



BANK OF JAPAN

ANNUAL REVIEW 2017





BANK OF JAPAN

ANNUAL REVIEW 2017

Year Ended March 31, 2017

OUR POLICY AND OPERATIONS



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

This Annual Review is available in PDF and HTML on the Bank's website
<http://www.boj.or.jp/en/about/activities/act/ar2017.htm>.

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 its policy of Quantitative and Qualitative Monetary Easing with Yield Curve Control 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 services, and public communications. The Bank pursues its various policies through the precise and deliberate execution of these central banking operations.

The *Annual Review* provides excerpts from the Japanese original *Gyoumu Gaikyo Sho* (Outline of Business Operations), which is prepared pursuant to Article 55 of the Bank of Japan Act. The *Gyoumu Gaikyo Sho* for fiscal 2016 and the *Annual Review 2017* have been drawn up and released to explain to readers the implementation of the Bank's business operations during fiscal 2016. 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 that its business operations and organizational management were conducted in a timely manner in view of changes in circumstances such as those accompanying the Kumamoto Earthquake. The Bank will proceed with its efforts as the country's central bank to achieve the sustainable growth and development of Japan's economy. I hope this year's *Annual Review* will help readers to gain an overview of the Bank's efforts.

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

Haruhiko Kuroda
Governor of the Bank of Japan

About the Bank of Japan

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 2017, 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	40,039	40.0
Financial institutions	2,209	2.2
Public organizations	191	0.2
Securities companies	23	0.0
Other firms	2,526	2.5
Total	100,000	100.0

Note: 1. Rounded down to the nearest 1,000 yen. As of the end of March 2017.

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 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: Hitoshi Suzuki, Makoto Sakurai, Yutaka Harada, Yukitoshi Funo, Takako Masai, and Goushi Kataoka
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 7, 2017.

2. The texts of speeches by Policy Board members are available on the Bank's website (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; 1970, M.A. in Economics; and 1973, withdrew from doctoral program in Economics after completion of course requirements except for dissertation)

1973 Lecturer, Sophia University
1976 Associate Professor, Sophia University
1983 Professor, Sophia University
1998 Professor, Gakushuin University
2013 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, Institute of Fiscal and Monetary Policy, 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

Makoto Sakurai

Date of Birth June 16, 1946

Education Chuo University (1969, B.A. in Economics) The University of Tokyo (1972, M.A. in Economics; and 1976, withdrew from doctoral program in Economics after completion of course requirements except for dissertation)

1976 Joined the Export-Import Bank of Japan
1980 Visiting Fellow, Economic Growth Center, Yale University
1989 Senior Economist, Research Institute for International Investment and Development, Export-Import Bank of Japan
Director General and Chief Economist, Taisho Marine Research Institute Co., Ltd.
1990 Also served as Senior Research Fellow, Institute of Fiscal and Monetary Policy, Ministry of Finance
1996 President, Research Center for International Finance, Mitsui Marine Research Institute Co., Ltd
2007 President, Sakurai & Associates International Finance Research Center
2016 Present position

Hitoshi Suzuki

Date of Birth January 8, 1954

Education Keio University (1977, B.A. in Economics) New York University (1984, MBA)

1977 Joined The Mitsubishi Bank, Ltd.
2005 Executive Officer and General Manager, Treasury Planning Office and Treasury IT Planning Office, The Bank of Tokyo-Mitsubishi, Ltd. (BTM)⁴
2006 Executive Officer and General Manager, Global Markets Planning Division, The Bank of Tokyo-Mitsubishi UFJ, Ltd. (BTMU)⁵
2007 Executive Officer and General Manager, Strategic Credit Portfolio Management Division, BTMU
2011 Senior Managing Director, Chief Executive, Global Markets Unit, BTMU
2012 Deputy President, BTMU
2014 Corporate Auditor, BTMU
2016 Director, Audit and Supervisory Committee Member, BTMU
2017 Advisor, BTMU
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 Office
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

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

Takako Masai

Date of Birth March 8, 1965

Education Jissen Women's University (1988, B.A. in English Literature) Hosei University (2007, MBA)

1988 Joined Scotiabank, Tokyo
1989 Joined The Toronto-Dominion Bank, Tokyo
1998 Joined Credit Agricole Indosuez, Tokyo
2004 Joined Calyon Corporate and Investment Bank,³ Tokyo
2007 General Manager, Capital Markets Division, Shinsei Bank, Ltd
2011 General Manager, Markets Division, Shinsei Bank, Ltd.
General Manager, Markets Sub-Group, Shinsei Bank, Ltd.
2013 Executive Officer, Head of Markets Research Department, Markets Sub-Group, Shinsei Bank, Ltd.
2015 Executive Officer, General Manager of Markets Research Division, Shinsei Bank, Ltd.
2016 Executive Officer, General Manager of Financial Research Division, Shinsei Bank, Ltd.
Present position

Goushi Kataoka

Date of Birth November 30, 1972

Education Keio University (1996, B.A. in Business and Commerce; and 2001, M.A. in Business and Commerce)

1996 Joined Sanwa Research Institute
2005 Senior Economist, Economic & Social Policy Department, UFJ Institute Ltd.⁶
2006 Senior Economist, Economic & Social Policy Department, Mitsubishi UFJ Research and Consulting Co., Ltd.⁷
2016 Senior Economist, Economic Policy Department, Mitsubishi UFJ Research and Consulting Co., Ltd.
2017 Present position

Notes: 3. Established in 2004 through merger of Credit Agricole Indosuez and Credit Lyonnais.

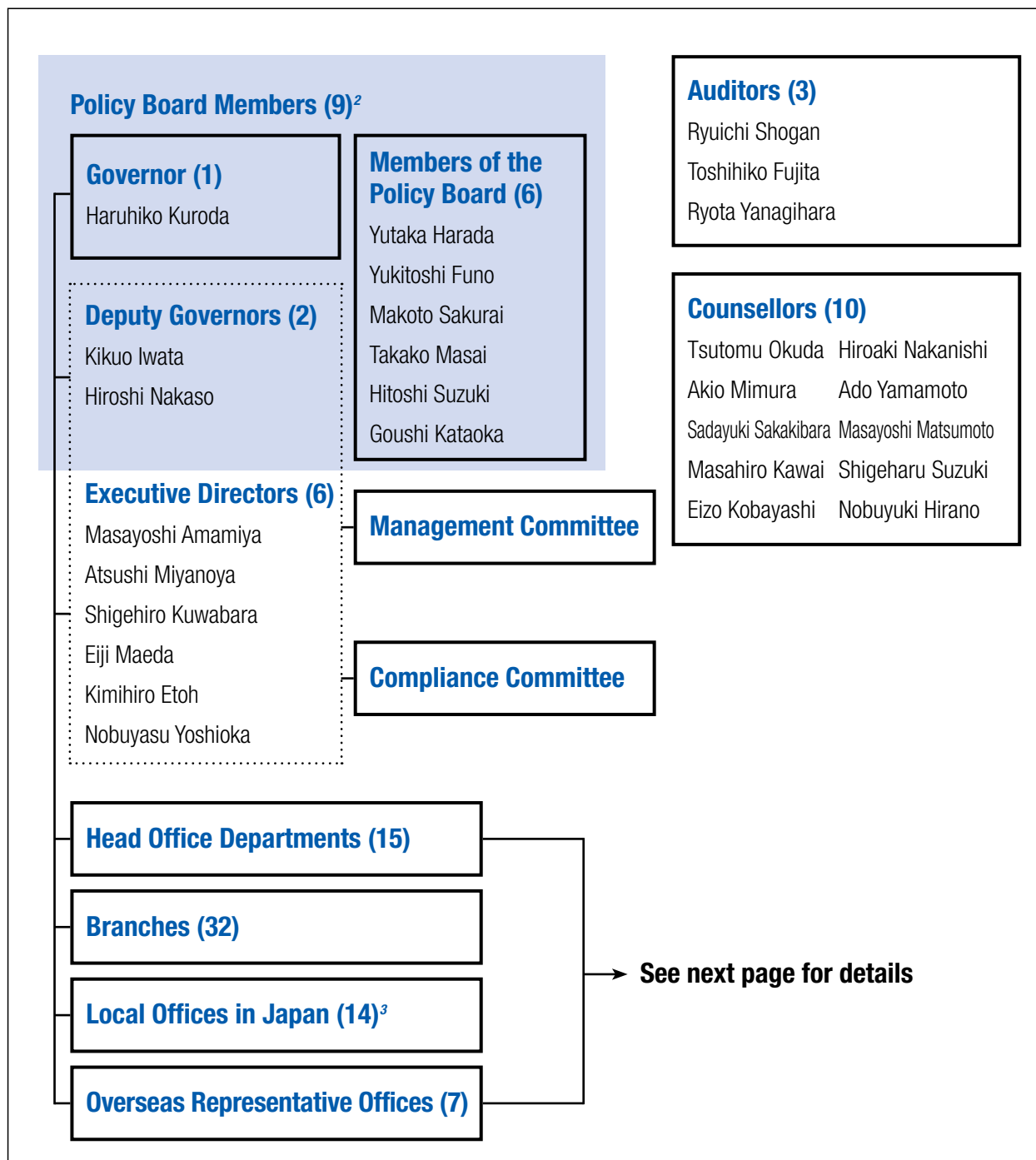
4. Established in 1996 through merger of The Mitsubishi Bank, Ltd. and The Bank of Tokyo, Ltd.

5. Established in 2006 through merger of The Bank of Tokyo-Mitsubishi, Ltd. and UFJ Bank Ltd.

6. Established in 2002 through merger of Sanwa Research Institute and Tokai Research & Consulting Inc.

7. Established in 2006 through merger of UFJ Institute Ltd., The Diamond Business Consulting Co., Ltd., and Tokyo Research International Co., Ltd.

IV. ORGANIZATION

Organization Chart of the Bank¹

Notes: 1. As of August 7, 2017.

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	Yoji Onozawa (Director-General) Ken Matsushita (Director-General, Senior Secretary to the Governor) Takeshi Nakajima (Director-General for Parliamentary Affairs and Media Relations) Tetsuya Sakamoto (Director-General for Management Strategy, Budget, and Accounting)
Internal Auditors' Office	Morichika Hattori (Director-General)
Monetary Affairs Department	Takeshi Kato (Director-General)
Financial System and Bank Examination Department	Yasuhiro Yamada (Director-General)
Payment and Settlement Systems Department	Hiromi Yamaoka (Director-General)
Financial Markets Department	Seichi Shimizu (Director-General)
Research and Statistics Department	Toshitaka Sekine (Director-General)
International Department	Yoshinori Nakata (Director-General)
Currency Issue Department	Yutaka Okada (Director-General)
Operations Department	Shinichiro Hayashi (Director-General)
Information System Services Department	Masayuki Mizuno (Director-General)
Public Relations Department	Seiichi Tsurumi (Director-General)
Personnel and Corporate Affairs Department	Mitsuru Nomura (Director-General) Hirohide Koguchi (Director-General for Personnel Management)
Administration Department	Taro Teruuchi (Director-General)
Institute for Monetary and Economic Studies	Shigenori Shiratsuka (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	Kazushige Kamiyama (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	Shinichiro Okawa (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	Tokiko Shimizu (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	Yuji Yokobori (Chief Representative in Paris)
Frankfurt	Bank of Japan Representative Office in Frankfurt Taunusanlage 21, 60325 Frankfurt am Main, Germany	+49-69-9714310	Jun Mifune (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	Ryota Kojima (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

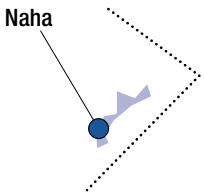
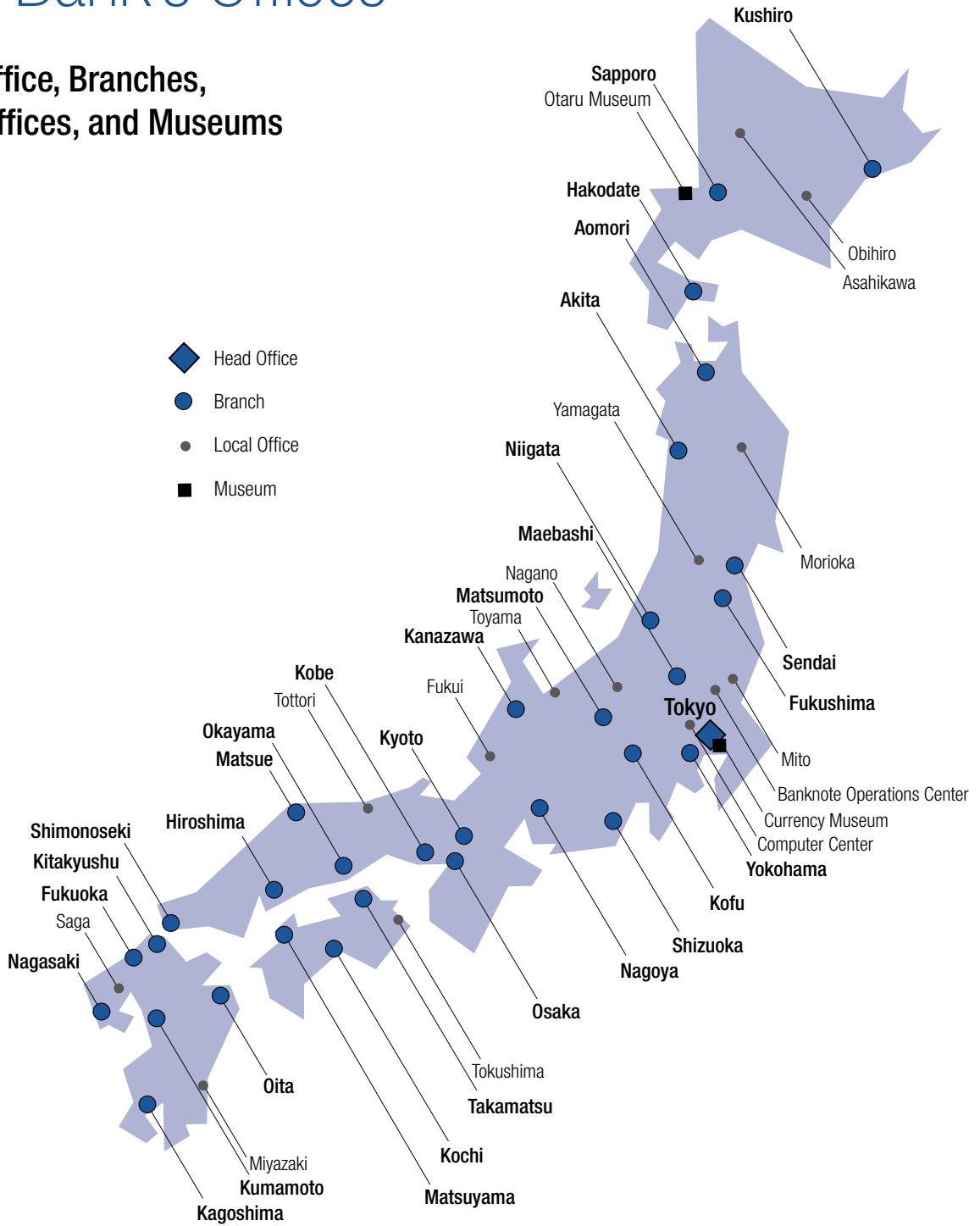
The Computer Center in Fuchu City, Tokyo, operates the Bank's systems. The Banknote Operations Center in Toda City, Saitama Prefecture, receives, pays, and stores banknotes. The other 12 local offices handle some of the operations of the Head Office or branches.

