example, organizing speeches and undertaking other public relations activities. Moreover, it compiled and released each quarter its findings from research and analysis on regional economic developments in the *Regional Economic Report*.

(5) In fiscal 2014, the Bank's Center for Advanced Financial Technology (CAFT) hosted seminars targeted mainly at regional financial institutions: eight on the enhancement of business management and five on computer system risk management and business continuity frameworks.

2. Evaluation of progress

The Bank, at its Head Office and branches, conducted central banking operations, including business operations relating to banknote issuance as well as services relating to treasury funds and JGSs, in a stable manner. It gained a detailed grasp of financial and economic conditions specific to each region through vigorous research efforts; it disseminated its findings to each region and made use of them in conducting monetary policy.

Based on the above, the Bank considers that, in fiscal 2014, it made the requisite contribution to the regional economic and financial environment, making due use of the functions performed as central bank by its Head Office, branches, and local offices. In fiscal 2015, the Bank will continue to provide appropriate central banking services in each region of the country. It will also work particularly to maintain an accurate grasp of regional financial and economic developments and disseminate related information, while giving due consideration to regional revitalization.

G. Strengthen External Communication

1. Progress in implementing specific measures

(1) In accordance with the Act, the Bank kept the public fully informed regarding its conduct of monetary policy and business operations via the following.

(a) Releasing the minutes and transcripts of MPMs.

(b) Submitting two issues of the *Semiannual Report on Currency and Monetary Control* to the Diet in fiscal 2014, in June and December, and releasing the full texts of these two issues in Japanese as well as the summaries in English on the Bank's web site.⁵

(c) Publishing the *Gyomu Gaikyo Sho* (Outline of Business Operations) for fiscal 2013 in May 2014.

(2) The Bank made use of a variety of channels to communicate its conduct of monetary policy and business operations to the public, working to promote deeper understanding of its policy intentions.

(a) Communication channels included public statements on the Bank's monetary policy decisions, such as the "Statement on Monetary Policy," the *Outlook for Economic Activity and Prices* released in April and October 2014, press conferences, speeches, and articles contributed by the Governor, Deputy Governors, and Members of the Policy Board.

(3) The Bank was also involved in the following public relations activities, which it sought to make clear, intelligible, and accessible to a wide range of target audiences, thereby promoting better understanding among the public of its conduct of monetary policy and business operations.

(a) In addition to making the Bank's releases available on its web sites, the Bank made use of social networking sites (SNS), thereby disseminating a steady stream of up-to-date information to a wider audience. The number of page views on the Bank's web sites was around 165 million, of which around 35 million were made to its English-language web site. The number of page views on

5. Excerpts from the summaries of the two issues of the report dealing with developments in fiscal 2014, namely, the issues released in December 2014 and June 2015, can be found on pages 30–35.

its branches' web sites was around 4.9 million in total. Followers of the Bank's Twitter accounts totaled around 98,000.

- (b) The Bank enhanced the content of *Nichigin*, its public relations magazine (available only in Japanese), with articles that provided a comprehensive description of its policies and business operations.
 - (c) The Bank enhanced the content of in-house tours of its Head Office and branches by, for example, adding exhibits. The total number of in-house tour visitors to the Head Office was around 41,000, while branches received around 25,000.
 - (d) The Bank hosted various public relations events, providing opportunities for the public to deepen their understanding of the Bank's policies and business operations. These events included special in-house tours for families visiting with primary and junior high school children during school holiday seasons in spring and summer. The Bank also hosted at its Head Office the "BOJ Grand-Prix," an essay and presentation contest primarily for college students, for which there were 121 entries, as well as public lectures about the Bank's business operations and feature exhibitions on the prominent late 19th century architect Kingo Tatsuno, who designed the Bank's Old Building. In addition, a special exhibition entitled "20 Years since the Great Hanshin-Awaji Earthquake: Lessons Learned and Implications for the Future" was held at the Bank's Kobe Branch.
 - (e) The Bank gave lectures to college students on the functions and operations of the Bank. In addition to 21 on-campus lectures, it started to offer in-house lectures combined with tours of the Bank's Head Office.
- (4) The Bank strengthened its dissemination of English-

language materials, for example, releasing more information on its conduct of monetary policy and business operations in English as well as providing a more detailed explanation about its monetary policy conduct in the *Annual Review 2014*.

- (5) The Bank worked to gain a better grasp of public opinion as well as public needs regarding its policies and business operations from people across a wide range of fields via the following.
 - (a) Holding more meetings and dialogues with financial institutions, firms, economic organizations, academics, and other parties concerned in the Bank's business operations.
 - (b) Provision of pertinent responses to around 5,900 inquiries and comments received at the Head Office via phone calls or e-mails (excluding those for sales purposes or those that were incorrectly addressed).
- (6) The Bank began deliberations on renewing the design and content of its web site.
- (7) The Bank's Currency Museum was temporarily closed from end-2014 for renovation, which has been progressing smoothly and is on track for the museum's scheduled reopening in November 2015. The number of visitors to the museum during 2014 totaled 116,776, hitting the 100,000 mark for the first time since its opening.
 - (a) The Currency Museum loaned items from its art collection—colored woodblock prints (*nishiki-e*)—for display at an exhibition held from September to November 2014 at the Federal Reserve entitled "Japan's Social & Economic Landscape: Nineteenth-Century Woodblock Prints from the Currency Museum, Bank of Japan."
- (8) The Bank appropriately operated the Bank of Japan Otaru Museum. The number of visitors to the

museum during 2014 totaled 100,041—the second consecutive year in which the total exceeded 100,000 visits.

- (9) The Bank responsibly managed the activities of its Archives, which have the status of "the National Archives of Japan, etc." as stipulated in the Public Records and Archives Management Act as well as the order for enforcement of this Act. A total of 4,363 historical official documents were added to the Archives, and there were a total of 142 requests for access.
- (10) The Bank made public the findings of its research and analysis on financial and economic developments in Japanese, releasing twelve papers in the *Bank of Japan Review Series*, eight in the *Bank of Japan Working Paper Series*, and 13 research papers.⁶ It also established the *Bank of Japan Research Laboratory Series*, aiming to explain the findings of research and analysis in plain language to reach a wider public, and released four papers in this new series.
- (a) For example, to investigate Japan's economic prospects from a relatively long-term perspective, the Bank analyzed the relationship between the seniority-based remuneration system and the aging of the population, and also examined the improvement of Japanese corporate profitability in the global economy and its domestic impacts. It then shared the results of these analyses with the public.
- (11) The Bank hosted international conferences.
- (a) In May 2014, the Institute for Monetary and Economic Studies (IMES) hosted an international conference, Monetary Policy in a Post-Financial Crisis Era.
- (b) Also in May 2014, the Bank and the Deutsche Bundesbank co-hosted an international conference in Germany on the theme of growth strategies in Europe and Asia.
- (12) The Bank, as scheduled, revised, rebased, and made appropriate enhancements to the statistics it compiles so as to accommodate changes in the economic and regulatory environment.
- (a) As for the *Tankan* (Short-Term Economic Survey of Enterprises in Japan), the Bank began releasing the results of a new measure of the inflation outlook of enterprises from the March 2014 survey released in April 2014. In addition, it revised the enterprises included in the *Tankan* sample to take effect from the March 2015 survey.
- (b) The Bank released in June 2014 the final draft of its proposed revisions to the Flow of Funds Accounts Statistics (FFA) to accommodate the System of National Accounts 2008 (2008 SNA), the latest version of the international statistical standards for the national accounts.
- (c) Also in June 2014, the Bank carried out the rebasing of the services producer price index (SPPI)—formerly the corporate services price index (CSPI)—from 2005 to 2010.
- (d) As for wholesale services, price indexes have been computed on a trial basis by the Bank for three groups—food and beverages, plastics, electronic parts and devices—and were made available to the public in June 2014.
- (e) As for the BIS statistics, namely, the International Locational Banking Statistics and International Consolidated Banking Statistics, the Bank, in December 2014, enhanced the data it submitted to the BIS. It also announced in March 2015 some new items to be added to

6. Some of these papers were also made available in English.

these statistics in Japan.

- (13) Through the following measures, the Bank promoted an in-depth understanding of the statistics it compiles and contributed to improving their user-friendliness.
- (a) The Bank made its custom-made tabulation service for *Tankan* data available upon request throughout the year.
 - (b) The Bank released an explanatory manual for the SPPI in July 2014 (available only in Japanese). It also updated and released the guides to the *Tankan* and the FFA in March 2015.
 - (c) The Bank revised and released, in April and July 2014, as well as in March 2015, the explanation accompanying the balance of payments statistics so as to conform with the sixth edition of the IMF's *Balance of Payments and International Investment Position Manual* (BPM6). In addition, the Bank held study meetings with users of the statistics, gave on-campus lectures, and contributed articles to various publications.
- (14) The Bank strengthened its cooperation with the government by taking part in the Statistics Commission, established in the Cabinet Office pursuant to the Statistics Act (Act No. 53 of 2007), and by contributing to discussions on the development of official statistics.
- (15) As the secretariat to the Central Council for Financial Services Information (CCFSI), the Bank supported the CCFSI's efforts to develop a range of activities to provide financial information to the public; these included the following actions taken in cooperation with Local Financial Services Information Committees and other relevant parties such as ministries, local public bodies, and financial

and economic organizations.

