



BANK OF JAPAN

ANNUAL REVIEW 2018





BANK OF JAPAN

ANNUAL REVIEW 2018

Year Ended March 31, 2018

OUR POLICY AND OPERATIONS



Foreword by the Governor	5
About the Bank of Japan	7
I. Core Purposes	8
II. Capital	9
III. The Bank's Officers	10
IV. Organization	14
The Bank's Business Operations	21
I. Monetary Policy	22
II. Financial System Policy	23
III. Enhancement of Payment and Settlement Systems and Market Infrastructure	25
IV. International Operations	26
V. Issuance, Circulation, and Maintenance of Banknotes	26
VI. Services Relating to the Government	27
VII. Communication with the Public	27
The Bank's Review of Fiscal 2017	29
I. Introduction	30
II. Review of Economic and Financial Developments and Monetary Policy Meetings	30
III. Performance Reviews of Measures Taken under the Strategic Priorities	35
The Bank's Organizational Management in Fiscal 2017	47
I. Statement of Accounts and Budget for Expenses	48
II. IT Investment	48
III. Human Resources	48
IV. Organizational Management Measures	49
V. Internal Audits	50
The Bank's Accounts: Financial Statements and Other Documents for Fiscal 2017	51
I. Assets and Liabilities, Profits and Losses, and Capital Adequacy Ratio	52
II. Financial Statements	61
III. Schedule for the Financial Statements	70
IV. Expenses	76
Appendixes	79
■ Appendix 1: Overview of Audits of the Bank of Japan	80
■ Appendix 2: The Bank of Japan's Strategic Priorities for Fiscal 2014–2018	82
Information	91
I. Bank of Japan Website	92
II. Visiting the Bank of Japan	95
III. Publications and Reports	96

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/ar2018.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 2017 and the *Annual Review 2018* have been drawn up and released to explain to readers the implementation of the Bank's business operations during fiscal 2017. 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. 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 2018, 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	40,002	40.0
Financial institutions	2,209	2.2
Public organizations	201	0.2
Securities companies	43	0.0
Other firms	2,533	2.5
Total	100,000	100.0

Note: 1. Rounded down to the nearest 1,000 yen. As of the end of March 2018.

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 vacancies in the offices 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: Masayoshi Amamiya, Haruhiko Kuroda, and Masazumi Wakatabe

Haruhiko Kuroda, Governor

Masayoshi Amamiya, Deputy Governor

Masazumi Wakatabe, Deputy Governor

Yutaka Harada

Yukitoshi Funo

Makoto Sakurai

Takako Masai

Hitoshi Suzuki

Goushi Kataoka

Notes: 1. Members are as of August 1, 2018.

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).

<p>Haruhiko Kuroda <i>Governor (the 31st) and Chairman of the Policy Board</i></p> <p>Date of Birth October 25, 1944</p> <p>Education The University of Tokyo (1967, B.A. in Law) University of Oxford (1971, M.Phil. in Economics)</p>	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 ³
<p>Masayoshi Amamiya <i>Deputy Governor</i></p> <p>Date of Birth September 30, 1955</p> <p>Education The University of Tokyo (1979, B.A. in Economics)</p>	1979 Joined the Bank of Japan 1998 Director, Head of Planning Division II, Policy Planning Office Director, Head of Money and Capital Markets Division, Financial Markets Department 1999 Director, Head of Planning Division I, Policy Planning Office 2001 Associate Director-General, Policy Planning Office 2002 Associate Director-General, Bank Examination and Surveillance Department 2004 Deputy Director-General, Secretariat of the Policy Board 2006 Director-General, Monetary Affairs Department 2010 Executive Director 2012 Executive Director and General Manager, Osaka Branch 2013 Executive Director 2018 Present position
<p>Masazumi Wakatabe <i>Deputy Governor</i></p> <p>Date of Birth February 26, 1965</p> <p>Education Waseda University (1987, B.A. in Economics; 1990, M.A. in Economics; and 1998, withdrew from doctoral program in Economics after completion of course requirements except for dissertation) University of Toronto (1994, M.A. in Economics; and 2002, withdrew from doctoral program in Economics after completion of course requirements except for dissertation)</p>	1991 Research Associate, Waseda University 1998 Assistant Professor, Waseda University 2000 Associate Professor, Waseda University 2005 Professor, Waseda University 2017 Visiting Scholar, Center on Japanese Economy and Business, Columbia Business School 2018 Present position

Yutaka Harada

Date of Birth	Education
September 1, 1950	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

Yukitoshi Funo

Date of Birth	Education
February 1, 1947	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

Makoto Sakurai

Date of Birth	Education
June 16, 1946	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

Takako Masai

Date of Birth	Education
March 8, 1965	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, ⁴ 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

Hitoshi Suzuki

Date of Birth	Education
January 8, 1954	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) ⁵
2006	Executive Officer and General Manager, Global Markets Planning Division, The Bank of Tokyo-Mitsubishi UFJ, Ltd. (BTMU) ⁶
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

Goushi Kataoka

Date of Birth	Education
November 30, 1972	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. ⁷
2006	Senior Economist, Economic & Social Policy Department, Mitsubishi UFJ Research and Consulting Co., Ltd. ⁸
2016	Senior Economist, Economic Policy Department, Mitsubishi UFJ Research and Consulting Co., Ltd.
2017	Present position

Notes: 4. Established in 2004 through merger of Credit Agricole Indosuez and Credit Lyonnais.