Overseas Representative Offices

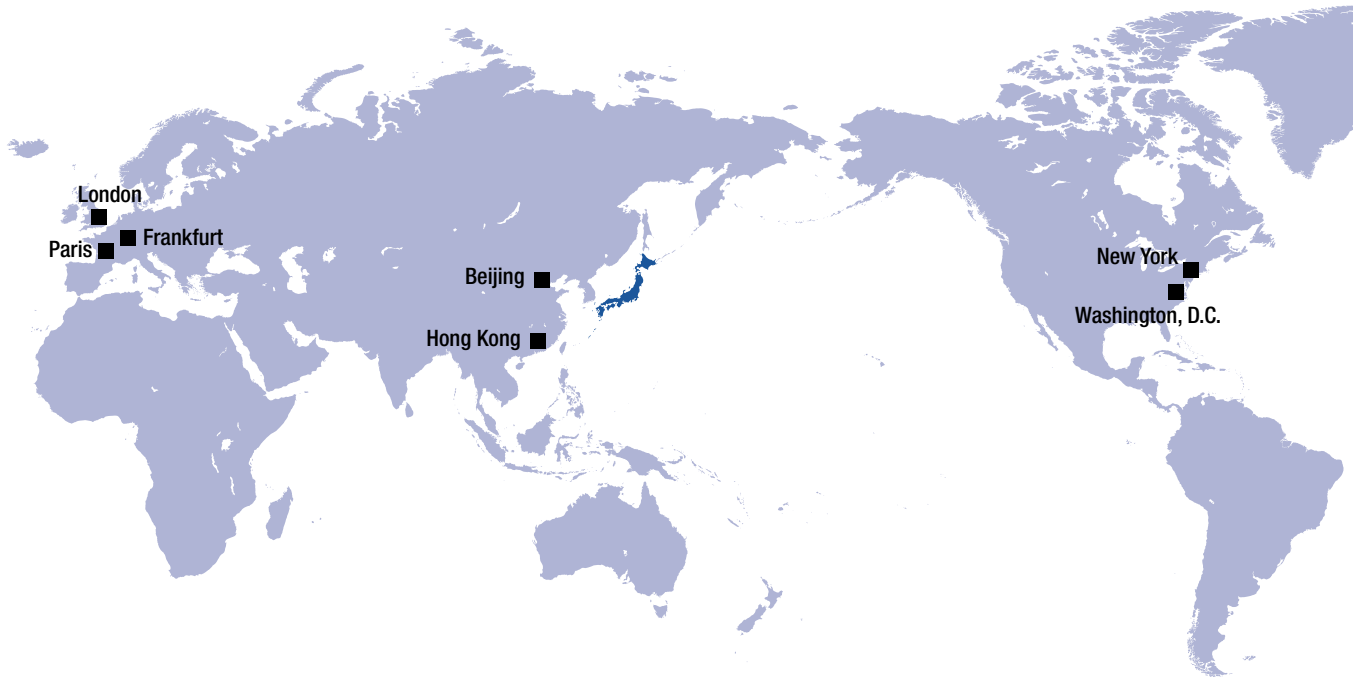
The seven overseas representative offices perform a liaison function, gather information, and conduct research.

The Bank's Offices

Head Office, Branches, Local Offices, and Museums



Overseas Representative Offices¹



Note: 1. For details, see page 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 under 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 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 eight MPMs in fiscal 2016.

The Bank releases each quarter 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 MPMs held, in principle, in January, April, July, 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. For MPMs other than the above, the Policy Board members' assessment of the economic and financial situation is expressed in the statement on monetary policy released after each 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 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 market operations during fiscal 2016.²

1. Papers and statistics as well as lists of the Bank's publications in English are available on the Bank's website (<http://www.boj.or.jp/en/index.htm>) and on the IMES website (<http://www.imes.boj.or.jp/english/index.html>); for a list of the Bank's major publications and reports, see page 99.

2. The summaries of these two issues in English are available on the Bank's website; for excerpts from these summaries, see pages 30–35. The full texts are available in Japanese on the website (<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. These include discussions held by the Basel Committee on Banking Supervision, 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 2016¹

	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	49	(50)	49	(50)	36	(37)
<i>Shinkin</i> banks	255	(256)	255	(256)	112	(112)
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	532	(534)	490	(492)	323	(324)
					357	(359)
						394

Note: 1. Figures in parentheses indicate the number of institutions as of the end of fiscal 2015.

Table 2
Number of Financial Institutions Examined

	Fiscal 2014	Fiscal 2015	Fiscal 2016
Domestically licensed banks ¹	33	30	33
<i>Shinkin</i> banks	40	36	37
Other institutions ²	12	12	15
Total	85	78	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 and improve the efficiency of the functioning of markets as well as to support more robust risk management and innovation in

financial services and market transactions, the Bank, with an eye on international developments, 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. 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 other 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 the smooth circulation of currency, 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 in a timely manner a document that contains a summary of the opinions presented at each MPM (Summary of Opinions), the minutes of MPMs, and public statements on most of the Policy Board decisions. The Bank actively provides 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 Bank's website. Transcripts of MPMs held more than 10 years previously are also 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. It 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 2016

I. Introduction

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

- A. First Half of Fiscal 2016 (April–September 2016)
- B. Second Half of Fiscal 2016 (October 2016–March 2017)

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 2016, 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 2016 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 2016" (see pages 51–54).

The Strategic Priorities states that the Bank shall (1) conduct an interim review of the content of the Strategic Priorities during the five-year period in order to address any changes in its environment and revise the content flexibly in response to any significant such changes, and (2) conduct, separately, a thorough review of the entire content of the Strategic Priorities. In fiscal 2016, the Bank conducted the interim review and decided to maintain the current content.

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

A. First Half of Fiscal 2016 (April–September 2016)

1. Economic developments

a. Looking back at the first half of fiscal 2016, Japan's economy continued its moderate recovery trend, with a virtuous cycle from income to spending being maintained, although exports and production were sluggish, due mainly to the effects of the slowdown in emerging economies.

Exports were more or less flat, due mainly to the effects of the slowdown in emerging economies.

Turning to domestic demand, the decline in public

investment leveled off. Business fixed investment followed a moderate increasing trend as corporate profits were at high levels. Against the background of steady improvement in the employment and income situation, private consumption was resilient, although relatively weak developments were seen in some indicators. Housing investment continued to pick up. Reflecting these developments in demand both at home and abroad, industrial production continued to be more or less flat.

b. On the price front, the year-on-year rate of change in the consumer price index (CPI, all items

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 2016 and June 2017. The full texts of both issues in Japanese and summaries in English are available on the Bank's website.

less fresh food) became slightly negative. Inflation expectations remained in a weakening phase since summer 2015 as an adaptive component played a large role in their formation, with the observed inflation rate being about 0 percent or slightly negative.

2. Financial developments

a. Money market rates declined further on the whole.

Turning to developments in the bond market, long-term interest rates moved further into negative territory through end-July. Thereafter, the rates turned to an increase, mainly on the back of rises in U.S. and European long-term interest rates. Through the end of the first half of fiscal 2016, the rates were slightly below 0 percent under Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control, which was introduced at the September MPM.

The Nikkei 225 Stock Average temporarily fell to a level below 15,000 yen, with a drop in stock prices globally prompted by the United Kingdom's June referendum in which the majority voted to leave the European Union (EU). Thereafter, it rose to around 16,500 yen amid the situation of rises in U.S. and European stock prices.

In the foreign exchange market, through July, the yen appreciated against the U.S. dollar, mainly due to expectations that the pace of the policy interest rate hikes in the United States would be more moderate and to market participants' concern over the impact of the United Kingdom's vote to leave the EU. Thereafter, the U.S. dollar/yen rate was more or less flat, albeit with some fluctuations, and was in the range of 100–101 yen at end-September. The yen also appreciated

against the euro and was in the range of 112–113 yen at end-September.

b. As for corporate finance, in terms of credit supply, financial institutions' lending attitudes as perceived by firms were highly accommodative.

Firms' credit demand increased moderately, mainly for funds related to mergers and acquisitions and funds for business fixed investment. With regard to firms' funding, the year-on-year rate of increase in the amount outstanding of lending by domestic commercial banks was around 2 percent. The year-on-year rate of change in the amount outstanding of corporate bonds turned positive and rose. In addition, the year-on-year rate of change in that of CP turned positive on average.

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 in the range of 20–30 percent. The year-on-year rate of growth in the money stock (M2) was in the range of 3.0–4.0 percent.

3. MPMs³

a. Four MPMs were held in the first half of fiscal 2016.

At all the MPMs held in the first half of fiscal 2016, the Policy Board judged that Japan's economy continued its moderate recovery trend, although exports and production were sluggish, due mainly to the effects of the slowdown in emerging economies.

b. In the conduct of monetary policy, at the July MPM, the Policy Board decided upon the following measures to enhance monetary easing.

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

(1) An increase in purchases of exchange-traded funds (ETFs)

The Bank will purchase ETFs so that their amount outstanding will increase at an annual pace of about 6 trillion yen (almost double the previous pace of about 3.3 trillion yen).

(2) Measures to ensure smooth fund raising in foreign currencies by Japanese firms and financial institutions

(a) Increasing the size of the Bank's U.S. dollar lending program to support growth

The Bank will increase the size of its U.S. dollar lending program to support growth (the Special Rules for the U.S. Dollar Lending Arrangement to Enhance the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth Conducted through the Loan Support Program) to 24 billion USD (about 2.5 trillion yen; double the previous size of 12 billion USD). Under this lending program, the Bank provides its U.S. dollar funds for a period of up to four years to support Japanese firms' overseas activities through financial institutions.

(b) Establishing a new facility for lending securities to be pledged as collateral for the U.S. Dollar Funds-Supplying Operations

The Bank will establish a new facility in which it lends Japanese government securities (JGSs) to financial institutions against their current account balances with the Bank so that these JGSs can be pledged as collateral for the U.S. Dollar Funds-Supplying Operations.

Moreover, at the September MPM, the Policy

Board conducted a comprehensive assessment of the developments in economic activity and prices under QQE and QQE with a Negative Interest Rate as well as their policy effects. Based on this, with a view to achieving the price stability target of 2 percent at the earliest possible time, the Bank decided to introduce QQE with Yield Curve Control by strengthening the two previous policy frameworks mentioned earlier.

(1) Yield curve control

(a) Guideline for market operations

The guideline for market operations specifies a short-term policy interest rate and a target level of a long-term interest rate. The Bank decided to set the following guideline for market operations for the intermeeting period. The Bank will cut the interest rates further if judged necessary.

The short-term policy interest rate:

The Bank will apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank.

The long-term interest rate:

The Bank will purchase Japanese government bonds (JGBs) so that 10-year JGB yields will remain more or less at the current level (around zero percent). With regard to the amount of JGBs to be purchased, the Bank will conduct purchases at more or less the current pace—an annual pace of increase in the amount outstanding of its JGB holdings of about 80 trillion yen—aiming to achieve the target level of the long-term interest rate specified by the guideline. JGBs with a

wide range of maturities will continue to be eligible for purchase, while the guideline for the average remaining maturity of the Bank's JGB purchases will be abolished.

- (b) New tools for market operations to facilitate yield curve control

The Bank decided to introduce the following new tools for market operations so as to control the yield curve smoothly.

- (i) Outright purchases of JGBs with yields designated by the Bank (fixed-rate purchase operations)
- (ii) Fixed-rate funds-supplying operations for a period of up to 10 years (extending the longest maturity of the operations from the previous period of one year)

(2) Guidelines for asset purchases

With regard to asset purchases other than JGB purchases, the Bank decided to set the following guidelines.

- (a) The Bank will purchase ETFs and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at annual paces of about 6 trillion yen and about 90 billion yen, respectively.
- (b) 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.

(3) Inflation-overshooting commitment

The Bank will continue with QQE with Yield Curve Control, 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 continue expanding the monetary base until the year-on-year rate of increase in the observed CPI

(all items less fresh food) exceeds the price stability target of 2 percent and stays above the target in a stable manner, while the pace of increase in the monetary base may fluctuate in the short run under market operations that aim at controlling the yield curve.

The Bank will make policy adjustments as appropriate, taking account of developments in economic activity and prices as well as financial conditions, with a view to maintaining the momentum toward achieving the price stability target of 2 percent.

B. Second Half of Fiscal 2016 (October 2016–March 2017)

1. Economic developments

- a. Looking back at the second half of fiscal 2016, Japan's economy continued its moderate recovery trend, with a virtuous cycle from income to spending being maintained.

Exports followed an increasing trend after having picked up, with the effects of the slowdown in emerging economies waning. Turning to domestic demand, public investment and housing investment were more or less flat. Business fixed investment was on a moderate increasing trend as corporate profits improved. Private consumption was resilient against the background of steady improvement in the employment and income situation. Reflecting these developments in demand both at home and abroad, industrial production picked up and then followed an increasing trend.

- b. On the price front, the year-on-year rate of change in the CPI (all items less fresh food) became about 0 percent, after increasing gradually from being slightly negative. Inflation expectations remained

in a weakening phase as an adaptive component played a large role in their formation, with the observed inflation rate being about 0 percent or slightly negative.

2. Financial developments

- a. Money market rates were at low levels on the whole.

Turning to developments in the bond market, the long-term interest rate was stable at the target level of around zero percent under QQE with Yield Curve Control.

The Nikkei 225 Stock Average was more or less flat until early November, and then rose significantly through end-2016 with a global rise in stock prices mainly stemming from expectations for the new U.S. administration's economic policy. Thereafter, it remained more or less flat and was in the range of 18,500–19,000 yen at end-March.

In the foreign exchange market, through end-2016, the yen depreciated against the U.S. dollar, in a situation where the dollar appreciated against many currencies, mainly reflecting a rise in U.S. interest rates. Thereafter, due in part to a halt to the rise in U.S. interest rates and heightened uncertainties regarding political situations in Europe, the yen appreciated against the U.S. dollar and was in the range of 111–112 yen at end-March. The yen depreciated against the euro and was in the range of 119–120 yen at end-March.