- (a) As the secretariat to the Committee for the Promotion of Financial Education, the CCFSI developed and released in June 2014 the "Financial Literacy Map," which specifies and systematically organizes the contents of financial education by age group (available only in Japanese).
- (b) By establishing an advisory panel of experts on financial education at schools, the CCFSI revised the "Financial Education Program" (available only in Japanese) to reflect the existing curriculum guidelines, carrying out the revision process in two stages, in October 2014 and March 2015.
- (c) Based on the "Financial Literacy Map," the CCFSI published in March 2015 a pamphlet entitled "Tips for Your Life & Money: A Practical Guide for College Students" (available only in Japanese).

2. Evaluation of progress

The Bank employed various channels to communicate its conduct of monetary policy and business operations to the public both at home and abroad, and made efforts to promote deeper understanding of its policy intentions.

The Bank worked to gain a better grasp of public opinion and public needs by increasing dialogue with financial institutions and firms, as well as by providing pertinent responses to inquiries and comments received at the Bank.

The Bank proceeded with efforts to revise and rebase its statistics so as to accommodate changes in the economic and regulatory environment, as well as implementing measures to improve their user-friendliness.

As the secretariat to the CCFSI, the Bank supported the CCFSI's efforts to develop a range of activities to provide financial information to the public in cooperation with relevant parties, thereby contributing to the promotion of financial literacy among the public.

Based on the above, the Bank considers that, in fiscal 2014, it has steadily implemented the measures scheduled under its strategic objective of strengthening external communication. In fiscal 2015, the Bank will

complete the renovation of the Currency Museum. In addition, it will continue efforts to improve the clarity and intelligibility of its communications regarding its conduct of monetary policy and business operations as well as to maintain and strengthen networks with people, firms, and economic organizations across a wide range of fields so as to better grasp public opinions and public needs.



The Bank's Organizational Management in Fiscal 2014

I. Statement of Accounts and Budget for Expenses

II. IT Investment

III. Human Resources

IV. Organizational Management Measures

V. Internal Audits

I. STATEMENT OF ACCOUNTS AND BUDGET FOR EXPENSES

As for the Bank of Japan's expenses for fiscal 2014, the Bank duly made, in line with the budget, the disbursements necessary to cover "The Bank of Japan's Strategic Priorities for Fiscal 2014–2018" (the 2014–18 Strategic Priorities). With regard to the Bank's statement of accounts for fiscal 2014, the total amount of actual expenses increased from the previous fiscal

year by 3.6 percent (6.5 billion yen) to 189.0 billion yen. Regarding the Bank's budget for expenses for fiscal 2015, the Bank has carefully examined overall expenditure in compiling a suitable budget for the year while securing the necessary budget to perform its role as central bank.

II. IT INVESTMENT

The Bank steadily carried out the system development projects necessary to achieve the goals set out in the 2014–18 Strategic Priorities, while working to raise the efficiency and streamline the development of such projects. Specifically, projects such as construction of

the new Bank of Japan Financial Network System (BOJ-NET) proceeded as scheduled. The scale of system development for fiscal 2014 was 13,067 person-months¹ (including 10,056 person-months that were outsourced).

III. HUMAN RESOURCES

The Bank maintained the number of employees necessary to achieve the goals set out in the 2014–18 Strategic Priorities without breaking the ceiling on the number of full-time employees for fiscal 2014, 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 4,593 at the end of March 2015, down 27 from the previous fiscal year (Table 1).

Regarding remuneration, the Bank raised the annual remuneration for its officers—through increasing their bonuses—in fiscal 2014 by 1.3 percent from the

previous fiscal year. The rate of increase was calculated based on a comparison with their remuneration in fiscal 2013, before a reduction was made as a provisional and exceptional measure in support of rebuilding efforts following the disaster caused by the Great East Japan Earthquake.

As for its employees, the Bank raised annual remuneration for fiscal 2014 by 1.5 percent from the previous fiscal year. For those in non-managerial positions, the Bank raised the base levels of salaries by 0.2 percent from the previous fiscal year and also raised total bonuses, paid in May and November, by 5.8 percent. For those in managerial positions, who are not subject to

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

base salary increases, the Bank raised bonuses by 6.4 percent from the previous fiscal year. The rates of increase were calculated based on a comparison with employees' remuneration in fiscal 2013, before a reduction was made as a provisional and exceptional measure in support of

rebuilding efforts following the disaster.

In addition, the Bank decided to reduce its employees' retirement allowances—both lump-sum payments and pensions—by around 12 percent per employee on average.

Table 1

Number of Full-Time Employees as of the End of March 2015

number of people; figures in parentheses are as of the end of March 2014

Total		4,593	(4,620)
Head Office ¹		2,680	(2,704)
Branches		1,841	(1,844)
Local offices ¹		48	(48)
Overseas representative offices		24	(24)

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

IV. ORGANIZATIONAL MANAGEMENT MEASURES

With a view to addressing the strategic objectives for its business operations stated in the 2014–18 Strategic Priorities, the Bank implemented organizational management measures for the appropriate conduct of business operations given changes in its environment, and those for the appropriate management of operational risks. As part of these measures, the Bank made changes to its organizational structure as follows.

- (1) With a view toward conducting more in-depth off-site monitoring of financial institutions, the Bank divided the Financial Institutions Surveillance Division of the Financial System and Bank Examination Department into three subdivisions (based on the type of financial institutions it monitors): Financial Institutions Division I, Financial Institutions Division II, and Financial Institutions Division III.
- (2) The Bank established the International Coordination Division in the International Department, building on and reinforcing the functions of its predecessor, the Center for Monetary Cooperation in Asia, so that it

can act as the principal liaison for the planning, coordination, and organization of Asia-Pacific regional meetings as well as other international meetings and also play a more active role in enhancing monetary cooperation as well as technical assistance, particularly in the Asian region.

As for other organizational management measures, the Bank worked to strengthen business continuity arrangements as follows.

- (1) The Bank further enhanced the disaster countermeasures in place at its Head Office and branches, particularly in light of lessons learned in responding to the Great East Japan Earthquake and the government's reappraisal of potential damage scenarios for large-scale earthquakes directly under Tokyo or in the Nankai Trough.
- (2) The Bank conducted, as scheduled, practical exercises performed under various disaster scenarios, including those for pandemic influenza.

(3) The Bank further strengthened cooperation with both the national and local governments through, for example, participation in the Central Disaster Management Council and various exercises.

In addition, the Bank indicated in the 2014–18 Strategic Priorities that it will secure and foster human resources in the execution of business operations and organizational management, expand its recruitment of women and encourage their promotion, and seek to offer various working arrangements to improve the work-life balance of its employees. The Bank made progress in addressing these measures as follows.

- (1) The Bank enhanced various staff education and training programs and continued to work to promote personnel exchanges with institutions both inside and outside Japan.
- (2) With regard to staff recruitment for fiscal 2015 of

future candidates for managerial positions, the Bank proactively recruited women, with the aim that they should account for about 30 percent.

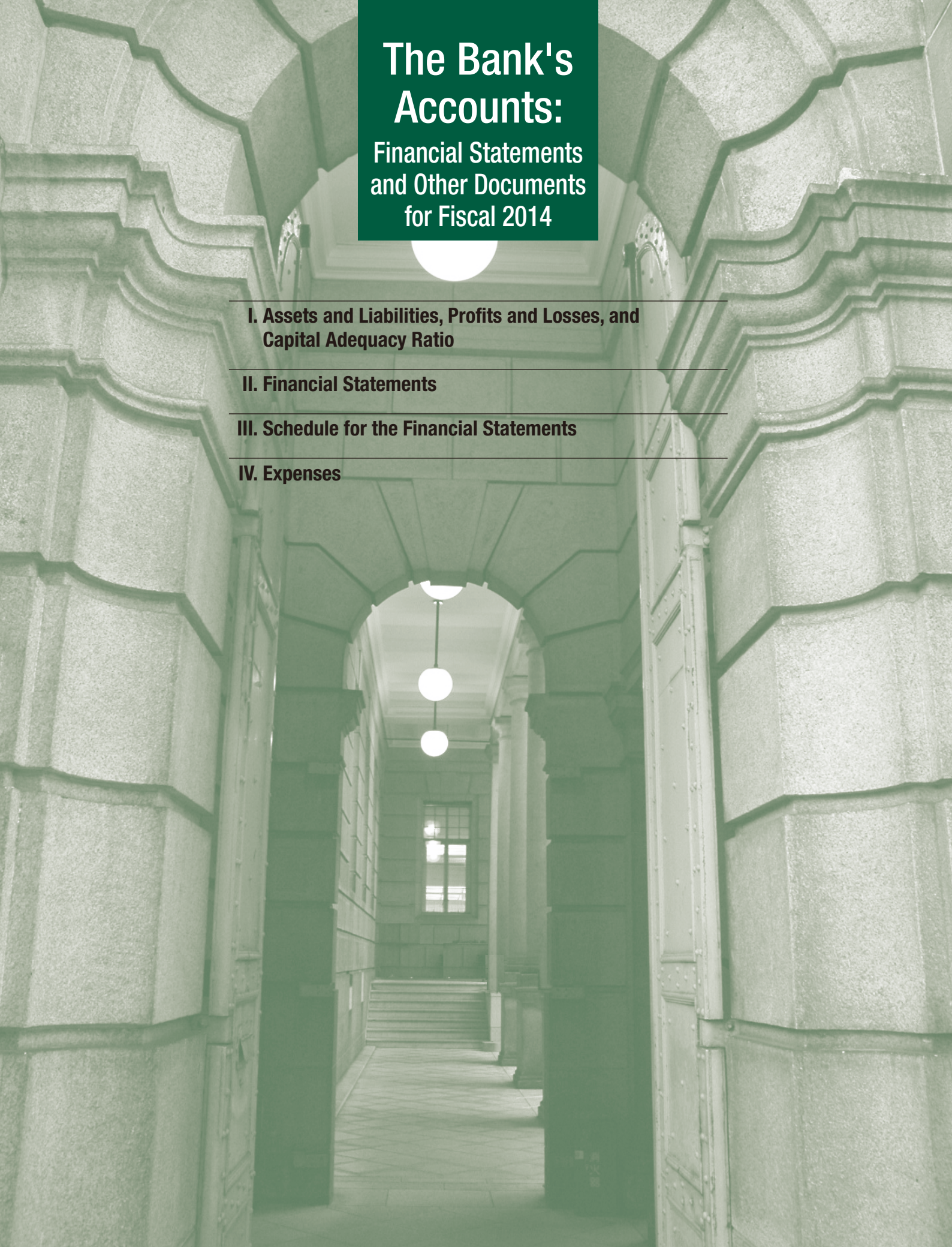
- (3) In order to ensure that all of its employees, according to their respective stages of life, play an active role in its business operations and fully realize their potential, the Bank continued to work to improve the employment and working conditions of its employees based on the third phase of the action plans set out in "Measures to Support the Development of the Next Generation," so that they can balance work and child-rearing.
- (4) With a view to making the most of the skills and know-how of experienced workers and ensuring the stable conduct of its business operations, the Bank decided to abolish its existing reemployment system (the "senior staff system") and introduce a new system (the "expert staff system") from fiscal 2015.