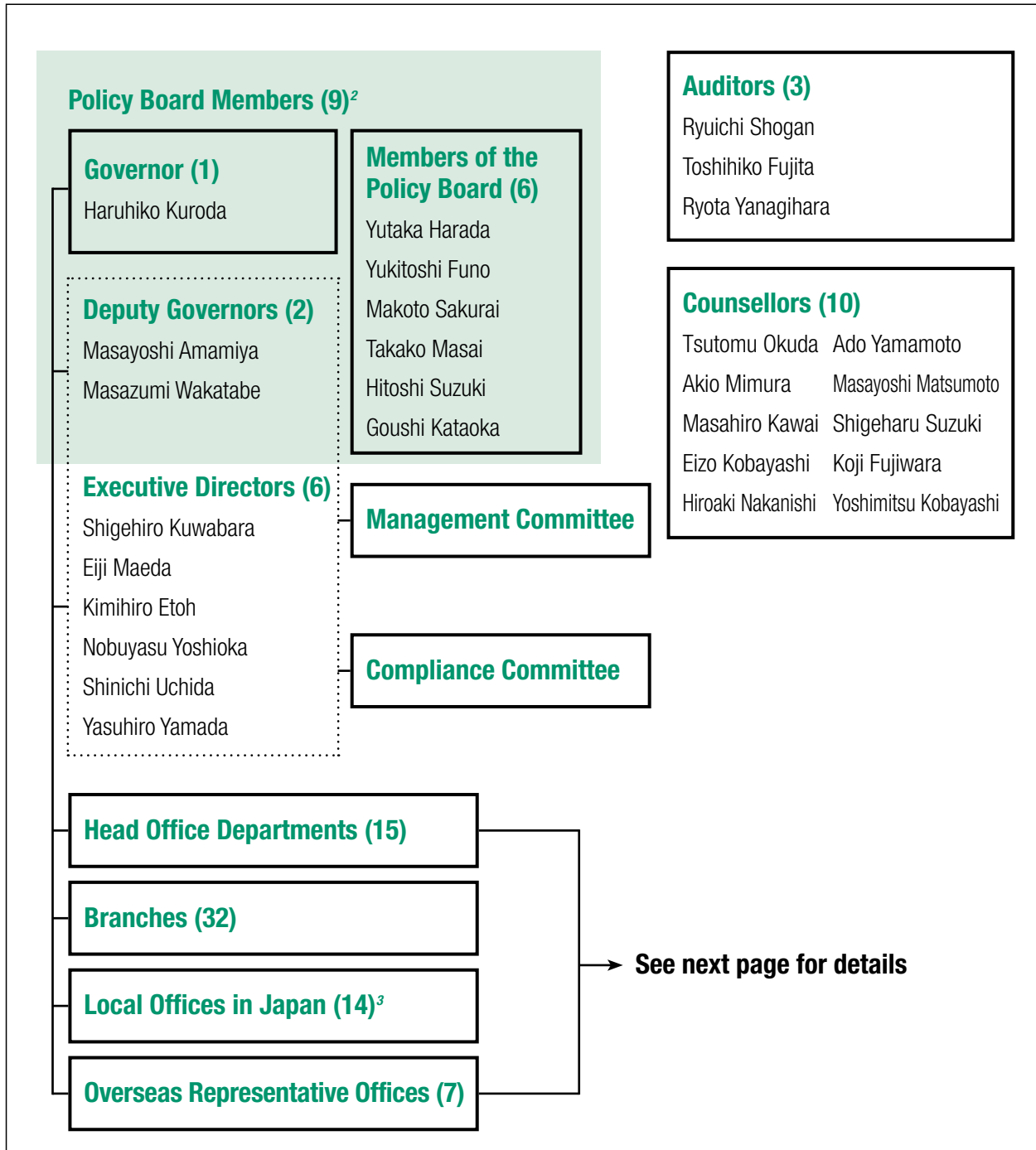
5. Established in 1996 through merger of The Mitsubishi Bank, Ltd. and The Bank of Tokyo, Ltd.

6. Established in 2006 through merger of The Bank of Tokyo-Mitsubishi, Ltd. and UFJ Bank Ltd., and subsequently renamed MUFG Bank, Ltd. in April 2018.

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

8. 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 1, 2018.