- b. As for corporate finance, in terms of credit supply, financial institutions' lending attitudes as perceived by firms were highly accommodative.

Firms' credit demand increased, mainly for funds related to mergers and acquisitions and funds for business fixed investment. With regard

to firms' funding, the year-on-year rate of increase in the amount outstanding of lending by domestic commercial banks accelerated moderately and was 3 percent in March. The year-on-year rates of change in the amounts outstanding of CP and corporate bonds were positive.

- c. The monetary base continued to increase at a high year-on-year growth rate in the range of 20–25 percent. The year-on-year rate of growth in the M2 was around 4 percent.

3. MPMs⁴

- a. Four MPMs were held in the second half of fiscal 2016.

At the MPM held in October 2016, the Policy Board judged that Japan's economy continued its moderate recovery trend, although exports and production were sluggish, due mainly to the effects of the slowdown in emerging economies. At the MPMs held in December 2016 through March 2017, it judged that the economy continued its moderate recovery trend.

- b. In the conduct of monetary policy, at all the MPMs held in the second half of fiscal 2016, the Policy Board decided to continue with the following guidelines for market operations and asset purchases under QQE with Yield Curve Control determined at the MPM held in September 2016.

(1) Yield curve control

The Bank decided to set the following guideline for market operations for the intermeeting period.

The short-term policy interest rate:

The Bank will apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank.

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

The long-term interest rate:

The Bank will purchase JGBs so that 10-year JGB yields will remain at around zero percent. With regard to the amount of JGBs to be purchased, the Bank will conduct purchases at more or less the current pace—an annual pace of increase in the amount outstanding of its JGB holdings of about 80 trillion yen—aiming to achieve the target level of the long-term interest rate specified by the guideline.

(2) Guidelines for asset purchases

With regard to asset purchases other than JGB purchases, the Bank decided to set the following guidelines.

- (a) The Bank will purchase ETFs and J-REITs so that their amounts outstanding will increase at annual paces of about 6 trillion yen and about 90 billion yen, respectively.
- (b) 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 second half of fiscal 2016: "the Bank will continue with QQE with Yield Curve Control, 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 continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds 2 percent and stays above the target in a stable manner. The Bank will make policy adjustments as appropriate, taking account of developments in economic activity and prices as well as financial conditions, with a view to maintaining the momentum toward achieving the price stability target."

QQE WITH YIELD CURVE CONTROL

At the September 2016 MPM, the Bank conducted a comprehensive assessment of the developments in economic activity and prices as well as the policy effects since the introduction of QQE (released as the Comprehensive Assessment^{1,2}). Based on its findings, the Bank decided to introduce QQE with Yield Curve Control,^{3,4} which is a new framework for strengthening monetary easing.

The new policy framework consists of two components: the first is "yield curve control" in which the Bank controls short-term and long-term interest rates through market operations; the second is an "inflation-overshooting commitment" in which the Bank commits itself to expanding the monetary base until the year-on-year rate of increase in the observed CPI exceeds the price stability target of 2 percent and stays above the target in a stable manner.

1. Yield curve control

As shown in the Comprehensive Assessment, QQE, which was introduced in April 2013, has brought about improvements in economic activity and prices mainly through the decline in real interest rates, and Japan's economy is no longer in deflation, which is commonly defined as a sustained decline in prices. With this in mind, yield curve control, in which the Bank seeks a decline in real interest rates by controlling short-term and long-term interest rates, has been placed at the core of the new policy framework.

The experience so far with the negative interest rate policy, which was introduced in January 2016, shows that a combination of the negative interest rate on current account balances at the Bank and purchases of JGBs is effective for yield curve control. In addition, the Bank has decided to introduce new tools of market operations, such as fixed-rate purchase operations, to facilitate smooth implementation of yield curve control.

2. Inflation-overshooting commitment

The Bank has introduced an inflation-overshooting commitment, under which it continues expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds the price stability target of 2 percent and stays above the target in a stable manner. Through this commitment, the Bank aims to enhance the credibility of achieving 2 percent among the public.

The Bank will make policy adjustments as appropriate, taking account of developments in economic activity and prices as well as financial conditions, with a view to maintaining the momentum toward achieving the price stability target of 2 percent.

Notes: 1. See *Comprehensive Assessment: Developments in Economic Activity and Prices as well as Policy Effects since the Introduction of Quantitative and Qualitative Monetary Easing (QQE)* on the Bank's website (http://www.boj.or.jp/en/announcements/release_2016/rel160930d.pdf).

2. For details of the analysis conducted in the Comprehensive Assessment, see *Supplementary Paper Series for the "Comprehensive Assessment"* on the Bank's website: (1) "Developments in Inflation Expectations over the Three Years since the Introduction of Quantitative and Qualitative Monetary Easing (QQE)" released on October 14, 2016 (http://www.boj.or.jp/en/research/wps_rev/rev_2016/data/rev16e13.pdf); (2) "Developments in the Natural Rate of Interest in Japan" released on October 18, 2016 (http://www.boj.or.jp/en/research/wps_rev/rev_2016/data/rev16e12.pdf); and (3) "Policy Effects since the Introduction of Quantitative and Qualitative Monetary Easing (QQE)—Assessment Based on the Bank of Japan's Large-scale Macroeconomic Model (Q-JEM)" released on November 7, 2016 (http://www.boj.or.jp/en/research/wps_rev/wps_2016/data/wp16e15.pdf).

3. The decisions made under QQE with Yield Curve Control are available on the Bank's website (<http://www.boj.or.jp/en/mopo/mpmdeci/index.htm>).

4. For details, refer to "New Framework for Strengthening Monetary Easing: 'Quantitative and Qualitative Monetary Easing with Yield Curve Control'" released on September 21, 2016 (http://www.boj.or.jp/en/announcements/release_2016/k160921a.pdf).

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 from multiple perspectives regarding economic and financial conditions both at home and abroad, including the broader effects of the United Kingdom's vote to leave the EU and of the U.S. presidential election, as well as their implications for Japan's economy. In May 2016, the Bank started compiling the consumption activity index (CAI) so as to better capture developments in private consumption.
- (2) The Bank added various new approaches to its multi-perspective analysis on the effects and impacts of monetary policy, focusing on developments in inflation expectations and their formation mechanisms, as well as the downward effects on interest rates of JGB purchases and the introduction of the negative interest rate policy. Based on the results of its analysis, the Bank planned and formulated the following monetary policy measures flexibly.
 - (a) Conducting the comprehensive assessment of the developments in economic activity and prices, as well as of the policy effects since the introduction of QQE, and introducing QQE with Yield Curve Control based on its findings.
 - (b) Enhancing monetary easing through an increase in ETF purchases and measures to ensure smooth funding in foreign currencies by Japanese firms and financial institutions.
 - (c) Introducing the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas of the 2016 Kumamoto Earthquake and other measures.
 - (d) Making changes to the maximum size of each ETF purchase.
 - (e) Extending the duration of operations such as the Fund-Provisioning Measure to Stimulate Bank Lending.
- (3) In February 2017, the Bank simplified the principal terms and conditions for monetary policy measures with a view to contributing to the further enhancement of discussions on monetary policy.
- (4) The Bank enhanced dialogue with market participants through the following initiatives.
 - (a) The Bank actively exchanged opinions on such occasions as the "Meeting on Market Operations" and the "Bond Market Group," each of which was held twice in fiscal 2016.
 - (b) In February 2017, the Bank decided to announce a detailed schedule of JGB purchases for the following month in the outline of outright purchases of JGSs released at the end of each month.
- (5) Progress was made in fundamental research on the following: monetary policy; the macroeconomy; financial markets; legal and accounting systems, and information security, in finance-related fields; and monetary 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 from multiple perspectives regarding economic and financial conditions both at home and abroad; it also carried out multi-perspective analysis on the effects and impacts of monetary policy. In light of its analysis, the Bank planned

and formulated monetary policy measures flexibly, for example introducing QQE with Yield Curve Control based on the findings of the comprehensive assessment. In addition, the Bank enhanced dialogue with market participants through, for example, the "Meeting on Market Operations" and the "Bond Market Group," and made steady adjustments to its operational arrangements so as to ensure that monetary policy continued to be conducted appropriately.

Based on the above, the Bank considers that, in fiscal 2016, it achieved its intended objective in terms of providing a firm underpinning for monetary policy conduct. In fiscal 2017, the Bank will continue to work to have the necessary arrangements in place to conduct research and analysis that appropriately reflects changes in economic and financial conditions, to plan policy measures flexibly, and to conduct 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 2016" decided by the Policy Board, the Bank stepped up its efforts to conduct on-site examinations of financial institutions more efficiently and effectively in light of the extent of their influence on the financial system and their risk profiles; it carried out 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 profitability and resilience against risks, including the actual business conditions of their financial group as a whole and the risk management of their overseas branches.

(2) With regard to off-site monitoring, the Bank held

in-depth interviews with financial institutions and secured a sound understanding of their business activities in areas where they had adopted a proactive risk-taking stance. It also continued to deepen its understanding of financial institutions' business conditions, such as business operations, risk management, and profitability, mainly through examining from multiple perspectives the effects of the introduction of the negative interest rate policy on financial business practices and financial institutions' management. In particular, the Bank sharpened its focus 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. It also encouraged such institutions' efforts to improve their risk management, for example, through exchanging views with them.

(3) In the *Financial System Report*, the Bank, while refining its macro stress testing exercises, examined financial intermediation by Japanese financial institutions and current conditions in the financial system; it also deepened its quantitative analysis regarding potential vulnerabilities of the financial system in a low or negative interest rate environment. In addition, the Bank continued to share awareness of challenges and risks, particularly with financial institutions, through the following initiatives in fiscal 2016: releasing three issues of the *Financial System Report Annex Series* providing more detailed analysis of and insight into selected topics; actively communicating with financial institutions and analysts through 35 seminars; and pursuing dialogue with the boards of directors of financial institutions through on-site examinations and off-site monitoring.

- (4) The Bank further strengthened cooperation on the macroprudential front with the Financial Services Agency (FSA) by, for example, holding regular joint meetings—twice in fiscal 2016—and sharing awareness of challenges and risks at all levels, as well as developing the framework for the operation of the countercyclical capital buffer.
- (5) The Bank executed business operations for the Loan Support Program in an appropriate manner—for example making arrangements for measures to ensure smooth funding in foreign currencies by Japanese firms and financial institutions.
- (6) The Bank hosted large-scale seminars on topics such as financial institutions' support for firms making renewed efforts for business revitalization and discontinuance. It also held a series of workshops on utilizing IT to advance financial technology and management, and released in October 2016 a summary report of the discussions.

2. Evaluation of progress

The Bank enhanced its assessment particularly of business operations and risk management at financial institutions and facilitated necessary improvements through the following: in the *Financial System Report*, it presented its assessment of challenges and risks faced in maintaining and improving the stability and functioning of the financial system, and conducted on-site examinations and improved off-site monitoring based on this assessment. In particular, the Bank sharpened its focus on business conditions at systemically important financial institutions, taking into account the extent of any systemic implications, and facilitated necessary improvements. In addition, the Bank deepened dialogue with regional financial institutions on the key management issues and challenges facing them, such as strengthening their

core profitability in a low interest rate environment.

The Bank carried out, efficiently and in an appropriate manner, both the selection of financial institutions to conduct transactions with the Bank and business operations relating to the provision of loans. It also further strengthened cooperation on the macroprudential front with the relevant authority.

During fiscal 2016, 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 it steadily tackled challenges in maintaining and improving the stability and functioning of the financial system in the face of financial institutions' macro risks and structural changes in the financial system, thereby producing the intended effects. In fiscal 2017, the Bank will work strenuously to identify challenges and risks faced in maintaining and improving the stability and functioning of the financial system, and to deepen its understanding of the situation on the ground, for example, for business operations and risk management at financial institutions. The Bank will also work further to share with relevant parties a common understanding of the current situation and of challenges facing financial institutions and the financial system.

C. Enhance Payment and Settlement Services and Reinforce Market Infrastructure

1. Progress in implementing specific measures

- (1) Looking to enhance Japan's payment and settlement services using the Bank of Japan Financial Network System (BOJ-NET), the Bank implemented the following initiatives in consultation with financial institutions and relevant parties.

- (a) Following deliberations at the Forum Towards

Making Effective Use of the BOJ-NET, the Bank provided support in identifying issues and deciding appropriate courses of action, mainly with regard to the phased extension of the operating hours of the BOJ-NET. These issues included the expansion of trade volume in the ongoing first phase in which operating hours have been extended until 9:00 p.m., and the further extension of those hours in the second phase.

- (b) In February 2017, the Bank conducted a survey on cross-border yen payment services provided by banks in order to research and analyze potential demand by firms for such services as well as issues involved in offering them during the evening and night hours in Japan.
- (c) The Bank continued with its deliberations on Global Access, which allows BOJ-NET participant financial institutions access to the BOJ-NET from terminals in their overseas offices. The outcome of these deliberations was compiled and released in May 2017.
- (2) The Bank continued with its deliberations and coordination with other central banks and relevant parties regarding issues that remain on the way to realizing payment and settlement for cross-border transactions in yen or JGBs.
- (3) The Bank encouraged the enhancement of Japan's retail payment systems through, for example, support for deliberations on the specifics of extending the operating hours of the Zengin Data Telecommunication System (Zengin System) as well as on realizing financial electronic data interchange (EDI).
- (4) The Bank participated in various meetings held by the Financial Stability Board (FSB) regarding collection of trading data, such as on repos, and made steady progress with preparations for the start of the FSB's global data collection at the end of 2018, conducting a survey on trading volumes and selecting reporting institutions in January 2017.
- (5) The Bank supported market participants' efforts to move to a T+1 JGB settlement cycle for outright transactions.
 - (a) In February 2017, the Japan Securities Dealers Association (JSDA) announced its decision to implement the T+1 settlement cycle for outright transactions of JGBs from May 2018.
- (6) The Bank contributed to discussions with market participants on the reform of interest rate benchmarks, as follows.
 - (a) Regarding the TIBOR reforms in Japan, the Bank assisted in public consultation conducted by the Japanese Bankers Association TIBOR Administration (JBATA) and other initiatives. In February 2017, JBATA announced that the JBA TIBOR Reform would be implemented in July 2017.
 - (b) The Bank supported market participants' initiatives in its role as the secretariat of the Study Group on Risk-Free Reference Rates. The Study Group designated the uncollateralized overnight call rate as the Japanese yen risk-free rate, and released a report on the matter in December 2016.
- (7) The Bank continued to cooperate in the conduct of more practical exercises to test business continuity arrangements across markets; specifically, upon request from market participants, in the market-wide joint exercise in October 2016, the Bank provided loans to exercise participants from the money market, securities markets, and foreign exchange market through Funds-Supplying Operations against Pooled Collateral.
- (8) The Bank's FinTech Center, established in April 2016, played a leading role in collecting and

communicating information as well as carrying out related research through the FinTech Forum—three meetings of which were held in fiscal 2016—and a joint conference with the University of Tokyo in November 2016. Moreover, the Bank, together with the European Central Bank (ECB), launched a joint research project in December 2016 with the aim of studying the possible use of distributed ledger technology for market infrastructure.