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 2014, the Internal Auditors' Office audited 5

departments at the Bank's Head Office (the Monetary Affairs Department, the International Department, the Operations Department, the Information System Services Department, and the Institute for Monetary and Economic Studies), 3 overseas representative offices (London, Paris, and Frankfurt), 15 branches (Sendai, Fukushima, Yokohama, Kofu, Nagoya, Hiroshima, Matsue, Shimonoseki, Takamatsu, Matsuyama, Kochi, Kitakyushu, Fukuoka, Kumamoto, and Naha), and 5 local offices (Morioka, Yamagata, Tottori, Tokushima, and Saga).



The Bank's Accounts:

**Financial Statements
and Other Documents
for Fiscal 2014**

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

II. Financial Statements

III. Schedule for the Financial Statements

IV. Expenses

On May 27, 2015, the Bank of Japan released the "Financial Statements for the 130th Fiscal Year" (available only in Japanese), which contains the Bank's financial statements (the inventory of property, balance sheet, and statement of income) for the 130th fiscal year, i.e., fiscal 2014 (April 1, 2014–March 31, 2015), and the schedule for the financial statements for fiscal 2014.

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 2014 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 2014 shows that total assets increased by 33.9 percent (82,013.8 billion yen) from the previous fiscal year-end to 323,593.7 billion yen, mainly due to an increase in holdings of Japanese government securities (JGSs).¹ Total liabilities increased by 34.3 percent (81,584.2 billion yen) from the previous fiscal year-end to 319,698.3 billion yen, mainly due to an increase in current deposits (Table 1).

Detailed developments in the Bank's balance sheet in fiscal 2014 are as follows.

Looking at assets at the fiscal year-end, holdings of JGSs increased by 36.0 percent from the previous fiscal year-end to 269,792.1 billion yen, mainly reflecting the progress in the Bank's JGB purchases under quantitative and qualitative monetary easing (QQE). Loans and bills discounted increased by 29.6 percent from the previous fiscal year-end to 34,097.5 billion yen, mainly due to an increase in the amount of funds provided through the fund-provisioning measure to stimulate bank lending (hereafter the Stimulating Bank Lending Facility). The amount outstanding of loans provided through the Loan Support Program² was 28,461.0 billion yen.

Turning to liabilities, current deposits increased by 56.6 percent from the previous fiscal year-end to 201,556.4 billion yen, reflecting an increase in the amount of funds provided through JGB purchases and other measures. Meanwhile, the amount outstanding of banknotes issued (banknotes in circulation) increased by 3.5 percent from the previous fiscal year-end to 89,673.2 billion yen.

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

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

With regard to the Bank's statement of income for fiscal 2014, operating profits increased by 433.1 billion yen from the previous fiscal year to 1,713.7 billion yen, mainly due to the rise in "core" operating income³ (Tables 2 and 3).

Meanwhile, net special losses amounted to 362.2 billion yen, due mainly to the transfer of funds to the provision for possible losses on foreign exchange transactions following net foreign exchange-related gains.

Net income for the term—after subtracting corporate income tax and inhabitants and enterprise taxes—increased by 284.7 billion yen from the previous fiscal year to 1,009.0 billion yen. After transferring 252.2 billion yen to the legal reserve (25 percent of net income for the term) and paying dividends totaling 5 million yen (5 percent of the face value of shares), the Bank paid the remainder of its net income to the government (756.7 billion yen). As for the amount transferred to the legal reserve, the Bank is obliged to reserve 5 percent of net income for the term pursuant to Article 53, paragraph 1 of the Bank of Japan Act (hereafter the Act). However, as the fluctuation in net income is expected to increase with the implementation of QQE, 25 percent of net income for the term was transferred with a view to securing the Bank's financial soundness, upon authorization from the Minister of Finance pursuant to Article 53, paragraph 2 of the Act.

The capital adequacy ratio, after the appropriation of net income, rose from its previous fiscal year-end level of 7.74 percent to 8.20 percent at the end of fiscal 2014 (Table 4).

3. For the definition of "core" operating income, see Note 2 in Table 2 on page 58.

Table 1

Principal Assets and Liabilities¹

bil. yen

Item	End of fiscal 2013 (March 31, 2014)	End of fiscal 2014 (March 31, 2015)
Total assets	241,579.8 (+46.6) <+76,767.1>	323,593.7 (+33.9) <+82,013.8>
Of which:		
Japanese government securities	198,337.0 (+58.2) <+72,981.4>	269,792.1 (+36.0) <+71,455.1>
Commercial paper	1,874.9 (+50.5) <+629.1>	1,978.9 (+5.6) <+104.0>
Corporate bonds	3,204.1 (+11.0) <+316.8>	3,243.0 (+1.2) <+38.9>
Pecuniary trusts (stocks held as trust property)	1,372.8 (-0.4) <-5.2>	1,375.7 (+0.2) <+2.9>
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	2,851.1 (+84.7) <+1,307.1>	4,483.7 (+57.3) <+1,632.6>
Pecuniary trusts (Japan real estate investment trusts held as trust property)	148.8 (+25.1) <+29.8>	206.3 (+38.7) <+57.5>
Loans and bills discounted	26,313.8 (+3.2) <+826.7>	34,097.5 (+29.6) <+7,783.7>
Foreign currency assets	6,158.2 (+11.4) <+631.8>	7,112.5 (+15.5) <+954.2>
Total liabilities	238,114.0 (+47.4) <+76,590.0>	319,698.3 (+34.3) <+81,584.2>
Of which:		
Banknotes	86,630.8 (+3.9) <+3,252.5>	89,673.2 (+3.5) <+3,042.4>
Deposits (excluding those of the government)	132,347.7 (2.3 times) <+74,027.6>	206,071.8 (+55.7) <+73,724.1>
Deposits of the government	1,677.8 (+12.3) <+183.6>	1,794.1 (+6.9) <+116.3>
Payables under repurchase agreements	13,375.5 (-7.8) <-1,129.9>	17,608.2 (+31.6) <+4,232.7>

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

[Reference to Table 1]

Loans Provided through the Loan Support Program^{1,2}

bil. yen

Item	End of fiscal 2012 (March 31, 2013)	End of fiscal 2013 (March 31, 2014)	End of fiscal 2014 (March 31, 2015)
Total amount outstanding	3,684.3	12,686.4	28,461.0
Loans made under the fund-provisioning measure to support strengthening the foundations for economic growth	3,684.3	4,136.8	6,115.6
Loans made under the fund-provisioning measure to stimulate bank lending	...	8,549.6	22,345.4

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

2. This program was introduced in December 2012 upon the establishment of the fund-provisioning measure to stimulate bank lending (hereafter the Stimulating Bank Lending Facility), under which loans were first disbursed in June 2013. It comprises the Stimulating Bank Lending Facility and the previously established fund-provisioning measure to support strengthening the foundations for economic growth (hereafter the Growth-Supporting Funding Facility).

Table 2

Principal Profits and Losses¹

bil. yen

Item	Fiscal 2013 (April 1, 2013–March 31, 2014)	Fiscal 2014 (April 1, 2014–March 31, 2015)
Operating profits/losses	1,280.5 (+13.2) <+148.8>	1,713.7 (+33.8) <+433.1>
Of which: "Core" operating income ²	908.7 <+167.7>	1,144.7 <+236.0>
Net government bond-related gains/losses ³	0.2 <-0.1>	0.0 <-0.1>
Net foreign exchange-related gains/losses ⁴	619.4 <+15.8>	760.1 <+140.7>
Net gains/losses on pecuniary trusts (stocks held as trust property)	42.1 <+55.4>	49.7 <+7.6>
Net gains/losses on pecuniary trusts (index-linked exchange-traded funds held as trust property)	37.5 <+16.0>	59.1 <+21.6>
Net gains/losses on pecuniary trusts (Japan real estate investment trusts held as trust property)	6.6 <+1.4>	7.7 <+1.0>
Interest on excess reserve balances under the complementary deposit facility	-83.6 <-52.0>	-151.3 <-67.6>
Special profits/losses⁵	-298.8 <-3.8>	-362.2 <-63.4>
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	-309.7 <-7.9>	-380.0 <-70.3>
Net income before taxes	981.6 (+17.3) <+144.9>	1,351.4 (+37.7) <+369.7>
Provision for corporate income tax, inhabitants taxes, and enterprise taxes	257.3 <-3.2>	342.4 <+85.0>
Net income⁶	724.2 (+25.7) <+148.2>	1,009.0 (+39.3) <+284.7>

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

2. The total of interest on loans and discounts, interest and discounts on JGSs, interest on commercial paper (CP), interest and discounts on corporate bonds, interest and discounts on foreign currency securities, lending fees on foreign currency securities, and interest on foreign currency deposits and loans.

3. Net gains/losses on sale of JGBs.

4. Net gains/losses on foreign currency assets resulting from revaluation following fluctuations in foreign exchange rates.

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

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

Table 3

Changes in Profits and Losses¹

bil. yen

Item	Fiscal 2012 (April 1, 2012– March 31, 2013)	Fiscal 2013 (April 1, 2013– March 31, 2014)	Fiscal 2014	First half of	Second half of
				the fiscal year (April 1, 2014– September 30, 2014)	the fiscal year (October 1, 2014– March 31, 2015)
1. Net government bond-related gains/losses	0.3	0.2	0	...	0
Of which:					
Gains on sale of Japanese government bonds	0.3	0.2	0	...	0
Losses on sale of Japanese government bonds	...	...	...	...	...
2. Net foreign exchange-related gains/losses²	603.6	619.4	760.1	305.5	454.5
3. Net gains/losses on pecuniary trusts (stocks held as trust property)	-13.3	42.1	49.7	21.4	28.3
Of which:					
Dividends and others	35.9	42.8	48.9	21.4	27.4
Losses on impairment	-49.2	-3.9	...	...	...
Net gains/losses on sale	-0.0	3.2	0.8	...	0.8
4. Net gains/losses on pecuniary trusts (index-linked exchange-traded funds held as trust property)	21.4	37.5	59.1	56.2	2.8
Of which:					
Distributions and others	21.4	37.5	59.1	56.2	2.8
Losses on impairment	...	...	...	...	...
Net gains/losses on sale	...	...	...	...	...
5. Net gains/losses on pecuniary trusts (Japan real estate investment trusts held as trust property)	5.1	6.6	7.7	3.5	4.1
Of which:					
Distributions and others	5.1	6.6	7.7	3.5	4.1
Losses on impairment	...	...	...	...	...
Net gains/losses on sale	...	...	...	...	...

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

2. Net gains/losses on foreign currency assets resulting from revaluation following fluctuations in foreign exchange rates.

bil. yen, except where otherwise noted

Item	Fiscal 2012 (April 1, 2012– March 31, 2013)	Fiscal 2013 (April 1, 2013– March 31, 2014)	Fiscal 2014	First half of the fiscal year (April 1, 2014– September 30, 2014)	Second half of the fiscal year (October 1, 2014– March 31, 2015)
6. "Core" operating income	741.0	908.7	1,144.7	564.3	580.4
Yen assets	664.1	838.5	1,078.5	532.5	546.0
Of which:					
Interest on loans and discounts	33.2	25.6	28.6	13.4	15.1
Interest and discounts on Japanese government securities	622.5	805.7	1,044.0	516.2	527.7
Treasury discount bills	22.0	29.5	10.8	9.5	1.2
Japanese government bonds	600.5	776.1	1,033.1	506.6	526.4
Interest on commercial paper	1.8	1.8	1.9	0.9	1.0
Interest and discounts on corporate bonds	6.5	5.3	3.9	1.9	1.9
Interest on foreign currency assets	76.8	70.1	66.1	31.7	34.4
7. Interest-bearing assets (average amount outstanding)	147,347.9	202,865.4	275,286.9	255,029.3	295,655.8
Yen assets	142,422.0	197,674.9	269,635.4	249,550.7	289,830.4
Of which:					
Loans and bills discounted	33,104.0	25,611.4	28,628.0	26,775.3	30,490.9
Japanese government securities	104,975.0	166,965.8	235,522.2	217,316.1	253,828.4
Treasury discount bills	21,457.5	40,399.2	49,943.7	48,690.2	51,204.1
Japanese government bonds	83,517.4	126,566.5	185,578.5	168,625.9	202,624.3
Commercial paper	1,719.3	2,014.8	2,248.2	2,227.5	2,269.0
Corporate bonds	2,623.5	3,082.8	3,236.8	3,231.7	3,242.0
Foreign currency assets	4,925.9	5,190.5	5,651.4	5,478.5	5,825.3
8. Yield on interest-bearing assets (percent)	0.502	0.447	0.415	0.441	0.393
Yen assets	0.466	0.424	0.400	0.425	0.377
Of which:					
Loans and bills discounted	0.100	0.100	0.100	0.100	0.100
Japanese government securities	0.593	0.482	0.443	0.473	0.416
Treasury discount bills	0.102	0.073	0.021	0.039	0.005
Japanese government bonds	0.719	0.613	0.556	0.599	0.521
Commercial paper	0.108	0.092	0.088	0.082	0.094
Corporate bonds	0.249	0.174	0.122	0.122	0.122
Foreign currency assets	1.560	1.351	1.171	1.154	1.187

Table 4

The Bank's Capital Base and Capital Adequacy Ratio¹

bil. yen, except where otherwise noted

Item	End of fiscal 2012 (March 31, 2013)	End of fiscal 2013 (March 31, 2014)	End of fiscal 2014 (March 31, 2015)	Changes from a year earlier	[Reference]
					End of the first half of fiscal 2014 (September 30, 2014)
Capital accounts (A)	2,741.5	2,886.3	3,138.6	+252.2	2,886.3
Capital	0.1	0.1	0.1	...	0.1
Legal reserve and others ²	2,741.4	2,886.2	3,138.5	+252.2	2,886.2
Provisions (B)	3,339.6	3,649.3	4,029.4	+380.0	3,802.1
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	1,096.3	1,406.0	1,786.1	+380.0	1,558.8
Capital base³ (C) = (A) + (B)	6,081.1	6,535.7	7,168.0	+632.3	6,688.5
Annual average of banknotes issued (D)	81,569.5	84,411.6	87,394.1	+2,982.5	86,154.6
Capital adequacy ratio (C)/(D) × 100 (percent)	7.45	7.74	8.20	+0.46	7.76

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

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

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

[Reference]

Market Value of the Bank's Securities Holdings¹

bil. yen

Item	End of fiscal 2013 (March 31, 2014)			End of fiscal 2014 (March 31, 2015)		
	Book value	Market value ²	Difference	Book value	Market value ²	Difference
Japanese government securities	198,337.0	201,060.5	2,723.4	269,792.1	274,606.7	4,814.5
Commercial paper	1,874.9	1,874.9	...	1,978.9	1,978.9	...
Corporate bonds	3,204.1	3,198.1	-6.0	3,243.0	3,239.5	-3.5
Pecuniary trusts ³ (stocks held as trust property)	1,351.5	2,288.4	936.9	1,351.0	2,978.3	1,627.3
Pecuniary trusts ³ (index-linked exchange-traded funds held as trust property)	2,868.6	3,865.9	997.3	4,572.0	6,963.7	2,391.6
Pecuniary trusts ³ (Japan real estate investment trusts held as trust property)	147.6	191.0	43.3	205.2	286.8	81.6

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

2. Based on market prices and other factors at the end of the fiscal year.

3. Comprises trust property on a contract basis; thus, book values are not necessarily equal to balance sheet amounts.

II. FINANCIAL STATEMENTS

1. Inventory of property as at March 31, 2015

Item	Value in yen	Unit (except where otherwise noted)
ASSETS		
Gold	441,253,409,037	
Cash	244,225,487,792	
Japanese government securities	269,792,149,426,838	Face value at 265,559,194,000,000 yen
Commercial paper	1,978,962,167,690	Face value at 1,979,100,000,000 yen
Corporate bonds	3,243,074,065,621	Face value at 3,211,400,000,000 yen
Pecuniary trusts (stocks held as trust property)	1,375,754,718,852	
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	4,483,786,805,557	
Pecuniary trusts (Japan real estate investment trusts held as trust property)	206,393,485,183	
Loans and bills discounted	34,097,585,000,000	
Electronic loans	34,097,585,000,000	1,815
Foreign currency assets	7,112,527,067,358	
Foreign currency deposits	688,746,542,485	
Foreign currency securities	4,825,426,306,376	
Foreign currency mutual funds	61,024,921,497	
Foreign currency loans	1,537,329,297,000	
Deposits with agents	23,119,339,601	Deposits with 88 agents
Other assets	393,782,377,361	
Bills and checks in process of collection	157,333,987	8
Capital subscription to the Deposit Insurance Corporation, and the Agricultural and Fishery Cooperative Savings Insurance Corporation	225,000,000	2
Capital subscription to an international financial institution	15,278,374,364	1
Withdrawn cash to be returned to the government	47,049,502,461	6
Accrued interest receivable	303,212,411,537	
Others	27,859,755,012	
Tangible fixed assets	200,985,823,213	
Buildings	98,402,849,658	618,198.88 square meters
Land	82,711,838,658	527,540.23 square meters
Lease assets	7,122,635,036	Number of lease property: 19,137
Construction in progress	1,325,920,710	
Other tangible fixed assets	11,422,579,151	Number of movable property: 10,359
Intangible fixed assets	116,658,434	
Utility rights	116,658,434	
Total assets	323,593,715,832,537	
LIABILITIES		
Banknotes	89,673,254,629,643	
Deposits (excluding those of the government)	206,071,828,959,242	
Current deposits	201,556,431,650,544	1,145
Other deposits	4,515,397,308,698	127
Deposits of the government	1,794,185,531,047	
Treasury deposit	149,999,428,427	
Domestic designated deposit	1,352,539,436,252	
Other government deposits	291,646,666,368	
Payables under repurchase agreements	17,608,286,376,004	8
Other liabilities	322,816,287,376	
Remittances payable	6,386,633,540	
Taxes payable	279,469,000,000	
Lease liabilities	7,532,134,095	
Others	29,428,519,741	
Provision for retirement benefits	198,477,352,529	
Provision for possible losses on bonds transactions	2,243,348,993,013	
Provision for possible losses on foreign exchange transactions	1,786,105,000,000	
Total liabilities	319,698,303,128,854	
NET ASSETS		
Capital	100,000,000	
Legal reserve	2,886,275,112,565	
Special reserve	13,196,452	
Net income	1,009,024,394,666	
Total net assets	3,895,412,703,683	
Total liabilities and net assets	323,593,715,832,537	