2. Evaluation of progress

The Bank made progress broadly as scheduled in implementing initiatives toward the enhancement of payment and settlement services, for example through deliberations on Global Access to realize access to the BOJ-NET from terminals overseas.

As for the reinforcement of the infrastructures of financial and capital markets, the Bank steadily advanced measures for the collection of trading data, such as on repos, and supported market participants' initiatives on shortening the JGB settlement cycle, TIBOR reforms, and the introduction of risk-free reference rates.

Meanwhile, the Bank also collected and communicated information and carried out research related to FinTech in an appropriate manner.

Based on the above, the Bank considers that it made steady progress in fiscal 2016 in terms of measures taken to contribute to the enhancement of payment and settlement services and the reinforcement of the infrastructures of financial and capital markets in Japan. In fiscal 2017, the Bank will continue to work to realize Global Access allowing access to the BOJ-NET from terminals overseas and to support market participants' initiatives toward the collection of trading data, such as on repos. It will also work to collect and communicate information, and to carry out research related to FinTech.

D. Conduct Stable and Efficient Central Banking Operations

1. Progress in implementing specific measures

- (1) The Bank continued, on a daily basis, to settle financial transactions involving current account deposits that financial institutions hold at the Bank in an accurate and stable manner, and conducted market operations appropriately in accordance with the guidelines decided at MPMs for market operations and asset purchases. The Bank also appropriately carried out sales of stocks purchased from financial institutions under authorization pursuant to the proviso of Article 43 of the Act, having resumed such sales from April 2016.
- (2) In order to ease supply and demand conditions of JGSs in the repo market at the fiscal year-end in March 2017, the Bank implemented temporary measures, including offers for sales of JGSs with repurchase agreements intended to provide the market with JGSs as well as relaxation of the upper limit on the number of issues of JGSs to be requested through the Securities Lending Facility.
- (3) 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. As part of the process, it improved the method of monitoring the cleanliness of banknotes in circulation, as planned.
- (4) The Bank moved forward, as scheduled, with the replacement of automatic banknote examination machines, starting installations of the new model at its branches.
- (5) The Bank continued to maintain, by gathering information from relevant parties, a firm grasp of changes in cash delivery routes and conducted cash transportation and other operational procedures efficiently.

- (6) The receipt and payment of coins at a coin delivery center outside the Bank's premises managed by a private security and transportation company were carried out smoothly.
- (7) The Bank carried out a wide range of treasury funds and JGS services with precision, while working toward more streamlined online processing of treasury funds.
- (8) In cooperation with the relevant ministries and government agencies, the Bank contributed to the smooth issuance of government bonds as special condolence to the bereaved families of the war dead for the 10th time.

2. Evaluation of progress

With regard to banking operations, the Bank continued to settle financial transactions involving current account deposits that financial institutions hold at the Bank in an accurate and stable manner, and conducted market operations appropriately in accordance with the guidelines decided at MPMs.

As for business operations relating to banknote issuance, the Bank made progress in securing confidence in banknotes and coins. For example, the new model of automatic banknote examination machine was being installed at the Bank's branches, and the receipt and payment of coins at a coin delivery center outside the Bank's premises were carried out smoothly. The Bank also made progress in firmly grasping the current situation of cash circulation by gathering information from relevant parties.

The Bank carried out a wide range of treasury funds and JGS services with precision, while working toward more streamlined online processing of treasury funds.

Based on the above, the Bank considers that, in fiscal 2016, it achieved the desired results in terms of conducting stable and efficient central banking

operations, while reviewing its business processes in response to changes in its operational environment. In fiscal 2017, the Bank will continue constantly to pursue excellence in central banking services, in view of trending changes in both the quality and quantity of its operations.

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 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) Through participation in discussions on financial regulation and supervision, the Bank, in cooperation with the FSA, contributed to progress on international financial regulatory reform that reflected Japan's viewpoints.
 - (c) In the fields of global financial markets, financial market infrastructures, interest rate benchmarks, the code of conduct for foreign exchange markets,

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-, BIS-, and FSB-related committees, the Bank's staff played leading roles, for example, by moderating discussions as the chair.
 - (f) The Bank participated in the Irving Fisher Committee on Central Bank Statistics (IFC), with an official serving as a member of the IFC Executive, and played a part in discussions at the global level, for example, through the presentation of papers at related conferences.
- (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 prompt 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 and other relevant parties as well as active strengthening of relations with monetary authorities in Asia.
 - (4) With regard to international monetary cooperation, the Bank deliberated over and made efforts to coordinate the provision of liquidity backstops to meet the local currency funding needs of Japanese financial institutions operating in overseas economies. On the basis of these efforts, it then signed a bilateral local currency swap arrangement with the Monetary Authority of Singapore in November 2016, establishing provisions that allowed for the extension

of loans in Singapore dollars in an emergency situation. As for the establishment of a cross-border collateral arrangement, whereby the central bank in a partner country provides liquidity in the local currency utilizing JGSs and Japanese yen held at the Bank as collateral, the Bank proceeded with its consideration of and efforts to coordinate an expansion in the number of Asian partners participating in such arrangements. For example, in August 2016, the Bank implemented an arrangement whereby the Bangko Sentral ng Pilipinas, the central bank of the Republic of the Philippines, would provide liquidity in Philippine pesos against Japanese yen.

- (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, for example, by moderating discussions on the design of scenarios for exercises based on the Chiang Mai Initiative Multilateralization (CMIM).
- (6) The Bank made appropriate arrangements for and co-hosted international meetings including the G-7 Finance Ministers and Central Bank Governors' Meeting held in Sendai in May 2016.
- (7) 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 other central banks in Asia. Of the personnel exchanges, 62 involved receiving staff (513 people) from these central banks, while 8 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 on topics including financial regulation, financial markets, and financial market infrastructures, and contributed to discussions toward 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 prompt 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 2016, it 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 2017, it will continue to work in cooperation with relevant parties to deepen and extend the initiatives taken to date, 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 hold current accounts at the Bank as well as ministries and government agencies, as necessary.

(a) In the immediate aftermath of the Kumamoto Earthquake, the Bank provided central banking services smoothly, for example, supplying cash

and settling funds via current accounts held by financial institutions at the Bank.

(2) At Kushiro, Sapporo, Sendai, Niigata, Matsue, and Kumamoto branches, the Bank, in cooperation with the respective local finance bureaus, requested that financial institutions take special measures in response to disasters.

(3) The Bank gained a detailed grasp of regional economic and financial 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 as well as in ensuring stability and improving the functioning of the financial system.

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

(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*. The Bank revised the content of the report starting from the April 2017 issue, with a view to communicating with the public in a more effective

and efficient manner.

- (5) In fiscal 2016, the Bank's Center for Advanced Financial Technology (CAFT) hosted the following seminars and workshops targeted mainly at regional financial institutions: 6 seminars on the corporate governance reform and enhancement of business management, as well as 16 workshops on (1) private finance initiatives (PFIs) and public-private partnerships (PPPs), (2) support for start-up firms, (3) agri-finance, and (4) financial institutions' support for firms making renewed efforts for business revitalization and discontinuance.

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 economic and financial 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 as well as in ensuring stability and improving the functioning of the financial system.

Based on the above, the Bank considers that, in fiscal 2016, it made the requisite contribution to the regional economic and financial environment, making due use of the functions performed as the country's central bank by its Head Office, branches, and local offices. In fiscal 2017, 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 economic and financial 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 2016, 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 website.⁵
 - (c) Publishing the *Gyomu Gaikyo Sho* (Outline of Business Operations) for fiscal 2015 in May 2016.
- (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. These communication channels included the following.
- (a) 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, July, and October 2016 as well as in January 2017; a document that contained a summary of the opinions presented at each MPM (Summary of Opinions); and press conferences, speeches, and articles by the Governor, Deputy Governors, and Members of the Policy Board.
 - (b) Two publications released in September 2016, namely a report titled *Comprehensive Assessment: Developments in Economic Activity and Prices as*

5. Excerpts from the summaries of the two issues of the report dealing with developments in fiscal 2016, namely, the issues released in December 2016 and June 2017, can be found on pages 30–35.

well as Policy Effects since the Introduction of Quantitative and Qualitative Monetary Easing (QQE) and an explanatory paper on the comprehensive assessment of the Bank's monetary easing and QQE with Yield Curve Control (available only in Japanese).

(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) The Bank launched a redesigned website in December 2016,⁶ introducing the Slideshow and Highlights functions on the top page as well as enabling easier access between pages giving particular statistics and those for the BOJ Time-Series Data Search. It also actively improved the content of its website through, for example, updating the [Bank of Japan FAQs](#) to reflect changes in monetary policy and adding questions that it considered would help foster better understanding among the public about the Bank.

(b) In addition to making the Bank's releases available on its websites, 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 websites was around 254 million, of which around 93 million were made to its English-language website. The number of page views on its branches' websites was around 5.1 million in total. Followers of the Bank's Twitter accounts totaled around 117,000.

(c) The Bank continued to enhance the content of

Nichigin, its public relations magazine (available only in Japanese), and started to include selected topics from the magazine on the Bank's website in the What's New section of the top page.

(d) In June 2016, the Bank introduced short tours on the day (for which no advance reservation is necessary) at its Head Office, and changed the tour route in October due to work to reinforce the Main Building against earthquakes. The Bank's branches enhanced the content of in-house tours by, for example, adding exhibits. The total number of tour visitors to the Head Office was around 31,000, while branches received around 26,000.

(e) 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 118 entries, as well as public lectures about the Bank's business operations.

(f) The Bank gave on-campus lectures to college students on the functions and operations of the Bank and offered in-house lectures combined with tours of the Bank's Head Office, with the number of these lectures totaling 52.

(4) The Bank actively disseminated information on its conduct of monetary policy and business operations in English.

(5) The Bank worked to gain a better grasp of public opinion as well as public needs regarding its policies

6. For details, see Information on page 94.

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 5,300 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 operated the Currency Museum appropriately; the number of visitors during fiscal 2016 totaled around 113,000. The Bank also operated the Bank of Japan Otaru Museum appropriately, hosting a joint exhibition with Otaru City Museum for the first time; the number of visitors during fiscal 2016 totaled around 104,000.
- (7) 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 3,383 historical official documents were added to the Archives, and there were a total of 177 requests for access.
- (8) The Bank made public the findings of its research and analysis on economic and financial developments, releasing 19 papers in the *Bank of Japan Review Series*, 14 in the *Bank of Japan Working Paper Series*, 26 in the *Institute for Monetary and Economic Studies (IMES) Discussion Paper Series*, 7 in the *Bank of Japan Research Laboratory Series*, and 14 research papers. The total number of papers released in fiscal 2016 exceeded that in fiscal 2015.
- (9) The Bank co-hosted the Sendai G-7 symposium on

the future of the global economy in May 2016, and held a joint workshop with the Bank of Canada in September on the topic of challenges to central bank policies for price stability and financial stability.

- (10) The Bank revised, rebased, and made appropriate enhancements to the statistics it compiled so as to accommodate changes in the economic and regulatory environment.
 - (a) In June 2016, the Bank updated the base year of the input-output price index of the manufacturing industry by sector (IOPI) to 2011.
 - (b) In February 2017, the Bank updated the base year of the corporate goods price index (CGPI) to 2015.
 - (c) As for the *Tankan* (Short-Term Economic Survey of Enterprises in Japan), the Bank proposed a draft of planned revisions to accommodate changes in financial and economic structures, and released the final draft in December 2016, after public consultation. The planned revisions included adding "research and development (R&D) investment" to the survey items; the addition has been in effect since the March 2017 survey.
 - (d) The Bank revised the survey items of the *Central Bank Survey of Foreign Exchange and Derivatives Market Activity* and *Regular Derivatives Market Statistics in Japan* (April and June 2016 issues).
 - (e) In response to the discontinuation of the release of the data for CP issuance rates by the Japan Securities Depository Center (JASDEC), the Bank commenced release of the data from January 2017 in order to ensure transparency in the CP market.
 - (f) The Bank took over the release of call money

market data, previously released by the Association of Call Loan and Discount Companies. It also started to release data on volumes of uncollateralized overnight call transactions from January 2017.

(11) Through the following measures, the Bank promoted an in-depth understanding of the statistics it compiled.

(a) The Bank released papers in the *Bank of Japan Review Series* clearly explaining the major changes resulting from the revision of the *Flow of Funds Accounts Statistics* (FFA) in May 2016 and the *BIS International Banking Statistics* in February 2017.

(b) The Bank released a research paper on the revision of the survey items and the sample design of the *Tankan*, and also extended the explanations on the CGPI.

(12) The Bank contributed to discussions held by the government toward making improvements to economic statistics, such as enhancing the accuracy of GDP statistics, by taking part in the Council for the Promotion of Fundamental Reform of Economic Statistics and the Statistics Commission as well as by conducting related research and releasing its findings.

(13) As the secretariat of the Central Council for Financial Services Information (CCFSI), the Bank expanded and improved activities such as lectures to college students on financial literacy, in cooperation with Local Financial Services Information Committees and other relevant parties such as ministries, local public bodies, and financial and economic organizations. In addition, the Bank supported the CCFSI's efforts to develop a range of activities to provide financial information to the

public through the following actions.

(a) The CCFSI conducted the *Financial Literacy Survey* and a survey on children's lives and their use of money (available only in Japanese); survey findings were released in June 2016.

(b) In January 2017, the CCFSI's official website *Shiruporuto* (Gateway to Knowledge) was redesigned so that information could be found more easily, through searches by purpose or by particular life stage or event.

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. It also continued to contribute to discussions held by the government toward the improvement of economic statistics.

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

Based on the above, the Bank considers that, in fiscal 2016, it steadily implemented the measures scheduled under its strategic objective of strengthening external

communication. In fiscal 2017, the Bank will continue its efforts to improve the clarity and intelligibility of 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 2016

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 2016, 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 2016, the total amount of actual expenses increased from the previous fiscal

year by 1.8 percent (3.3 billion yen) to 188.2 billion yen. Regarding the Bank's budget for expenses for fiscal 2017, the Bank carefully examined overall expenditure in compiling a suitable budget for the year while securing the necessary budget to perform its role as the country's 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. The scale of system development for fiscal 2016 was 12,509 person-months¹ (including 9,592 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 2016, which was set at 4,900. Following the Bank's efforts to secure the staff needed to enhance its capabilities while further increasing the overall efficiency of its business operations, the number of full-time employees stood at 4,646 at the end of March 2017, up 29 from the previous fiscal year (Table 1).

Regarding remuneration, the Bank raised the annual remuneration for its officers—through increasing their

bonuses—in fiscal 2016 by 0.9 percent from the previous fiscal year.

As for its employees, the Bank raised annual remuneration for fiscal 2016 by 1.1 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 paid semiannual bonuses in May and November, each amounting to 2.108 months of salary, on a basis excluding the base salary increase. For those in managerial positions, the Bank paid 2.188 months of salary per semiannual bonus.

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

Table 1

Number of Full-Time Employees as of the End of March 2017

number of people; figures in parentheses are as of the end of March 2016

Total		4,646	(4,617)
Head Office ¹		2,766	(2,724)
Branches		1,806	(1,819)
Local offices ¹		50	(50)
Overseas representative offices		24	(24)

Note: 1. Full-time employees of the Computer Center and the Banknote Operations Center 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 for other organizational management measures, the Bank worked to strengthen business continuity arrangements as follows.

- (1) Based on its experience following the Great East Japan Earthquake and the Kumamoto Earthquake, in addition to the government's reappraisal of potential damage scenarios for large-scale earthquakes directly under Tokyo or in the Nankai Trough, the Bank steadily implemented measures toward enhancing the disaster countermeasures in place at its Head Office and branches.
- (2) The Bank further strengthened cooperation with relevant parties such as the national and local governments as well as financial institutions 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 would 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) The Bank undertook initiatives to ensure that its female employees could fully realize their potential at work, thereby making it easier for all of its employees to participate in the workforce under an action plan compiled and released by the Bank in March 2016, pursuant to the Act on Promotion of Women's Participation and Advancement in the Workplace. In addition, 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 Raising Next-Generation Children," so that they can balance work and child-rearing.

- (3) With regard to staff recruitment for fiscal 2017, the Bank proactively recruited women, with the aim that they should account for about 30 percent of future candidates for positions of Director, Chief Manager, and above.²
- (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 continued to seek to embed firmly within the workplace culture the "expert staff system," a reemployment system that the Bank introduced in fiscal 2015.

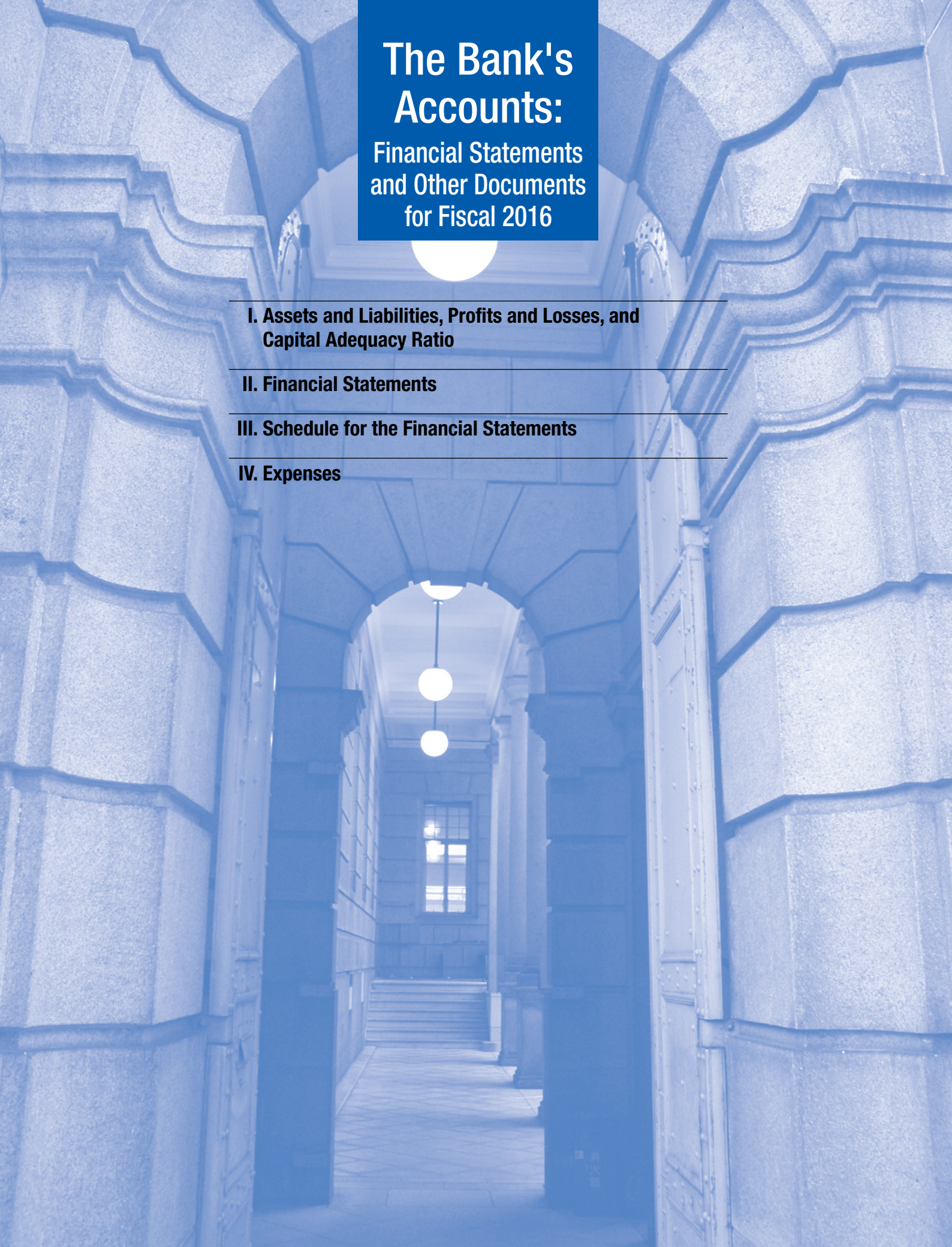
V. INTERNAL AUDITS

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 2016, the Internal Auditors' Office audited 5

departments at the Bank's Head Office (the Secretariat of the Policy Board, the Financial System and Bank Examination Department, the Public Relations Department, the Administration Department, and the Institute for Monetary and Economic Studies), 2 overseas representative offices (New York and Washington, D.C.), 12 branches (Kushiro, Sendai, Kofu, Shizuoka, Nagoya, Hiroshima, Matsue, Shimonoseki, Matsuyama, Kitakyushu, Kagoshima, and Naha), and 5 local offices (Obihiro, Morioka, Yamagata, Tottori, and Miyazaki).

² Employees in the positions of Director, Chief Manager, and above oversee the execution of business operations assigned to them, and are responsible for organizational management within their sections.



The Bank's Accounts:

Financial Statements
and Other Documents
for Fiscal 2016

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

II. Financial Statements

III. Schedule for the Financial Statements

IV. Expenses

On May 29, 2017, the Bank of Japan released the "Financial Statements for the 132nd Fiscal Year" (partially available in English), which contains the Bank's financial statements (the inventory of property, balance sheet, and statement of income) for the 132nd fiscal year, i.e., fiscal 2016 (April 1, 2016–March 31, 2017), and the schedule for the financial statements for fiscal 2016.

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 2016 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 2016 shows that total assets increased by 20.8 percent (84,441.1 billion yen) from the previous fiscal year-end to 490,089.3 billion yen, mainly due to an increase in holdings of Japanese government securities (JGSs).¹ Total liabilities increased by 21.0 percent (84,325.0 billion yen) from the previous fiscal year-end to 486,423.4 billion yen, mainly due to an increase in current deposits (Table 1).

Detailed developments in the Bank's balance sheet in fiscal 2016 are as follows.

Looking at assets at the fiscal year-end, with the Bank proceeding with asset purchases, holdings of JGSs increased by 19.6 percent (68,515.9 billion yen) from the previous fiscal year-end to 417,711.4 billion yen. Loans and bills discounted increased by 10,619.2 billion yen from the previous fiscal year-end to 44,664.5 billion yen, mainly due to an increase in the amount of loans provided through the Loan Support Program.² The amount outstanding of loans provided through the Loan Support Program was 45,710.2 billion yen.

Turning to liabilities, current deposits increased by 24.4 percent (67,316.0 billion yen) from the previous fiscal year-end to 342,755.5 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 4.4 percent (4,205.3 billion yen) from the previous fiscal year-end to 99,800.1 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 2016, operating profits increased by 332.6 billion yen from the previous fiscal year to 1,095.2 billion yen, mainly due to smaller net foreign exchange-related losses (Tables 2 and 3).

Meanwhile, net special losses amounted to 387.7 billion yen, mainly due to (1) the transfer of funds to the provision for possible losses on bonds transactions to compensate for possible fluctuation in net income arising from the implementation of Quantitative and Qualitative Monetary Easing with Yield Curve Control, and (2) the transfer of funds from the provision for possible losses on foreign exchange transactions following net foreign exchange-related losses.

Net income for the term—after subtracting corporate income tax and inhabitants and enterprise taxes—increased by 95.6 billion yen from the previous fiscal year to 506.6 billion yen. After transferring 25.3 billion yen to the legal reserve (5 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 (481.3 billion yen).

The capital adequacy ratio, after the appropriation of net income, rose from its previous fiscal year-end level of 8.05 percent to 8.07 percent at the end of fiscal 2016 (Table 4).

Table 1

Principal Assets and Liabilities¹

bil. yen

Item	End of fiscal 2015 (Mar. 31, 2016)	End of fiscal 2016 (Mar. 31, 2017)
Total assets	405,648.1 (+25.4) <+82,054.4>	490,089.3 (+20.8) <+84,441.1>
Of which:		
Japanese government securities	349,195.5 (+29.4) <+79,403.4>	417,711.4 (+19.6) <+68,515.9>
Commercial paper	1,969.9 (-0.5) <-8.9>	2,035.7 (+3.3) <+65.7>
Corporate bonds	3,170.3 (-2.2) <-72.7>	3,214.4 (+1.4) <+44.0>
Pecuniary trusts (stocks held as trust property)	1,369.2 (-0.5) <-6.5>	1,188.4 (-13.2) <-180.7>
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	7,567.6 (+68.8) <+3,083.8>	12,935.3 (+70.9) <+5,367.7>
Pecuniary trusts (Japan real estate investment trusts held as trust property)	293.6 (+42.3) <+87.2>	382.2 (+30.2) <+88.6>
Loans and bills discounted	34,045.3 (-0.2) <-52.2>	44,664.5 (+31.2) <+10,619.2>
Foreign currency assets	6,697.1 (-5.8) <-415.4>	6,608.1 (-1.3) <-89.0>
Total liabilities	402,098.4 (+25.8) <+82,400.1>	486,423.4 (+21.0) <+84,325.0>
Of which:		
Banknotes	95,594.7 (+6.6) <+5,921.5>	99,800.1 (+4.4) <+4,205.3>
Deposits (excluding those of the government)	282,939.6 (+37.3) <+76,867.8>	356,378.8 (+26.0) <+73,439.2>
Deposits of the government	18,779.7 (10.5 times) <+16,985.5>	21,750.7 (+15.8) <+2,971.0>
Payables under repurchase agreements	189.9 (-98.9) <-17,418.3>	3,425.2 (18.0 times) <+3,235.2>

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

[Reference to Table 1]

Loans Provided through the Loan Support Program

bil. yen

Item	End of fiscal 2014 (Mar. 31, 2015)	End of fiscal 2015 (Mar. 31, 2016)	End of fiscal 2016 (Mar. 31, 2017)
Total amount outstanding	28,461.0	31,407.8	45,710.2
Loans made under the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth	6,115.6	6,985.8	8,713.9
Loans made under the Fund-Provisioning Measure to Stimulate Bank Lending	22,345.4	24,422.0	36,996.3

Table 2

Principal Profits and Losses¹

bil. yen

Item	Fiscal 2015 (Apr. 1, 2015–Mar. 31, 2016)	Fiscal 2016 (Apr. 1, 2016–Mar. 31, 2017)
Operating profits/losses	762.6 (–55.5) <–951.0>	1,095.2 (+43.6) <+332.6>
Of which: "Core" operating income ²	1,396.3 <+251.5>	1,273.7 <–122.5>
Net government bond-related gains/losses ³	… <–0.0>	… <…>
Net foreign exchange-related gains/losses ⁴	–408.3 <–1,168.4>	–148.1 <+260.1>
Net gains/losses on pecuniary trusts (stocks held as trust property)	51.1 <+1.3>	217.5 <+166.3>
Net gains/losses on pecuniary trusts (index-linked exchange-traded funds held as trust property)	104.8 <+45.6>	172.2 <+67.4>
Net gains/losses on pecuniary trusts (Japan real estate investment trusts held as trust property)	10.8 <+3.0>	13.8 <+3.0>
Interest on excess reserve balances under the complementary deposit facility ⁵	–221.6 <–70.3>	–187.3 <+34.3>
Special profits/losses⁶	–245.4 <+116.8>	–387.7 <–142.3>
Of which: Net transfer to/from provision for possible losses on bonds transactions	–450.1 <–450.1>	–461.5 <–11.3>
Net transfer to/from provision for possible losses on foreign exchange transactions	204.1 <+584.2>	74.0 <–130.0>
Net income before taxes	517.1 (–61.7) <–834.2>	707.4 (+36.8) <+190.2>
Provision for corporate income tax, inhabitants taxes, and enterprise taxes	106.0 <–236.3>	200.7 <+94.6>
Net income⁷	411.0 (–59.3) <–597.9>	506.6 (+23.3) <+95.6>

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

2. The total of interest on loans and discounts, interest on receivables under resale agreements, interest and discounts on JGSs, interest on 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 sales of JGBs.

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

5. Net difference between interest payment on excess reserve balances to which a positive interest rate is applied (–211.1 billion yen) and interest income on the balances to which a negative interest rate is applied (23.8 billion yen).