2. Balance sheet as at March 31, 2015

yen

ASSETS	
Gold	441,253,409,037
Cash	244,225,487,792
Japanese government securities	269,792,149,426,838
Commercial paper	1,978,962,167,690
Corporate bonds	3,243,074,065,621
Pecuniary trusts (stocks held as trust property)	1,375,754,718,852
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	4,483,786,805,557
Pecuniary trusts (Japan real estate investment trusts held as trust property)	206,393,485,183
Loans and bills discounted	34,097,585,000,000
Electronic loans	34,097,585,000,000
Foreign currency assets	7,112,527,067,358
Foreign currency deposits	688,746,542,485
Foreign currency securities	4,825,426,306,376
Foreign currency mutual funds	61,024,921,497
Foreign currency loans	1,537,329,297,000
Deposits with agents	23,119,339,601
Other assets	393,782,377,361
Bills and checks in process of collection	157,333,987
Capital subscription to the Deposit Insurance Corporation, and the Agricultural and Fishery Cooperative Savings Insurance Corporation	225,000,000
Capital subscription to an international financial institution	15,278,374,364
Withdrawn cash to be returned to the government	47,049,502,461
Accrued interest receivable	303,212,411,537
Others	27,859,755,012
Tangible fixed assets	200,985,823,213
Buildings	98,402,849,658
Land	82,711,838,658
Lease assets	7,122,635,036
Construction in progress	1,325,920,710
Other tangible fixed assets	11,422,579,151
Intangible fixed assets	116,658,434
Utility rights	116,658,434
Total assets	323,593,715,832,537
LIABILITIES	
Banknotes	89,673,254,629,643
Deposits (excluding those of the government)	206,071,828,959,242
Current deposits	201,556,431,650,544
Other deposits	4,515,397,308,698
Deposits of the government	1,794,185,531,047
Treasury deposit	149,999,428,427
Domestic designated deposit	1,352,539,436,252
Other government deposits	291,646,666,368
Payables under repurchase agreements	17,608,286,376,004
Other liabilities	322,816,287,376
Remittances payable	6,386,633,540
Taxes payable	279,469,000,000
Lease liabilities	7,532,134,095
Others	29,428,519,741
Provision for retirement benefits	198,477,352,529
Provision for possible losses on bonds transactions	2,243,348,993,013
Provision for possible losses on foreign exchange transactions	1,786,105,000,000
Total liabilities	319,698,303,128,854
NET ASSETS	
Capital	100,000,000
Legal reserve	2,886,275,112,565
Special reserve	13,196,452
Net income	1,009,024,394,666
Total net assets	3,895,412,703,683
Total liabilities and net assets	323,593,715,832,537

3. Statement of income for fiscal 2014 (April 1, 2014–March 31, 2015)

yen

Operating income	2,078,249,103,726
Interest on loans and discounts	28,614,265,264
Interest on loans	28,614,265,264
Interest and discounts on Japanese government securities	1,044,012,970,315
Interest on commercial paper	1,993,303,944
Interest and discounts on corporate bonds	3,974,641,029
Gains on sale of Japanese government securities	77,800,000
Gains on foreign currency assets	857,077,653,910
Foreign exchange gains	760,161,673,123
Gains on foreign currency securities	86,925,893,812
Gains on foreign currency mutual funds	5,525,312,865
Interest on foreign currency deposits and loans	4,464,774,110
Other operating income	142,498,469,264
Gains on pecuniary trusts (stocks held as trust property)	49,779,640,597
Gains on pecuniary trusts (index-linked exchange-traded funds held as trust property)	59,172,075,331
Gains on pecuniary trusts (Japan real estate investment trusts held as trust property)	7,716,993,650
Dividends	582,895,364
Fees and commissions	10,910,088,293
Other income	14,336,776,029
Operating expenses	364,522,403,329
Interest on payables under repurchase agreements	5,362,231,841
General and administrative expenses and costs	197,514,096,403
Cost of production of banknotes	51,483,108,000
Administrative expenses for treasury business and Japanese government securities	17,933,624,189
Personnel expenses	50,129,688,012
Expenses for transportation and communications	4,434,099,288
Expenses for maintenance and repairs	2,008,511,765
Other general and administrative expenses and costs	52,685,909,799
Taxes excluding corporate income tax, inhabitants taxes, and enterprise taxes	3,760,777,819
Depreciation and amortization	15,078,377,531
Other general and administrative expenses	161,646,075,085
Fees and commissions paid	107,444,818
Other expenses	161,538,630,267
Operating profits	1,713,726,700,397
Special profits	18,100,432,503
Gains on disposal of fixed assets	18,100,432,503
Special losses	380,397,117,965
Losses on disposal of fixed assets	317,117,965
Transfer to provision for possible losses on foreign exchange transactions	380,080,000,000
Net income before taxes	1,351,430,014,935
Provision for corporate income tax, inhabitants taxes, and enterprise taxes	342,405,620,269
Net income	1,009,024,394,666

4. Summary of significant accounting policies

a. Securities

Yen-denominated bonds and CP⁴ 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.

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.

The method of attributing projected benefits to periods up to the fiscal year-end is based on the straight-line method. Prior service cost is amortized 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). Unrecognized actuarial differences are amortized from the fiscal year following the one in which the difference arises; this is also done using the straight-line method.

(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.

e. Significant changes in the accounting standard

Based on the "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan, May 17, 2012), the Bank has changed the calculation method for the retirement benefit obligation and service cost associated with the provision for retirement benefits, beginning with the financial statements for this fiscal year (fiscal 2014).

Specifically, the method of determining the discount rate has been changed from one that uses the discount rate based on the average remaining service period of employees to one that uses the single weighted average discount rate that reflects the estimated period and amount of benefit payment in each period.

This change had no impact on the financial statements for the fiscal year.

Explanatory Notes to Lease Transactions

1. Finance lease transactions

Finance lease transactions that do not transfer ownership

a. Details of lease assets

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

b. Methods used in calculating the depreciation of lease assets

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

2. Operating lease transactions

Future minimum lease payments for non-cancelable operating lease transactions

a. Lessee

	mil. yen
Within one year	101
More than one year	471
Total	572

b. Lessor

	mil. yen
Within one year	1
More than one year	41
Total	43

Explanatory Notes to Accounting for Retirement Benefits¹

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

	yen
Projected benefit obligation at the beginning of fiscal 2014	212,999,964,000
Service cost	4,954,099,000
Interest cost	3,335,135,000
Actuarial differences	785,508,620
Retirement benefits paid	-9,583,519,620
Prior service cost	-11,581,533,000
<hr/>	
Projected benefit obligation at the end of fiscal 2014	200,909,654,000

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

	yen
Projected benefit obligation	200,909,654,000
Fair value of plan assets	...
<hr/>	
Unfunded projected benefit obligation	200,909,654,000
Unrecognized actuarial differences	-13,434,757,821
Unrecognized prior service cost	11,002,456,350
<hr/>	
Net amount recorded on the balance sheet	198,477,352,529
Prepaid pension cost	...
<hr/>	
Provision for retirement benefits	198,477,352,529

3. Retirement benefit cost

	yen
Service cost	4,954,099,000
Interest cost	3,335,135,000
Expected return on plan assets	...
Amortization of actuarial differences	1,325,599,790
Amortization of prior service cost	-579,076,650
<hr/>	
Retirement benefit cost	9,035,757,140

4. Assumptions

Discount rate	1.6%
Long-term expected rate of return on plan assets	...

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

5. Auditors' opinion⁷

May 8, 2015

Auditors' Opinion on the Bank of Japan's Financial Statements for Fiscal 2014

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 2014 indicated below. In our opinion, the financial statements present fairly the state of property and the results of operations for fiscal 2014.

The financial statements comprise the following:
Inventory of property as at March 31, 2015;
Balance sheet as at March 31, 2015; and
Statement of income for fiscal 2014.