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

7. 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 2014 (Apr. 1, 2014– Mar. 31, 2015)	Fiscal 2015 (Apr. 1, 2015– Mar. 31, 2016)	Fiscal 2016	First half of the fiscal year	Second half of the fiscal year
				(Apr. 1, 2016– Sept. 30, 2016)	(Oct. 1, 2016– Mar. 31, 2017)
1. Net government bond-related gains/losses	0.0	...	...	...	...
Of which:					
Gains on sale of Japanese government bonds	0.0	...	...	...	...
Losses on sale of Japanese government bonds	...	...	...	...	...
2. Net foreign exchange-related gains/losses²	760.1	–408.3	–148.1	–697.6	549.4
3. Net gains/losses on pecuniary trusts (stocks held as trust property)	49.7	51.1	217.5	120.5	97.0
Of which:					
Dividends and others	48.9	53.7	52.2	24.6	27.6
Losses on impairment	...	–4.4	–4.3	–0.1	–4.1
Net gains/losses on sale	0.8	1.8	169.5	96.0	73.5
4. Net gains/losses on pecuniary trusts (index-linked exchange-traded funds held as trust property)	59.1	104.8	172.2	159.3	12.8
Of which:					
Distributions and others	59.1	104.8	172.2	159.3	12.8
Losses on impairment	...	...	...	...	...
Net gains/losses on sale	...	...	...	...	...
5. Net gains/losses on pecuniary trusts (Japan real estate investment trusts held as trust property)	7.7	10.8	13.8	6.5	7.2
Of which:					
Distributions and others	7.7	10.8	13.8	6.5	7.2
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 2014 (Apr. 1, 2014– Mar. 31, 2015)	Fiscal 2015 (Apr. 1, 2015– Mar. 31, 2016)	Fiscal 2016	First half of the fiscal year	Second half of the fiscal year
				(Apr. 1, 2016– Sept. 30, 2016)	(Oct. 1, 2016– Mar. 31, 2017)
6. "Core" operating income	1,144.7	1,396.3	1,273.7	671.2	602.5
Yen assets	1,078.5	1,326.7	1,197.5	637.1	560.3
Of which:					
Interest on loans and discounts	28.6	34.8	9.6	8.2	1.3
Interest on receivables under resale agreements	...	–0.0	...	...	...
Interest and discounts on Japanese government securities	1,044.0	1,287.5	1,186.9	628.4	558.4
Treasury discount bills	10.8	–20.8	–123.0	–48.3	–74.6
Japanese government bonds	1,033.1	1,308.3	1,309.9	676.8	633.1
Interest on commercial paper	1.9	1.0	–0.3	–0.2	–0.0
Interest and discounts on corporate bonds	3.9	3.2	1.2	0.6	0.5
Interest on foreign currency assets	66.1	69.6	76.2	34.0	42.1
7. Interest-bearing assets (average amount outstanding)	275,286.9	358,263.1	441,575.6	421,358.0	461,904.2
Yen assets	269,635.4	351,924.6	435,036.4	414,865.4	455,318.2
Of which:					
Loans and bills discounted	28,628.0	35,164.9	35,498.7	32,853.0	38,158.9
Receivables under resale agreements	...	1.0	...	...	...
Japanese government securities	235,522.2	311,330.8	394,115.1	376,659.4	411,666.8
Treasury discount bills	49,943.7	47,554.0	50,697.0	51,920.2	49,467.0
Japanese government bonds	185,578.5	263,776.7	343,418.1	324,739.1	362,199.7
Commercial paper	2,248.2	2,224.8	2,241.3	2,188.1	2,294.9
Corporate bonds	3,236.8	3,202.9	3,181.1	3,164.8	3,197.5
Foreign currency assets	5,651.4	6,338.4	6,539.1	6,492.5	6,586.0
8. Yield on interest-bearing assets (percent)	0.415	0.389	0.288	0.317	0.261
Yen assets	0.400	0.376	0.275	0.306	0.246
Of which:					
Loans and bills discounted	0.100	0.099	0.027	0.050	0.007
Receivables under resale agreements	...	–0.120	...	...	...
Japanese government securities	0.443	0.413	0.301	0.332	0.272
Treasury discount bills	0.021	–0.043	–0.242	–0.185	–0.302
Japanese government bonds	0.556	0.495	0.381	0.415	0.350
Commercial paper	0.088	0.048	–0.013	–0.020	–0.008
Corporate bonds	0.122	0.102	0.038	0.042	0.034
Foreign currency assets	1.171	1.098	1.165	1.046	1.284

Table 4

The Bank's Capital Base and Capital Adequacy Ratio¹

bil. yen, except where otherwise noted

Item	End of fiscal 2014 (Mar. 31, 2015)	End of fiscal 2015 (Mar. 31, 2016)	End of fiscal 2016 (Mar. 31, 2017)	Changes from a year earlier	[Reference]
					End of the first half of fiscal 2016 (Sept. 30, 2016)
Capital accounts (A)	3,138.6	3,159.1	3,184.5	+25.3	3,159.1
Capital	0.1	0.1	0.1	...	0.1
Legal reserve and others ²	3,138.5	3,159.0	3,184.4	+25.3	3,159.0
Provisions (B)	4,029.4	4,275.4	4,662.8	+387.4	4,517.2
Provision for possible loan losses (excluding special provision for possible loan losses)	...	...	...	...	...
Provision for possible losses on bonds transactions	2,243.3	2,693.4	3,155.0	+461.5	2,935.3
Provision for possible losses on foreign exchange transactions	1,786.1	1,581.9	1,507.8	-74.0	1,581.9
Capital base³ (C) = (A) + (B)	7,168.0	7,434.6	7,847.4	+412.7	7,676.4
Annual average of banknotes issued (D)	87,394.1	92,295.7	97,198.8	+4,903.1	95,841.1
Capital adequacy ratio (C)/(D) × 100 (percent)	8.20	8.05	8.07	+0.02	8.00

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 2015 (Mar. 31, 2016)			End of fiscal 2016 (Mar. 31, 2017)		
	Book value	Market value ²	Difference	Book value	Market value ²	Difference
Japanese government securities	349,195.5	364,415.5	15,220.0	417,711.4	427,342.9	9,631.5
Commercial paper	1,969.9	1,969.9	...	2,035.7	2,035.7	...
Corporate bonds	3,170.3	3,167.3	-3.0	3,214.4	3,207.5	-6.8
Pecuniary trusts ³ (stocks held as trust property)	1,344.5	2,577.0	1,232.5	1,165.5	2,492.3	1,326.8
Pecuniary trusts ³ (index-linked exchange-traded funds held as trust property)	7,567.6	8,766.0	1,198.4	13,161.1	15,930.3	2,769.2
Pecuniary trusts ³ (Japan real estate investment trusts held as trust property)	290.0	387.1	97.0	379.9	459.1	79.2

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, 2017

Item	Value in yen	Unit (except where otherwise noted)
ASSETS		
Gold	441,253,409,037	
Cash	203,111,546,945	
Japanese government securities	417,711,474,033,271	Face value at 408,270,035,900,000 yen
Commercial paper	2,035,734,736,594	Face value at 2,035,700,000,000 yen
Corporate bonds	3,214,428,529,244	Face value at 3,186,000,000,000 yen
Pecuniary trusts (stocks held as trust property)	1,188,484,406,613	
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	12,935,375,253,468	
Pecuniary trusts (Japan real estate investment trusts held as trust property)	382,248,139,802	
Loans and bills discounted	44,664,568,000,000	
Electronic loans	44,664,568,000,000	1,602
Foreign currency assets	6,608,110,818,466	
Foreign currency deposits	1,033,483,758,461	
Foreign currency securities	3,153,263,293,351	
Foreign currency mutual funds	56,740,771,654	
Foreign currency loans	2,364,622,995,000	
Deposits with agents	20,557,407,037	Deposits with 88 agents
Other assets	482,817,708,962	
Bills and checks in process of collection	16,335,872	4
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	48,555,520,981	6
Accrued interest receivable	406,746,871,832	
Others	11,995,605,913	
Tangible fixed assets	201,053,056,570	
Buildings	93,551,705,085	611,065.63 square meters
Land	82,743,135,513	516,204.05 square meters
Lease assets	5,956,822,432	Number of lease property: 20,777
Construction in progress	7,915,861,070	
Other tangible fixed assets	10,885,532,470	Number of movable property: 10,264
Intangible fixed assets	127,888,200	
Utility rights	127,888,200	
Total assets	490,089,344,934,209	
LIABILITIES		
Banknotes	99,800,187,532,462	
Deposits (excluding those of the government)	356,378,851,270,284	
Current deposits	342,755,514,899,028	1,137
Other deposits	13,623,336,371,256	131
Deposits of the government	21,750,732,591,836	
Treasury deposit	150,000,364,761	
Domestic designated deposit	21,348,834,481,149	
Other government deposits	251,897,745,926	
Payables under repurchase agreements	3,425,244,243,579	18
Other liabilities	207,457,263,916	
Remittances payable	4,902,514,996	
Taxes payable	166,236,000,000	
Lease liabilities	6,259,806,975	
Others	30,058,941,945	
Provision for retirement benefits	198,087,597,561	
Provision for possible losses on bonds transactions	3,155,019,993,013	
Provision for possible losses on foreign exchange transactions	1,507,875,000,000	
Total liabilities	486,423,455,492,651	
NET ASSETS		
Capital	100,000,000	
Legal reserve	3,159,085,051,556	
Special reserve	13,196,452	
Net income	506,691,193,550	
Total net assets	3,665,889,441,558	
Total liabilities and net assets	490,089,344,934,209	

2. Balance sheet as at March 31, 2017

yen

ASSETS	
Gold	441,253,409,037
Cash	203,111,546,945
Japanese government securities	417,711,474,033,271
Commercial paper	2,035,734,736,594
Corporate bonds	3,214,428,529,244
Pecuniary trusts (stocks held as trust property)	1,188,484,406,613
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	12,935,375,253,468
Pecuniary trusts (Japan real estate investment trusts held as trust property)	382,248,139,802
Loans and bills discounted	44,664,568,000,000
Electronic loans	44,664,568,000,000
Foreign currency assets	6,608,110,818,466
Foreign currency deposits	1,033,483,758,461
Foreign currency securities	3,153,263,293,351
Foreign currency mutual funds	56,740,771,654
Foreign currency loans	2,364,622,995,000
Deposits with agents	20,557,407,037
Other assets	482,817,708,962
Bills and checks in process of collection	16,335,872
Capital subscription to the Deposit Insurance Corporation, and the Agricultural and Fishery Cooperative Savings Insurance Corporation	225,000,000
Capital subscription to an international financial institution	15,278,374,364
Withdrawn cash to be returned to the government	48,555,520,981
Accrued interest receivable	406,746,871,832
Others	11,995,605,913
Tangible fixed assets	201,053,056,570
Buildings	93,551,705,085
Land	82,743,135,513
Lease assets	5,956,822,432
Construction in progress	7,915,861,070
Other tangible fixed assets	10,885,532,470
Intangible fixed assets	127,888,200
Utility rights	127,888,200
Total assets	490,089,344,934,209
LIABILITIES	
Banknotes	99,800,187,532,462
Deposits (excluding those of the government)	356,378,851,270,284
Current deposits	342,755,514,899,028
Other deposits	13,623,336,371,256
Deposits of the government	21,750,732,591,836
Treasury deposit	150,000,364,761
Domestic designated deposit	21,348,834,481,149
Other government deposits	251,897,745,926
Payables under repurchase agreements	3,425,244,243,579
Other liabilities	207,457,263,916
Remittances payable	4,902,514,996
Taxes payable	166,236,000,000
Lease liabilities	6,259,806,975
Others	30,058,941,945
Provision for retirement benefits	198,087,597,561
Provision for possible losses on bonds transactions	3,155,019,993,013
Provision for possible losses on foreign exchange transactions	1,507,875,000,000
Total liabilities	486,423,455,492,651
NET ASSETS	
Capital	100,000,000
Legal reserve	3,159,085,051,556
Special reserve	13,196,452
Net income	506,691,193,550
Total net assets	3,665,889,441,558
Total liabilities and net assets	490,089,344,934,209

3. Statement of income for fiscal 2016 (April 1, 2016–March 31, 2017)

yen

Operating income	1,644,342,949,730
Interest on loans and discounts	9,640,667,851
Interest on loans	9,640,667,851
Interest and discounts on Japanese government securities	1,186,942,970,687
Interest on commercial paper	-313,124,481
Interest and discounts on corporate bonds	1,230,251,183
Gains on foreign currency assets	19,477,594,599
Interest on foreign currency deposits and loans	19,477,594,599
Other operating income	427,364,589,891
Gains on pecuniary trusts (stocks held as trust property)	217,539,086,791
Gains on pecuniary trusts (index-linked exchange-traded funds held as trust property)	172,262,726,839
Gains on pecuniary trusts (Japan real estate investment trusts held as trust property)	13,822,123,269
Dividends	529,589,555
Fees and commissions	9,535,893,168
Other income	13,675,170,269
Operating expenses	549,083,370,145
Interest on payables under repurchase agreements	-494,834,763
Losses on foreign currency assets	155,361,446,180
Foreign exchange losses	148,149,557,871
Losses on foreign currency securities	5,236,389,654
Losses on foreign currency mutual funds	1,975,498,655
General and administrative expenses and costs	191,325,280,381
Cost of production of banknotes	51,805,774,000
Administrative expenses for treasury business and Japanese government securities	17,048,127,253
Personnel expenses	51,239,050,034
Expenses for transportation and communications	4,190,874,778
Expenses for maintenance and repairs	2,438,456,899
Other general and administrative expenses and costs	46,476,041,727
Taxes excluding corporate income tax, inhabitants taxes, and enterprise taxes	3,828,149,765
Depreciation and amortization	14,298,805,925
Other general and administrative expenses	202,891,478,347
Interest on excess reserve balances under the complementary deposit facility	187,325,813,296
Fees and commissions paid	99,213,371
Other expenses	15,466,451,680
Operating profits	1,095,259,579,585
Special profits	74,074,000,000
Transfer from provision for possible losses on foreign exchange transactions	74,074,000,000
Special losses	461,869,642,676
Losses on disposal of fixed assets	338,642,676
Transfer to provision for possible losses on bonds transactions	461,531,000,000
Net income before taxes	707,463,936,909
Provision for corporate income tax, inhabitants taxes, and enterprise taxes	200,772,743,359
Net income	506,691,193,550

4. Summary of significant accounting policies

a. Securities

Yen-denominated bonds and CP³ 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,⁴ 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 trusts⁵ 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. However, depreciation for accessory equipment acquired on or after April 1, 2016 is computed using the straight-line 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.

3. 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.

4. Includes bonds issued by real estate investment corporations.

5. 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.

(5) Others

Depreciation is computed in accordance with the Corporation Tax Act.

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 10 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) Provision for possible losses on bonds transactions

The provision for possible losses on bonds transactions is maintained pursuant to the following rules and regulations: Article 15 of the Order for Enforcement of the Bank of Japan Act and Article 1-2 of the Supplementary Provisions of this order; Articles 9, 10, and 11 of the Ordinance for Enforcement of the Bank of Japan Act and Article 3 of the Supplementary Provisions of this ordinance; and Article 18 of the Bank's Accounting Rules and the Supplementary Provisions of these rules.

(4) Provision for possible losses on foreign exchange transactions

The provision for possible losses on foreign exchange transactions is maintained pursuant to the following rules and regulations: Article 15 of the Order for

Enforcement of the Bank of Japan Act; 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.