Makoto Hosomi
Kazuhito Osugi
Yuji Iino

Auditors, Bank of Japan

6. Appropriation of net income for fiscal 2014

yen

Net income	1,009,024,394,666
Appropriations:	
Transfer to legal reserve	252,256,098,667
Dividends, 5 percent of share face value	5,000,000
Payment to the government	756,763,295,999
Total	1,009,024,394,666

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 2014	Balance at the end of fiscal 2014	Changes during fiscal 2014
1. Gold	441,253,409,037	441,253,409,037	0
2. Cash¹	289,848,532,257	244,225,487,792	-45,623,044,465
3. Japanese government securities	198,337,031,240,604	269,792,149,426,838	71,455,118,186,234
Treasury discount bills	44,183,394,256,253	49,658,400,239,473	5,475,005,983,220
Japanese government bonds	154,153,636,984,351	220,133,749,187,365	65,980,112,203,014
2-year Japanese government bonds	18,549,272,192,216	25,069,682,275,158	6,520,410,082,942
5-year Japanese government bonds	43,305,046,131,749	59,818,095,112,049	16,513,048,980,300
10-year Japanese government bonds	57,186,771,246,336	82,609,068,104,416	25,422,296,858,080
20-year Japanese government bonds	26,600,194,210,818	36,450,297,970,790	9,850,103,759,972
30-year Japanese government bonds	2,502,764,386,635	7,848,523,072,877	5,345,758,686,242
40-year Japanese government bonds	783,697,613,149	2,191,623,508,088	1,407,925,894,939
Floating-rate Japanese government bonds	3,962,471,247,746	4,813,496,987,108	851,025,739,362
Inflation-indexed bonds	1,263,419,955,702	1,332,962,156,879	69,542,201,177
4. Commercial paper²	1,874,901,616,064	1,978,962,167,690	104,060,551,626
Dematerialized commercial paper	1,874,901,616,064	1,978,962,167,690	104,060,551,626
5. Corporate bonds³	3,204,134,652,692	3,243,074,065,621	38,939,412,929
6. Pecuniary trusts (stocks held as trust property)⁴	1,372,809,053,507	1,375,754,718,852	2,945,665,345
Stocks	1,351,505,455,007	1,351,078,039,802	-427,415,205
Dividends receivable and others	21,303,598,500	24,676,679,050	3,373,080,550
7. Pecuniary trusts (index-linked exchange-traded funds held as trust property)⁵	2,851,175,926,577	4,483,786,805,557	1,632,610,878,980
Index-linked exchange-traded funds	2,851,175,926,577	4,483,556,323,777	1,632,380,397,200
Distributions receivable	0	230,481,780	230,481,780
8. Pecuniary trusts (Japan real estate investment trusts held as trust property)⁶	148,828,559,477	206,393,485,183	57,564,925,706
Japan real estate investment trusts	147,030,239,019	204,031,188,502	57,000,949,483
Distributions receivable	1,798,320,458	2,362,296,681	563,976,223
9. Loans and bills discounted	26,313,833,000,000	34,097,585,000,000	7,783,752,000,000
Electronic loans	26,313,833,000,000	34,097,585,000,000	7,783,752,000,000
Loans by complementary lending facility	3,100,000,000	0	-3,100,000,000
Loans by funds-supplying operations against pooled collateral ⁷	26,310,733,000,000	34,097,585,000,000	7,786,852,000,000
10. Foreign currency assets	6,158,293,721,818	7,112,527,067,358	954,233,345,540
Foreign currency deposits ⁸	775,121,686,196	688,746,542,485	-86,375,143,711
Foreign currency securities ^{9,10}	4,426,572,243,822	4,825,426,306,376	398,854,062,554
Foreign currency mutual funds	50,506,196,800	61,024,921,497	10,518,724,697
Foreign currency loans ¹¹	906,093,595,000	1,537,329,297,000	631,235,702,000
11. Deposits with agents¹²	25,384,176,928	23,119,339,601	-2,264,837,327

- Notes:
1. Coins reserved for circulation.
 2. Comprises the following types in dematerialized or physical form: (1) CP issued by domestic corporations; (2) CP issued by foreign corporations with guarantees (dematerialized only); (3) asset-backed CP; and (4) CP issued by real estate investment corporations.
 3. Includes corporate bonds issued by real estate investment corporations.
 4. Comprises stocks purchased from financial institutions through a trust bank, and dividends receivable and others.
 5. Comprises beneficiary interests in index-linked exchange-traded funds purchased through a trust bank and distributions receivable.
 6. Comprises investment equities issued by real estate investment corporations purchased through a trust bank and distributions receivable.
 7. Includes the amount outstanding of loans made through the fixed-rate funds-supplying operation against pooled collateral, that of loans made under the Growth-Supporting Funding Facility conducted through the Loan Support Program (excluding loans disbursed pursuant to the special rules for the U.S. dollar lending arrangement), that of loans made under the Stimulating Bank Lending Facility conducted through the Loan Support Program, and that of loans made through the funds-supplying operation to support financial institutions in disaster areas.
 8. Deposits held at foreign central banks and the Bank for International Settlements (BIS).
 9. Includes securities issued by foreign governments.
 10. 196,728,072,925 yen of the amount outstanding of the foreign currency securities at the fiscal year-end comprises loans due to lending/borrowing of securities.
 11. The amount outstanding at the beginning of the fiscal year comprises that of loans disbursed pursuant to the special rules for the U.S. dollar lending arrangement to enhance the Growth-Supporting Funding Facility conducted through the Loan Support Program. The amount outstanding at the fiscal year-end comprises that of loans disbursed pursuant to the special rules for the U.S. dollar lending arrangement to enhance the Growth-Supporting Funding Facility conducted through the Loan Support Program and that of loans arising from U.S. dollar funds-supplying operations against pooled collateral.
 12. Deposits held at agents that conduct operations relating to treasury funds and JGSs on behalf of the Bank. These deposits are reserved for such operations.

yen

Item	Balance at the beginning of fiscal 2014	Balance at the end of fiscal 2014	Changes during fiscal 2014
12. Other assets	358,968,074,467	393,782,377,361	34,814,302,894
Bills and checks in process of collection ¹³	1,626,442,156	157,333,987	-1,469,108,169
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 ¹⁴	15,278,374,364	15,278,374,364	0
Withdrawn cash to be returned to the government ¹⁵	65,898,388,030	47,049,502,461	-18,848,885,569
Accrued interest receivable	245,667,044,542	303,212,411,537	57,545,366,995
Others	30,272,825,375	27,859,755,012	-2,413,070,363

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

14. A subscription to the BIS.

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

yen

Item	Balance at the beginning of fiscal 2014	Increase during fiscal 2014	Decrease during fiscal 2014	Of which:	Balance at the end of fiscal 2014	Cumulative total of depreciation
				Depreciation		
13. Tangible fixed assets¹⁶	203,257,330,049	20,782,538,222	23,054,045,058	14,468,976,715	200,985,823,213	342,200,628,122
Buildings ^{17,18}	100,767,249,031 (633,461.24)	6,998,406,392 (0.02)	9,362,805,765 (15,262.38)	8,448,623,497 (...)	98,402,849,658 (618,198.88)	308,865,682,487 (...)
Land ¹⁷	82,830,507,504 (571,528.83)	0 (781.78)	118,668,846 (44,770.38)	...	82,711,838,658 (527,540.23)	...
Lease assets ^{19,20}	7,108,497,193 (20,732)	3,623,939,568 (3,521)	3,609,801,725 (5,116)	3,608,273,702 (...)	7,122,635,036 (19,137)	9,074,154,708 (...)
Construction in progress ²¹	1,398,166,350	7,313,864,528	7,386,110,168	...	1,325,920,710	...
Other tangible fixed assets ^{22,23}	11,152,909,971 (10,514)	2,846,327,734 (185)	2,576,658,554 (340)	2,412,079,516 (...)	11,422,579,151 (10,359)	24,260,790,927 (...)

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

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

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

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

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

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

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

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

yen

Item	Balance at the beginning of fiscal 2014	Increase during fiscal 2014	Decrease during fiscal 2014	Of which:	Balance at the end of fiscal 2014	Cumulative total of depreciation
				Depreciation		
14. Intangible fixed assets	126,522,433	0	9,863,999	9,863,999	116,658,434	835,703,583
Utility rights	126,522,433	0	9,863,999	9,863,999	116,658,434	835,703,583

Appendix: Details of loans provided through the Loan Support Program

yen

Item	Balance at the beginning of fiscal 2014	Balance at the end of fiscal 2014	Changes during fiscal 2014
Total amount outstanding	12,686,426,595,000	28,461,032,997,000	15,774,606,402,000
Loans made under the fund-provisioning measure to support strengthening the foundations for economic growth ¹	4,136,826,595,000	6,115,632,997,000	1,978,806,402,000
Loans made under the fund-provisioning measure to stimulate bank lending	8,549,600,000,000	22,345,400,000,000	13,795,800,000,000

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

2. Details of liabilities and net assets

yen

Item	Balance at the beginning of fiscal 2014	Balance at the end of fiscal 2014	Changes during fiscal 2014
1. Banknotes	86,630,810,178,427	89,673,254,629,643	3,042,444,451,216
10,000 yen notes	79,371,102,615,000	82,373,440,475,000	3,002,337,860,000
5,000 yen notes	3,093,642,837,500	3,112,312,082,500	18,669,245,000
2,000 yen notes	198,639,468,000	197,139,524,000	-1,499,944,000
1,000 yen notes	3,816,277,518,000	3,840,542,111,500	24,264,593,500
Other banknotes ¹	151,147,739,927	149,820,436,643	-1,327,303,284
2. Deposits (excluding those of the government)	132,347,720,198,864	206,071,828,959,242	73,724,108,760,378
Current deposits	128,667,873,654,832	201,556,431,650,544	72,888,557,995,712
Current deposits of financial institutions ²	124,724,970,570,116	196,131,467,358,465	71,406,496,788,349
Other current deposits of nonfinancial institutions ³	3,942,903,084,716	5,424,964,292,079	1,482,061,207,363
Other deposits ⁴	3,679,846,544,032	4,515,397,308,698	835,550,764,666
3. Deposits of the government	1,677,803,694,047	1,794,185,531,047	116,381,837,000
Treasury deposit	149,998,722,256	149,999,428,427	706,171
Domestic designated deposit ⁵	1,170,217,267,220	1,352,539,436,252	182,322,169,032
Other government deposits ⁶	357,587,704,571	291,646,666,368	-65,941,038,203
4. Payables under repurchase agreements⁷	13,375,580,245,208	17,608,286,376,004	4,232,706,130,796
Sales of Japanese government bonds under repurchase agreements to the government	13,375,149,036,392	17,560,951,703,454	4,185,802,667,062
Other sales of Japanese government securities under repurchase agreements	431,208,816	47,334,672,550	46,903,463,734
Of which: Under the securities lending facility	431,208,816	47,334,672,550	46,903,463,734
5. Other liabilities	233,744,524,353	322,816,287,376	89,071,763,023
Remittances payable	5,473,070,579	6,386,633,540	913,562,961
Unearned interest and discounts	25,479	0	-25,479
Taxes payable	198,012,000,000	279,469,000,000	81,457,000,000
Lease liabilities	7,468,470,626	7,532,134,095	63,663,469
Others ⁸	22,790,957,669	29,428,519,741	6,637,562,072