- (5) 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

In accordance with the amendment of the Corporation Tax Act, the Bank has changed its depreciation method for accessory equipment in the Bank's buildings and other assets on the Bank's premises acquired on or after April 1, 2016, beginning with the financial statements for fiscal 2016. This change had little 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 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	148
More than one year	357
Total	505

b. Lessor

	mil. yen
Within one year	1
More than one year	37
Total	39

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 2016	239,344,503,000
Service cost	6,023,646,000
Interest cost	957,156,000
Actuarial differences	2,879,154,470
Retirement benefits paid	-9,713,365,470
Prior service cost	...
Projected benefit obligation at the end of fiscal 2016	239,491,094,000

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

	yen
Projected benefit obligation	239,491,094,000
Fair value of plan assets	...
Unfunded projected benefit obligation	239,491,094,000
Unrecognized actuarial differences	-50,089,646,189
Unrecognized prior service cost	8,686,149,750
Net amount recorded on the balance sheet	198,087,597,561
Prepaid pension cost	...
Provision for retirement benefits	198,087,597,561

3. Retirement benefit cost

	yen
Service cost	6,023,646,000
Interest cost	957,156,000
Expected return on plan assets	...
Amortization of actuarial differences	5,656,428,685
Amortization of prior service cost	-1,158,153,300
Retirement benefit cost	11,479,077,385

4. Assumptions

Discount rate	0.4%
Long-term expected rate of return on plan assets	...

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

5. Auditors' opinion⁶

May 9, 2017

Auditors' Opinion on the Bank of Japan's Financial Statements for Fiscal 2016

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 2016 indicated below. In our opinion, the financial statements present fairly the state of property and the results of operations for fiscal 2016.

The financial statements comprise the following:
Inventory of property as at March 31, 2017;
Balance sheet as at March 31, 2017; and
Statement of income for fiscal 2016.

Ryuichi Shogan
Toshihiko Fujita
Ryota Yanagihara

Auditors, Bank of Japan

6. Appropriation of net income for fiscal 2016

yen

Net income	506,691,193,550
Appropriations:	
Transfer to legal reserve	25,334,559,678
Dividends, 5 percent of share face value	5,000,000
Payment to the government	481,351,633,872
Total	506,691,193,550

⁶ 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 2016	Balance at the end of fiscal 2016	Changes during fiscal 2016
1. Gold	441,253,409,037	441,253,409,037	0
2. Cash¹	209,992,488,626	203,111,546,945	-6,880,941,681
3. Japanese government securities	349,195,560,460,671	417,711,474,033,271	68,515,913,572,600
Treasury discount bills	47,296,949,251,071	40,567,311,358,895	-6,729,637,892,176
Japanese government bonds	301,898,611,209,600	377,144,162,674,376	75,245,551,464,776
2-year Japanese government bonds	33,771,254,828,998	34,835,958,204,187	1,064,703,375,189
5-year Japanese government bonds	79,542,539,079,004	102,622,057,920,578	23,079,518,841,574
10-year Japanese government bonds	109,535,333,695,981	136,733,565,138,672	27,198,231,442,691
20-year Japanese government bonds	52,272,863,109,257	66,681,399,273,463	14,408,536,164,206
30-year Japanese government bonds	16,675,074,754,875	24,535,529,425,847	7,860,454,670,972
40-year Japanese government bonds	3,481,732,974,331	5,030,473,713,629	1,548,740,739,298
Floating-rate Japanese government bonds	5,277,949,629,767	5,220,977,784,649	-56,971,845,118
Inflation-indexed bonds	1,341,863,137,387	1,484,201,213,351	142,338,075,964
4. Commercial paper²	1,969,983,763,984	2,035,734,736,594	65,750,972,610
Dematerialized commercial paper	1,969,983,763,984	2,035,734,736,594	65,750,972,610
5. Corporate bonds³	3,170,336,995,982	3,214,428,529,244	44,091,533,262
6. Pecuniary trusts (stocks held as trust property)⁴	1,369,210,615,327	1,188,484,406,613	-180,726,208,714
Stocks	1,344,585,836,527	1,165,545,787,573	-179,040,048,954
Dividends receivable and others	24,624,778,800	22,938,619,040	-1,686,159,760
7. Pecuniary trusts (index-linked exchange-traded funds held as trust property)⁵	7,567,622,629,487	12,935,375,253,468	5,367,752,623,981
Index-linked exchange-traded funds	7,567,622,629,487	12,935,375,253,468	5,367,752,623,981
8. Pecuniary trusts (Japan real estate investment trusts held as trust property)⁶	293,641,665,779	382,248,139,802	88,606,474,023
Japan real estate investment trusts	290,090,281,351	377,538,733,008	87,448,451,657
Distributions receivable	3,551,384,428	4,709,406,794	1,158,022,366
9. Loans and bills discounted	34,045,336,000,000	44,664,568,000,000	10,619,232,000,000
Electronic loans	34,045,336,000,000	44,664,568,000,000	10,619,232,000,000
Loans by Funds-Supplying Operations against Pooled Collateral ⁷	34,045,336,000,000	44,664,568,000,000	10,619,232,000,000
10. Foreign currency assets	6,697,119,789,156	6,608,110,818,466	-89,008,970,690
Foreign currency deposits ⁸	906,895,567,653	1,033,483,758,461	126,588,190,808
Foreign currency securities ^{9,10}	4,369,137,103,905	3,153,263,293,351	-1,215,873,810,554
Foreign currency mutual funds	58,807,470,098	56,740,771,654	-2,066,698,444
Foreign currency loans ¹¹	1,362,279,647,500	2,364,622,995,000	1,002,343,347,500
11. Deposits with agents¹²	32,689,178,523	20,557,407,037	-12,131,771,486

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 amounts outstanding of: (1) loans made through the Fixed-Rate Funds-Supplying Operation against Pooled Collateral; (2) loans made under the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth (hereafter the Growth-Supporting Funding Facility) conducted through the Loan Support Program (excluding loans disbursed pursuant to the special rules for the U.S. dollar lending arrangement); (3) loans made under the Fund-Provisioning Measure to Stimulate Bank Lending conducted through the Loan Support Program; and (4) loans made through the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas. The balance at the end of fiscal 2016 also includes the amount outstanding of loans made through the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas of the 2016 Kumamoto Earthquake.

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

9. Includes securities issued by foreign governments.

10. 106,409,712,830 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 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 the 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 2016	Balance at the end of fiscal 2016	Changes during fiscal 2016
12. Other assets	458,560,658,145	482,817,708,962	24,257,050,817
Bills and checks in process of collection ¹³	26,804,275	16,335,872	-10,468,403
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	45,620,130,059	48,555,520,981	2,935,390,922
Accrued interest receivable	376,373,731,942	406,746,871,832	30,373,139,890
Others	21,036,617,505	11,995,605,913	-9,041,011,592

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 2016	Increase during fiscal 2016	Decrease during fiscal 2016	Of which:	Balance at the end of fiscal 2016	Cumulative total of depreciation
				Depreciation		
13. Tangible fixed assets¹⁶	196,723,411,774	24,885,319,052	20,555,674,256	13,604,929,988	201,053,056,570	353,879,120,448
Buildings ^{17,18}	95,456,571,654 (613,271.63)	6,290,218,844 (0.00)	8,195,085,413 (2,206.00)	8,110,094,835 (...)	93,551,705,085 (611,065.63)	322,490,300,092 (...)
Land ¹⁷	82,710,077,233 (515,271.60)	33,058,280 (932.45)	0 (0.00)	...	82,743,135,513 (516,204.05)	...
Lease assets ^{19,20}	4,989,333,914 (17,615)	3,832,948,490 (6,271)	2,865,459,972 (3,109)	2,862,701,288 (...)	5,956,822,432 (20,777)	6,897,700,937 (...)
Construction in progress ²¹	2,280,865,248	12,403,900,483	6,768,904,661	...	7,915,861,070	...
Other tangible fixed assets ^{22,23}	11,286,563,725 (10,312)	2,325,192,955 (252)	2,726,224,210 (300)	2,632,133,865 (...)	10,885,532,470 (10,264)	24,491,119,419 (...)

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 2016	Increase during fiscal 2016	Decrease during fiscal 2016	Of which:	Balance at the end of fiscal 2016	Cumulative total of depreciation
				Depreciation		
14. Intangible fixed assets	114,045,309	22,760,041	8,917,150	8,917,150	127,888,200	852,880,561
Utility rights	114,045,309	22,760,041	8,917,150	8,917,150	127,888,200	852,880,561

Appendix: Details of loans provided through the Loan Support Program

yen

Item	Balance at the beginning of fiscal 2016	Balance at the end of fiscal 2016	Changes during fiscal 2016
Total amount outstanding	31,407,857,197,500	45,710,227,995,000	14,302,370,797,500
Loans made under the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth ⁷	6,985,857,197,500	8,713,927,995,000	1,728,070,797,500
Loans made under the Fund-Provisioning Measure to Stimulate Bank Lending	24,422,000,000,000	36,996,300,000,000	12,574,300,000,000

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 2016	Balance at the end of fiscal 2016	Changes during fiscal 2016
1. Banknotes	95,594,792,658,757	99,800,187,532,462	4,205,394,873,705
10,000 yen notes	88,233,737,125,000	92,369,495,850,000	4,135,758,725,000
5,000 yen notes	3,068,570,347,500	3,074,336,285,000	5,765,937,500
2,000 yen notes	196,156,526,000	196,658,161,000	501,635,000
1,000 yen notes	3,947,851,283,500	4,012,481,897,500	64,630,614,000
Other banknotes ¹	148,477,376,757	147,215,338,962	-1,262,037,795
2. Deposits (excluding those of the government)	282,939,643,326,998	356,378,851,270,284	73,439,207,943,286
Current deposits	275,439,481,605,158	342,755,514,899,028	67,316,033,293,870
Other deposits ²	7,500,161,721,840	13,623,336,371,256	6,123,174,649,416
3. Deposits of the government	18,779,729,516,481	21,750,732,591,836	2,971,003,075,355
Treasury deposit	150,001,779,067	150,000,364,761	-1,414,306
Domestic designated deposit ³	18,373,874,162,409	21,348,834,481,149	2,974,960,318,740
Other government deposits ⁴	255,853,575,005	251,897,745,926	-3,955,829,079
4. Payables under repurchase agreements⁵	189,967,046,736	3,425,244,243,579	3,235,277,196,843
Other sales of Japanese government securities under repurchase agreements ⁶	189,967,046,736	3,425,244,243,579	3,235,277,196,843
Of which:			
Under the Securities Lending Facility	189,967,046,736	2,423,668,097,407	2,233,701,050,671
5. Other liabilities	122,531,470,022	207,457,263,916	84,925,793,894
Remittances payable	4,778,880,521	4,902,514,996	123,634,475
Taxes payable	82,945,000,000	166,236,000,000	83,291,000,000
Lease liabilities	5,300,718,320	6,259,806,975	959,088,655
Others ⁷	29,506,871,181	30,058,941,945	552,070,764

- 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 foreign central banks and others.
3. A deposit to which the surplus funds from management of the treasury is transferred from the "treasury deposit."
4. 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.
5. Monetary obligations arising from sales of JGSs under repurchase agreements.
6. Monetary obligations other than those arising from sales under repurchase agreements of JGBs to the government and of T-Bills to foreign central banks and other foreign entities.
7. 26,729,626,959 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 2016	Increase during fiscal 2016	Decrease during fiscal 2016	Balance at the end of fiscal 2016
6. Provisions⁸	4,471,759,878,659	473,010,077,385	83,787,365,470	4,860,982,590,574
Provision for retirement benefits	196,321,885,646	11,479,077,385	9,713,365,470	198,087,597,561
Provision for possible losses on bonds transactions	2,693,488,993,013	461,531,000,000	0	3,155,019,993,013
Provision for possible losses on foreign exchange transactions	1,581,949,000,000	0	74,074,000,000	1,507,875,000,000
7. Net assets	3,138,644,407,684	20,553,840,324	0	3,159,198,248,008
Capital	100,000,000	0	0	100,000,000
Legal reserve ⁹	3,138,531,211,232	20,553,840,324	0	3,159,085,051,556
Special reserve ¹⁰	13,196,452	0	0	13,196,452

- Notes: 8. Appropriated in accordance with the Bank's significant accounting policies.
9. A reserve maintained to cover possible losses and to pay dividends under Article 53, paragraphs 1 and 2 of the Act.
10. To ease the reconstruction of financial institutions after World War II, the Bank, along with private financial institutions, suspended payment of dividends from the first half of fiscal 1945 to the first half of fiscal 1949, in accordance with an order from the Minister of Finance. The unpaid dividends were set aside as a special reserve pursuant to the Supplementary Provisions of the Act for Partial Revision of the Bank of Japan Act (Act No. 46 of 1947).

3. Details of revenues and expenses for fiscal 2016

a. Operating income

Interest on loans and discounts	
Interest on loans	9,640,667,851 yen from electronic loans.
Interest and discounts on Japanese government securities	1,186,942,970,687 yen from interest income on Japanese government securities after adjustment.
Interest on commercial paper	-313,124,481 yen from interest income on commercial paper after adjustment.
Interest and discounts on corporate bonds	1,230,251,183 yen from interest income on corporate bonds after adjustment.
Gains on foreign currency assets	
Interest on foreign currency deposits and loans	19,477,594,599 yen
Other operating income	
Gains on pecuniary trusts (stocks held as trust property)	217,539,086,791 yen mainly from gains on sales.
Gains on pecuniary trusts (index-linked exchange-traded funds held as trust property)	172,262,726,839 yen mainly from distributions.
Gains on pecuniary trusts (Japan real estate investment trusts held as trust property)	13,822,123,269 yen mainly from distributions.
Dividends	529,589,555 yen for dividends from shares of the Bank for International Settlements held by the Bank.
Fees and commissions	9,535,893,168 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	13,675,170,269 yen from transfer from provision for retirement benefits and other miscellaneous income.

b. Operating expenses

Interest on payables under repurchase agreements	494,834,763 yen from interest income on sales of Japanese government securities under repurchase agreements.
Losses on foreign currency assets	
Foreign exchange losses	148,149,557,871 yen from losses on foreign currency assets resulting from revaluation following fluctuations in foreign exchange rates.
Losses on foreign currency securities	Total of 56,723,843,841 yen from interest and discounts on foreign currency securities and 44,232,555 yen from related lending fees; and 62,004,466,050 yen of losses arising from the sale, redemption, and revaluation at end-March 2017 of foreign currency securities.
Losses on foreign currency mutual funds	1,975,498,655 yen
General and administrative expenses and costs	
Cost of production of banknotes	51,805,774,000 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	17,048,127,253 yen from fees and commissions paid to agents of the Bank for administration of treasury business and Japanese government securities.
Personnel expenses	428,774,500 yen for remuneration of the officers; 41,046,196,064 yen for remuneration of the employees; and 9,764,079,470 yen for retirement allowances.
Expenses for transportation and communications	1,920,492,451 yen for expenses for transportation and 2,270,382,327 yen for expenses for communications.
Expenses for maintenance and repairs	2,438,456,899 yen on offices and other premises.
Other general and administrative expenses and costs	1,299,792,378 yen for the cost of expendable supplies; 1,649,549,558 yen for expenses for electricity and water supply; 7,546,444,387 yen for leasing fees for buildings and equipment; 8,241,857,396 yen for expenses for maintenance of buildings and equipment; and 27,738,398,008 yen for miscellaneous expenses.
Taxes excluding corporate income tax, inhabitants taxes, and enterprise taxes	3,828,149,765 yen for taxes and public charges (including fixed-asset tax and urban development tax).
Depreciation and amortization	14,298,805,925 yen on buildings and lease assets.
Other general and administrative expenses	
Interest on excess reserve balances under the complementary deposit facility	187,325,813,296 yen (net difference between interest payment of 211,129,673,874 yen on excess reserve balances to which a positive interest rate is applied and interest income of 23,803,860,578 yen on the balances to which a negative interest rate is applied).
Fees and commissions paid	99,213,371 yen
Other expenses	15,466,451,680 yen for transfer to provision for retirement benefits and other expenses.

c. Special profits

Transfer from provision for possible losses on foreign exchange transactions	74,074,000,000 yen
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d. Special losses

Losses on disposal of fixed assets	338,642,676 yen for losses on demolition of the Bank's premises, as well as on disposals of automatic banknote examination machines and other properties.
Transfer to provision for possible losses on bonds transactions	461,531,000,000 yen

e. Net income

Net income before taxes	707,463,936,909 yen
Provision for corporate income tax, inhabitants taxes, and enterprise taxes	200,772,743,359 yen
Net income	506,691,193,550 yen

IV. EXPENSES

With regard to the Bank's statement of accounts for fiscal 2016 (the 132nd fiscal year), the total amount of actual expenses increased by 1.8 percent (3.3 billion yen) to 188.2 billion yen compared to the previous fiscal year. This was due, among other factors, to the increase in the "cost of fixed-asset purchases," mainly reflecting the need to update automatic banknote examination machines and aging equipment.