- Notes: 1. The total of banknotes of denominations that are no longer issued new but are still legal tender (i.e., notes of 500 yen, 100 yen, 50 yen, 10 yen, 5 yen, and 1 yen).
2. Deposits held by financial institutions including institutions such as *tanshi* companies (money market brokers) and securities finance companies.
3. Deposits held by institutions, for example, financial instruments business operators.
4. Deposits held by foreign central banks and others.
5. A deposit to which the surplus funds from management of the treasury is transferred from the "treasury deposit."
6. Includes the special deposit, which balances "cash" (coins reserved for circulation) and "withdrawn cash to be returned to the government" (coins withdrawn from circulation) in the asset account.
7. Monetary obligations arising from the sales of JGSs under repurchase agreements.
8. 21,060,169,977 yen of the amount outstanding of "others" at the fiscal year-end comprises accrued interest on excess reserve balances under the complementary deposit facility.

yen

Item	Balance at the beginning of fiscal 2014	Increase during fiscal 2014	Decrease during fiscal 2014	Balance at the end of fiscal 2014
6. Provisions⁹	3,848,399,108,022	389,115,757,140	9,583,519,620	4,227,931,345,542
Provision for retirement benefits	199,025,115,009	9,035,757,140	9,583,519,620	198,477,352,529
Provision for possible losses on bonds transactions	2,243,348,993,013	0	0	2,243,348,993,013
Provision for possible losses on foreign exchange transactions	1,406,025,000,000	380,080,000,000	0	1,786,105,000,000
7. Net assets	2,741,538,419,523	144,849,889,494	0	2,886,388,309,017
Capital	100,000,000	0	0	100,000,000
Legal reserve ¹⁰	2,741,425,223,071	144,849,889,494	0	2,886,275,112,565
Special reserve ¹¹	13,196,452	0	0	13,196,452

- Notes: 9. Appropriated in accordance with the Bank's significant accounting policies.
10. A reserve maintained to cover possible losses and to pay dividends under Article 53, paragraphs 1 and 2 of the Act.
11. 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 2014

a. Operating income

Interest on loans and discounts	
Interest on loans	28,614,265,264 yen from electronic loans.
Interest and discounts on Japanese government securities	1,044,012,970,315 yen from interest income on Japanese government securities after adjustment.
Interest on commercial paper	1,993,303,944 yen from interest income on commercial paper after adjustment.
Interest and discounts on corporate bonds	3,974,641,029 yen from interest income on corporate bonds after adjustment.
Gains on sale of Japanese government securities	77,800,000 yen from gains on sales of Japanese government bonds.
Gains on foreign currency assets	
Foreign exchange gains	760,161,673,123 yen from gains on foreign currency assets resulting from revaluation following fluctuations in foreign exchange rates.
Gains on foreign currency securities	Total of 61,613,344,415 yen from interest and discounts on foreign currency securities and 119,334,027 yen from lending fees on them; and 25,193,215,370 yen of gains arising from sale, redemption, and revaluation at end-March 2015 of foreign currency securities.
Gains on foreign currency mutual funds	5,525,312,865 yen
Interest on foreign currency deposits and loans	4,464,774,110 yen
Other operating income	
Gains on pecuniary trusts (stocks held as trust property)	49,779,640,597 yen mainly from dividends.
Gains on pecuniary trusts (index-linked exchange-traded funds held as trust property)	59,172,075,331 yen mainly from distributions.
Gains on pecuniary trusts (Japan real estate investment trusts held as trust property)	7,716,993,650 yen mainly from distributions.
Dividends	582,895,364 yen for dividends from shares of the Bank for International Settlements held by the Bank.
Fees and commissions	10,910,088,293 yen for fees and commissions for operations regarding Japanese government securities, the Bank of Japan Financial Network System (BOJ-NET), foreign exchange transactions, and other operations.
Other income	14,336,776,029 yen from transfer from provision for retirement benefits and other miscellaneous income.

b. Operating expenses

Interest on payables under repurchase agreements	5,362,231,841 yen for interest payment on sales of Japanese government securities under repurchase agreements.
General and administrative expenses and costs	
Cost of production of banknotes	51,483,108,000 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	17,933,624,189 yen from fees and commissions paid to agents of the Bank for administration of treasury business and Japanese government securities.
Personnel expenses	423,717,500 yen for remuneration of the officers; 40,087,148,892 yen for remuneration of the employees; and 9,618,821,620 yen for retirement allowances.
Expenses for transportation and communications	1,782,852,602 yen for expenses for transportation and 2,651,246,686 yen for expenses for communications.
Expenses for maintenance and repairs	2,008,511,765 yen on offices and other premises.
Other general and administrative expenses and costs	1,145,285,201 yen for the cost of expendable supplies; 2,255,782,603 yen for expenses for electricity and water supply; 9,716,051,945 yen for leasing fees for buildings and equipment; 11,157,904,165 yen for expenses for maintenance of buildings and equipment; and 28,410,885,885 yen for miscellaneous expenses.
Taxes excluding corporate income tax, inhabitants taxes, and enterprise taxes	3,760,777,819 yen for taxes and public charges (including fixed-asset tax and urban development tax).
Depreciation and amortization	15,078,377,531 yen on buildings and lease assets.
Other general and administrative expenses	
Fees and commissions paid	107,444,818 yen
Other expenses	151,310,041,304 yen for interest on excess reserve balances under the complementary deposit facility; 90,810,649 yen for interest on domestic designated deposit and interest payment on currency swap transactions; and 10,137,778,314 yen for transfer to provision for retirement benefits and other expenses.

c. Special profits

Gains on disposal of fixed assets	18,100,432,503 yen for gains on sales of land for the Bank's premises and other gains.
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d. Special losses

Losses on disposal of fixed assets	317,117,965 yen for losses on disposals of automatic banknote examination machines and other properties.
Transfer to provision for possible losses on foreign exchange transactions	380,080,000,000 yen

e. Net income

Net income before taxes	1,351,430,014,935 yen
Provision for corporate income tax, inhabitants taxes, and enterprise taxes	342,405,620,269 yen
Net income	1,009,024,394,666 yen

IV. EXPENSES

With regard to the Bank's statement of accounts for fiscal 2014 (the 130th fiscal year), the total amount of actual expenses increased by 3.6 percent (6.5 billion yen) to 189.0 billion yen compared to the previous fiscal year. This was mainly because the decrease in the "cost of fixed-asset purchases," reflecting a decrease in the amount of large-scale improvements to the Bank's premises, was more than offset by the effects of the consumption tax hike, as well as increases in the "cost of production of banknotes" due to a cost increase and in "personnel expenses" due to the termination of the provisional and exceptional measure taken by the Bank to reduce its officers' and employees' remuneration in support of rebuilding efforts following the disaster caused by the Great East Japan Earthquake.

1. Statement of accounts for fiscal 2014

yen

Item	Initial budget	Adjusted budget ¹	Actual	Surpluses	Changes from the previous year (actual)
Cost of production of banknotes	51,483,139,000	51,483,139,000	51,483,108,000	31,000	3,466,880,000
Administrative expenses for treasury business and Japanese government securities	18,263,871,000	18,263,871,000	17,933,624,189	330,246,811	-106,240,933
Personnel expenses	51,467,678,000	51,467,678,000	50,129,688,012	1,337,989,988	2,920,250,237
Remuneration of the officers	420,556,000	424,556,000	423,717,500	838,500	82,602,600
Remuneration of the employees	41,265,270,000	41,265,270,000	40,087,148,892	1,178,121,108	2,653,211,488
Retirement allowances	9,781,852,000	9,777,852,000	9,618,821,620	159,030,380	184,436,149
Expenses for transportation and communications	4,837,106,000	4,837,106,000	4,434,099,288	403,006,712	108,163,555
Expenses for transportation	1,973,712,000	1,973,712,000	1,782,852,602	190,859,398	29,967,499
Expenses for communications	2,863,394,000	2,863,394,000	2,651,246,686	212,147,314	78,196,056
Expenses for maintenance and repairs	2,049,069,000	2,049,069,000	2,008,511,765	40,557,235	40,579,529
Other general and administrative expenses and costs	55,861,348,000	55,861,348,000	52,685,909,799	3,175,438,201	885,635,106
Cost of expendable supplies	1,296,014,000	1,296,014,000	1,145,285,201	150,728,799	154,824,071
Expenses for electricity and water supply	2,508,272,000	2,508,272,000	2,255,782,603	252,489,397	222,163,132
Leasing fees for buildings and equipment	10,276,524,000	10,276,524,000	9,716,051,945	560,472,055	346,237,150
Expenses for maintenance of buildings and equipment	11,728,094,000	11,728,094,000	11,157,904,165	570,189,835	1,048,880,930
Miscellaneous expenses	30,052,444,000	30,052,444,000	28,410,885,885	1,641,558,115	-886,470,177
Subtotal	183,962,211,000	183,962,211,000	178,674,941,053	5,287,269,947	7,315,267,494
Cost of fixed-asset purchases	11,148,620,000	11,148,620,000	10,328,557,064	820,062,936	-776,393,569
Of which: Subject to the approval of the Minister of Finance ²	3,198,934,000	3,198,934,000	3,106,979,146	91,954,854	-174,118,175
Contingency funds	1,000,000,000	1,000,000,000	0	1,000,000,000	0
Total	196,110,831,000	196,110,831,000	189,003,498,117	7,107,332,883	6,538,873,925
Of which: Subject to the approval of the Minister of Finance ²	188,161,145,000	188,161,145,000	181,781,920,199	6,379,224,801	7,141,149,319

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

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

2. Expenses by area of business operation for fiscal 2014¹

mil. yen

Area of business operation	Expenses	Changes from a year earlier	Share of total (percent)
Issuance of banknotes	82,664	+4,964	41.9
Monetary policy	24,597	+432	12.5
Financial system policy	17,078	+882	8.6
Payment and settlement systems	33,435	+272	16.9
Services relating to the government ²	39,740	+148	20.1
Total	197,514	+6,697	100.0

Notes: 1. Calculated based on "general and administrative expenses and costs" (197.5 billion yen) in the statement of income for fiscal 2014 (the 130th 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 2014–2018

APPENDIX 1: OVERVIEW OF AUDITS OF THE BANK OF JAPAN

Pursuant to the provisions of the Bank of Japan Act and in accordance with the Bank's internal rules, the following audits were conducted by the Auditors of the Bank in fiscal 2014 and at the beginning of fiscal 2015.

I. Audits of the Bank's Financial Statements and Other Documents¹

A. Financial Statements and Other Documents for Fiscal 2013

From April through to early May 2014, the Auditors audited the Bank's financial statements and other documents, specifically, the inventory of property, the balance sheet, the statement of income, the statement of accounts, the appropriation of net income, and the schedule for the financial statements for fiscal 2013 (the 129th fiscal year) as well as the statement of income for the second half of fiscal 2013.

The Auditors submitted to the Governor their written opinions indicating that the financial statements and other documents presented fairly the state of property, the results of operations, and the expenses for fiscal 2013 as well as the results of operations for the second half of fiscal 2013.

B. Financial Statements and Other Documents for the First Half of Fiscal 2014

From October through to early November 2014, 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 2014 (the 130th 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 2014.

C. Financial Statements and Other Documents for Fiscal 2014

From April through to early May 2015, the Auditors audited the Bank's financial statements and other documents, specifically, the inventory of property, the balance sheet, the statement of income, the statement of accounts, the appropriation of net income, and the schedule for the financial statements for fiscal 2014 as well as the statement of income for the second half of fiscal 2014.

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 2014 as well as the results of operations for the second half of fiscal 2014.

II. Audits of Cash, Securities, and Books

In fiscal 2014, the Auditors conducted a total of 57 on-site audits on 7 Head Office departments and 32 branches of the Bank, examining cash and securities in their custody as well as their books.

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

III. Audits of the Bank's Business Operations and Expenses

In fiscal 2014, the Auditors conducted on-site audits on 32 branches, 12 of the Bank's local offices in Japan, and 2 overseas representative offices to assess business operations and expenses, as well as on 1 Head Office department to assess operations relating to expenses and contracts. They also conducted a total of 209

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 360 examinations of key documents and 3 special on-site visits to the Bank's premises.

APPENDIX 2: THE BANK OF JAPAN'S STRATEGIC PRIORITIES FOR FISCAL 2014–2018¹**I. Introduction**

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

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

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

II. The Bank's Organizational Principles

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

Public Interest

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

Transparency

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

Excellence

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

Integrity

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

Effectiveness and Efficiency

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

III. Background and Management Guidelines

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

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

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

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

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

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

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

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

B. Improve Capability in the Conduct of Business Operations

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

C. Enhance External Communication and Strengthen Networks

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

IV. Strategic Objectives for Business Operations

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

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

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

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

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

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

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

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

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

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

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

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

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

C. Enhance Payment and Settlement Services and Reinforce Market Infrastructure

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

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

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

D. Conduct Stable and Efficient Central Banking Operations

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

The Bank will also work to maintain a firm grasp of

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

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

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

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

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

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

F. Contribute to the Regional Economic and Financial Environment

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

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

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

G. Strengthen External Communication

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

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

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

global structural changes.

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

V. Strategic Objectives for Organizational Management

A. Organizational Management

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

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

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

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

2. Manage operational risks appropriately

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

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

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

3. Strengthen business continuity arrangements

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

B. Management Resources

1. Human resources

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

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

3. See Attachment 2 for Appendix 2 on page 91 for the ceiling on the number of full-time employees for fiscal 2015.

institutions both inside and outside Japan.

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

2. Budget for expenses

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

VI. Performance Reviews

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

4. See Attachment 1 for Appendix 2 on page 90 for the budget for expenses for fiscal 2015.

THE BANK OF JAPAN'S BUDGET FOR EXPENSES FOR FISCAL 2015¹

The Bank of Japan's budget for expenses for fiscal 2015 (the 131st fiscal year) is as follows (Table 1).² While securing the necessary budget to perform its role as the central bank of Japan, the Bank has also thoroughly examined each item of expenditure to achieve more streamlined overall spending.

The budget for expenses for fiscal 2015 marked a decrease of 0.1 percent from the previous year, of which the amount subject to the approval of the Minister of Finance decreased by 0.2 percent. This overall decrease was due to a 3.8 percent reduction in other general and administrative expenses and costs, mainly due to a decline in computerization expenses in accordance with the progress made in developing the new BOJ-NET, and a 1.2 percent reduction in expenses for transportation and communications. On the other hand, increases were made in the following range of items: 19.8 percent in expenses for maintenance and repairs, particularly in view of the need to update aging equipment; 7.1 percent in the cost of fixed-asset purchases; 0.9 percent in personnel expenses; 0.7 percent in administrative expenses for treasury business and Japanese government securities; and 0.4 percent in the cost of production of banknotes.

1. Decided by the Policy Board on March 24, 2015.

2. The Bank prepares a budget for expenses every fiscal year. Its budget for core operations, excluding the cost of purchasing fixed assets used for the Bank's business operations, is subject to the approval of the Minister of Finance under Article 51, paragraph 1 of the Bank of Japan Act before the beginning of each fiscal year. For fiscal 2015, the Bank sought approval on March 24, 2015 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 2015 (The 131st Fiscal Year)

Item	Initial budget (thous. yen)	Change from the previous year (percent)
Cost of production of banknotes	51,685,811	0.4
Administrative expenses for treasury business and Japanese government securities	18,386,078	0.7
Personnel expenses	51,938,313	0.9
Remuneration of the officers	422,011	0.3
Remuneration of the employees	41,541,514	0.7
Retirement allowances	9,974,788	2.0
Expenses for transportation and communications	4,781,368	-1.2
Expenses for transportation	1,995,081	1.1
Expenses for communications	2,786,287	-2.7
Expenses for maintenance and repairs	2,455,523	19.8
Other general and administrative expenses and costs	53,760,828	-3.8
Cost of expendable supplies	1,366,635	5.4
Expenses for electricity and water supply	2,501,677	-0.3
Leasing fees for buildings and equipment	9,385,265	-8.7
Expenses for maintenance of buildings and equipment	11,539,825	-1.6
Miscellaneous expenses	28,967,426	-3.6
Subtotal	183,007,921	-0.5
Cost of fixed-asset purchases	11,939,140	7.1
Of which: Subject to the approval of the Minister of Finance ¹	3,731,102	16.6
Contingency funds	1,000,000	0.0
Total²	195,947,061	-0.1
Of which: Subject to the approval of the Minister of Finance ¹	187,739,023	-0.2

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 31,493,053 thousand yen, a 7.9 percent decrease from the previous year, and are included in expenses for communications, leasing fees for buildings and equipment, expenses for maintenance of buildings and equipment, and miscellaneous expenses.

Budget estimates of computerization expenses assume required outsourcing of approximately 8,413 person-months (one person-month is the workload equivalent of one person working for one month in system development), and total of approximately 11,323 person-months if the workload of the Bank's employees is included.

**THE CEILING ON THE NUMBER OF FULL-TIME EMPLOYEES
OF THE BANK OF JAPAN FOR FISCAL 2015¹**

The Bank has set the ceiling on the number of full-time employees for fiscal 2015 at 4,900.

1. Decided by the Policy Board on March 20, 2015.

Information



Bank of Japan Web Site:

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

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

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



1 Virtual Tour:

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

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



New Building



Old Building



② Introductory Video "The Bank of Japan in Our Daily Lives":

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

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



③ PR Brochure "Bank of Japan: Its Functions and Organization":

http://www.boj.or.jp/en/announcements/education/boj_pamphlet.htm/

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



Twitter Account: @Bank_of_Japan_e

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

BOJ Time-Series Data Search:

http://www.stat-search.boj.or.jp/index_en.html

Provides approximately 200,000 items of time-series statistical data released by the Bank available for viewing, searching, downloading, and drawing graphs.

Top Page



Quick Access
to key data



Detailed Search
of time-series data

Statistics Page



Bank of Japan Currency Museum (Re-opening on November 21, 2015)

Through its displays of coins, notes, reference materials, and research findings, provides visitors with an opportunity to consider (1) the history, role, and function of currencies, (2) the relations among currencies, and (3) the relationship between currencies and culture/society.

For more information, visit its web site:
<http://www.imes.boj.or.jp/cm/english/index.html>



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