1. Statement of accounts for fiscal 2016

yen

Item	Initial budget	Adjusted budget ¹	Actual	Surpluses	Changes from the previous year (actual)
Cost of production of banknotes	51,805,792,000	51,805,792,000	51,805,774,000	18,000	119,978,000
Administrative expenses for treasury business and Japanese government securities	18,129,258,000	18,129,258,000	17,048,127,253	1,081,130,747	-645,562,840
Personnel expenses	52,454,946,000	52,454,946,000	51,239,050,034	1,215,895,966	492,094,079
Remuneration of the officers	426,751,000	429,751,000	428,774,500	976,500	6,907,100
Remuneration of the employees	42,197,364,000	42,197,364,000	41,046,196,064	1,151,167,936	356,699,009
Retirement allowances	9,830,831,000	9,827,831,000	9,764,079,470	63,751,530	128,487,970
Expenses for transportation and communications	4,741,518,000	4,741,518,000	4,190,874,778	550,643,222	-207,223,853
Expenses for transportation	2,027,469,000	2,027,469,000	1,920,492,451	106,976,549	54,436,933
Expenses for communications	2,714,049,000	2,714,049,000	2,270,382,327	443,666,673	-261,660,786
Expenses for maintenance and repairs	2,440,463,000	2,440,463,000	2,438,456,899	2,006,101	109,498,174
Other general and administrative expenses and costs	51,177,538,000	51,177,538,000	46,476,041,727	4,701,496,273	-1,462,691,638
Cost of expendable supplies	1,422,388,000	1,422,388,000	1,299,792,378	122,595,622	136,598,685
Expenses for electricity and water supply	2,349,669,000	2,349,669,000	1,649,549,558	700,119,442	-441,794,967
Leasing fees for buildings and equipment	7,808,394,000	7,808,394,000	7,546,444,387	261,949,613	-1,002,476,901
Expenses for maintenance of buildings and equipment	8,754,942,000	8,754,942,000	8,241,857,396	513,084,604	-2,263,234,026
Miscellaneous expenses	30,842,145,000	30,842,145,000	27,738,398,008	3,103,746,992	2,108,215,571
Subtotal	180,749,515,000	180,749,515,000	173,198,324,691	7,551,190,309	-1,593,908,078
Cost of fixed-asset purchases	15,285,687,000	15,285,687,000	14,975,439,257	310,247,743	4,890,035,843
Of which:					
Subject to the approval of the Minister of Finance ²	5,926,335,000	5,926,335,000	5,737,751,959	188,583,041	2,236,166,431
Contingency funds	1,000,000,000	1,000,000,000	0	1,000,000,000	0
Total	197,035,202,000	197,035,202,000	188,173,763,948	8,861,438,052	3,296,127,765
Of which:					
Subject to the approval of the Minister of Finance ²	187,675,850,000	187,675,850,000	178,936,076,650	8,739,773,350	642,258,353

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 2016¹

mil. yen

Area of business operation	Expenses	Changes from a year earlier	Share of total (percent)
Issuance of banknotes	82,165	-419	42.9
Monetary policy	22,796	+50	11.9
Financial system policy	17,399	+109	9.1
Payment and settlement systems	30,609	-1,367	16.0
Services relating to the government ²	38,356	-628	20.0
Total	191,325	-2,255	100.0

Notes: 1. Calculated based on "general and administrative expenses and costs" (191.3 billion yen) in the statement of income for fiscal 2016 (the 132nd 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 2016 and at the beginning of fiscal 2017.

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

A. Financial Statements and Other Documents for Fiscal 2015

From April through to early May 2016, 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 2015 (the 131st fiscal year) as well as the statement of income for the second half of fiscal 2015.

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 2015 as well as the results of operations for the second half of fiscal 2015.

B. Financial Statements and Other Documents for the First Half of Fiscal 2016

From October through to early November 2016, 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 2016 (the 132nd 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 2016.

C. Financial Statements and Other Documents for Fiscal 2016

From April through to early May 2017, 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 2016 as well as the statement of income for the second half of fiscal 2016.

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 2016 as well as the results of operations for the second half of fiscal 2016.

II. Audits of Cash, Securities, and Books

In fiscal 2016, the Auditors conducted a total of 60 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 2016, 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. They also conducted a total of 183 meetings with Head Office departments to

review the execution of business operations and expenses, receiving explanatory overviews of business operations at each department as well as reports concerning high-priority issues from relevant departments. In addition, they conducted 320 examinations of key documents and 6 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 website, 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 2017.

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 2017.

THE BANK OF JAPAN'S BUDGET FOR EXPENSES FOR FISCAL 2017¹

The Bank of Japan's budget for expenses for fiscal 2017 (the 133rd 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 2017 slightly increased by 1.6 percent from the previous year, of which the amount subject to the approval of the Minister of Finance decreased by 0.0 percent. This increase was mainly due to changes in the following items. Expenses for maintenance and repairs and the cost of fixed-asset purchases increased by 20.0 percent and 11.6 percent, respectively, mainly due to a rise in expenses related to improvements to the Bank's premises. On the other hand, administrative expenses for treasury business and Japanese government securities and expenses for transportation and communications each decreased by 1.2 percent.

1. Decided by the Policy Board on March 17, 2017.

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. After obtaining authorization from the Minister of Finance, the Bank implements the budget from the start of the fiscal year. For fiscal 2017, the Bank sought approval on March 17, 2017. All figures, including those in Table 1, are rounded off to the nearest whole number.

Table 1

Budget for Expenses for Fiscal 2017 (The 133rd Fiscal Year)

Item	Initial budget (thous. yen)	Change from the previous year (percent)
Cost of production of banknotes	51,905,777	0.2
Administrative expenses for treasury business and Japanese government securities	17,904,439	-1.2
Personnel expenses	52,852,246	0.8
Remuneration of the officers	428,282	0.4
Remuneration of the employees	42,222,637	0.1
Retirement allowances	10,201,327	3.8
Expenses for transportation and communications	4,685,388	-1.2
Expenses for transportation	2,090,418	3.1
Expenses for communications	2,594,970	-4.4
Expenses for maintenance and repairs	2,928,083	20.0
Other general and administrative expenses and costs	51,807,057	1.2
Cost of expendable supplies	1,393,452	-2.0
Expenses for electricity and water supply	2,299,577	-2.1
Leasing fees for buildings and equipment	8,368,508	7.2
Expenses for maintenance of buildings and equipment	9,144,381	4.4
Miscellaneous expenses	30,601,139	-0.8
Subtotal	182,082,990	0.7
Cost of fixed-asset purchases	17,053,886	11.6
Of which: Subject to the approval of the Minister of Finance ¹	4,505,192	-24.0
Contingency funds	1,000,000	0.0
Total²	200,136,876	1.6
Of which: Subject to the approval of the Minister of Finance ¹	187,588,182	-0.0

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 29,544,929 thousand yen, a 2.2 percent increase from the previous year, and are included in expenses for communications, leasing fees for buildings and equipment, expenses for maintenance of buildings and equipment, and miscellaneous expenses.

Budget estimates of computerization expenses assume required outsourcing of approximately 10,278 person-months (one person-month is the workload equivalent of one person working for one month in system development), and total of approximately 13,238 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 2017¹**

The Bank has set the ceiling on the number of full-time employees for fiscal 2017 at 4,900.

1. Decided by the Policy Board on March 28, 2017.

Information

I. Bank of Japan Website

II. Visiting the Bank of Japan

III. Publications and Reports

I. BANK OF JAPAN WEBSITE

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

The Bank's website has been redesigned to provide a more user-friendly experience to visitors using its web services. The page layout will automatically adapt to the screen size of each visitor's device, including mobile devices such as tablets and smartphones ①. Below are some of the new features available since December 31, 2016.

- ▶ Topics selected from the information released in the What's New section are visually spotlighted in the Slideshow ② and Highlights ③ sections.
- ▶ The drop-down menus on the global navigation bar ④ and the Search by Topic page ⑤ enable visitors to enjoy easier access to the information they require.



■ Bank of Japan FAQs:

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

Provides helpful answers to frequently asked questions on the Bank's functions and business operations as well as related topics. Updated continuously.



■ 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



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

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

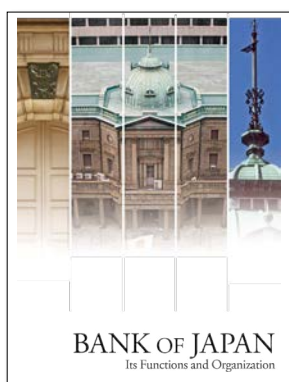
Explains the importance of maintaining people's confidence in the currency, as well as the Bank's policies and operations toward this end.



■ 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 website. 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 time-series statistical data released by the Bank which are available for viewing, searching, downloading, and drawing graphs. The Data Search feature has been redesigned and, since December 31, 2016, is more fully integrated with the statistics section of the Bank's website, enabling easier access between time-series data and the explanations of statistics and other information.

Time-series data for BOJ's main statistics

Detailed explanations on statistics and data search

BOJ Time-Series Data Search

BOJ's main statistical data

Key figures at a glance

- Interest Rates
- FX
- Money Stock
- Prices
- BOP
- TANKAN

BOJ's main time-series statistics

- Interest Rates on Deposits and Loans
- Financial Markets
- Money and Deposits
- Loans
- Balance Sheets of the Bank of Japan and Financial Institutions
- Flow of Funds
- TANKAN
- Prices
- Balance of Payments

Statistical data search

Search by statistics

- Interest Rates on Deposits and Loans
- Financial Markets
- Payment and Settlement
- Money and Deposits
- Loans
- Balance Sheets of the Bank of Japan and Financial Institutions
- Flow of Funds
- Other Bank of Japan Statistics
- TANKAN
- Prices
- Public Finance
- Balance of Payments
- Others

Notices

- Expansion of Balance of Payments Related Data Available in the BOJ Time-Series Data Search
- New Code System After Renewal of "BOJ Time-Series Data Search"
- Schedule for Releases of Statistical Data and Publications
- Notices of Changes and Corrections
- Statistics
- Explanations of Statistics

II. VISITING THE BANK OF JAPAN

■ Bank of Japan (Head Office)

2-1-1 Nihonbashi-Hongokucho,
Chuo-ku, Tokyo 103-0021, Japan
Tel: +81-3-3279-1111

A guide map for the Head Office is available on the
Bank's website:

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



Tours of the Bank's Head Office

For details, visit the Bank's website: <http://www.boj.or.jp/en/about/services/kengaku.htm>

■ Bank of Japan Currency Museum

1-3-1 Nihonbashi-Hongokucho, Chuo-ku, Tokyo 103-0021, Japan
Tel: +81-3-3277-3037

<http://www.imes.boj.or.jp/cm/english/index.html>

The Museum looks to provide visitors with an opportunity to think about the history and role of currency and its relation to culture and society through viewing the Museum's collection of coins, notes, related materials, and research results.



■ Bank of Japan Otaru Museum

1-11-16 Ironai, Otaru, Hokkaido 047-0031, Japan
<http://www3.boj.or.jp/otaru-m/englishmainsection.html>

The Bank of Japan Otaru Museum opened in May 2003, making use of the former Otaru Branch building. It provides displays on the Bank's history, operations, and the development of Otaru City.



III. PUBLICATIONS AND REPORTS

About the Bank

Title	URL	Frequency
Annual Review	http://www.boj.or.jp/en/about/activities/act/index.htm	Annual
Functions and Operations of the Bank of Japan	http://www.boj.or.jp/en/about/outline/fobojo.htm	–

About Monetary Policy

Title	URL	Frequency
Outlook for Economic Activity and Prices	http://www.boj.or.jp/en/mopo/outlook/index.htm	Quarterly
Semiannual Report on Currency and Monetary Control	http://www.boj.or.jp/en/mopo/diet/d_report/index.htm	Semiannual

Reports & Research Papers

Title	URL	Frequency
Financial System Report	http://www.boj.or.jp/en/research/brp/fsr/index.htm	Semiannual
Payment and Settlement Systems Report	http://www.boj.or.jp/en/research/brp/psr/index.htm	Ad hoc basis
Regional Economic Report	http://www.boj.or.jp/en/research/brp/rer/index.htm	Quarterly
Monetary and Economic Studies	http://www.boj.or.jp/en/research/imes/mes/index.htm	Annual

Data Compiled in Statistical Publications

Title	URL	Frequency
Financial and Economic Statistics Monthly	http://www.boj.or.jp/en/statistics/pub/sk/index.htm	Monthly
Bank of Japan Statistics	http://www.boj.or.jp/en/statistics/pub/boj_st/index.htm	Annual
Price Indexes Annual	http://www.boj.or.jp/en/statistics/pub/pim/index.htm	Annual
<i>Tankan</i> (Short-Term Economic Survey of Enterprises in Japan)	http://www.boj.or.jp/en/statistics/tk/index.htm	Quarterly

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