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) Tetsuya Sakamoto (Director-General for Management Strategy, Budget and Accounting)
Internal Auditors' Office	Katsuya Motohata (Director-General)
Monetary Affairs Department	Takeshi Kato (Director-General)
Financial System and Bank Examination Department	Hirohide Koguchi (Director-General)
Payment and Settlement Systems Department	Hiromi Yamaoka (Director-General)
Financial Markets Department	Seiichi Shimizu (Director-General)
Research and Statistics Department	Toshitaka Sekine (Director-General)
International Department	Yoshinori Nakata (Director-General)
Currency Issue Department	Hidetsugu Chida (Director-General)
Operations Department	Shinichiro Hayashi (Director-General)
Information System Services Department	Masayuki Mizuno (Director-General)
Public Relations Department	Shinobu Nakagawa (Director-General)
Personnel and Corporate Affairs Department	Mitsuru Nomura (Director-General) Takeshi Nakajima (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	Shigeru Shimizu (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	Yuko Kawai (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 Tanusanlage 21, 60325 Frankfurt am Main, Germany	+49-69-9714310	Yuichi Adachi (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	Yoshiaki Azuma (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) Conducts public relations activities, (2) administers the Bank's library, and (3) works toward raising public 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

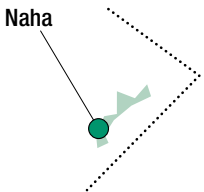
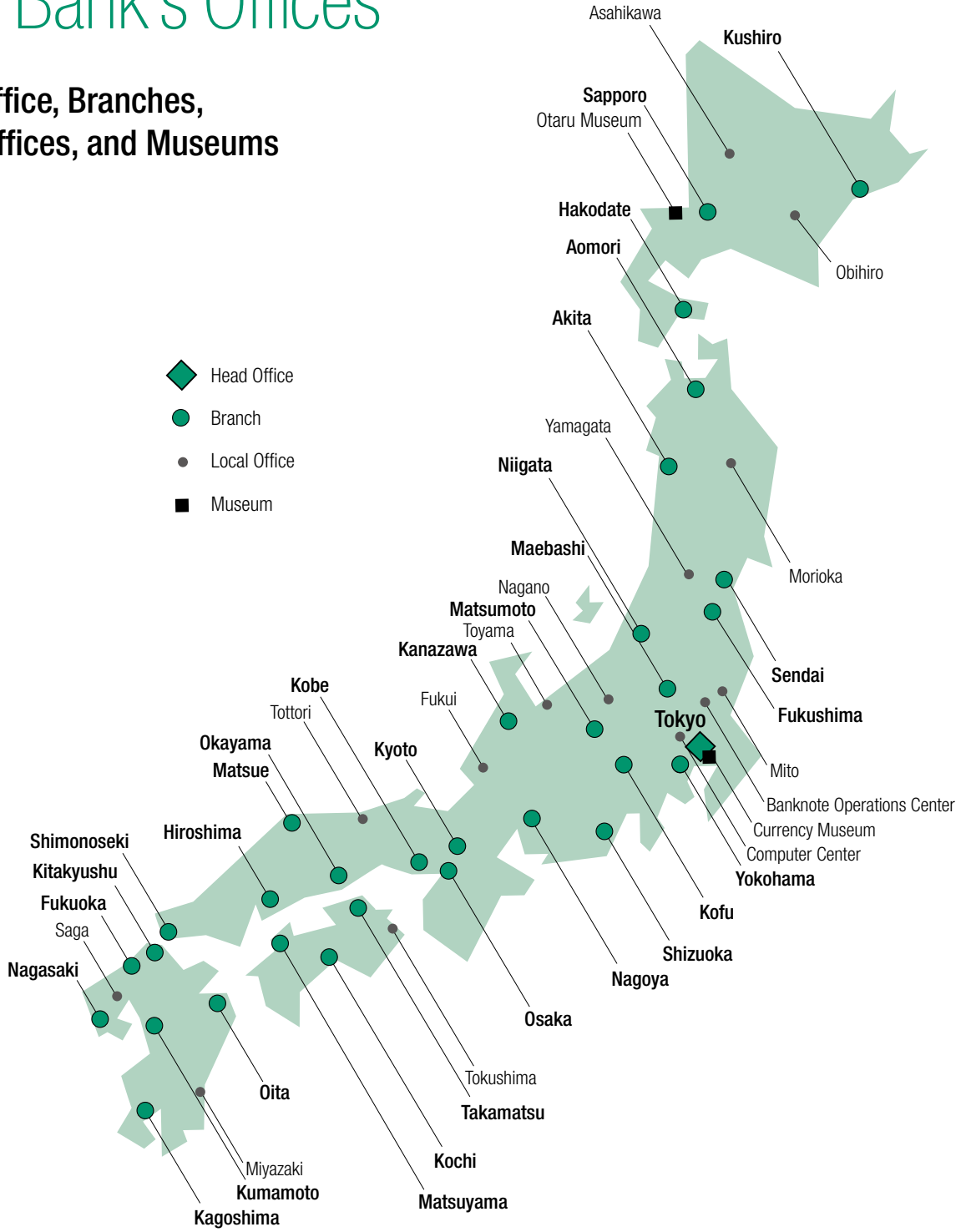
The Computer Center in Fuchu City, Tokyo, operates the Bank's systems. The Banknote Operations Center in Toda City, Saitama Prefecture, receives, pays, and stores banknotes. The other 12 local offices handle some of the operations of the Head Office or branches.

Overseas Representative Offices

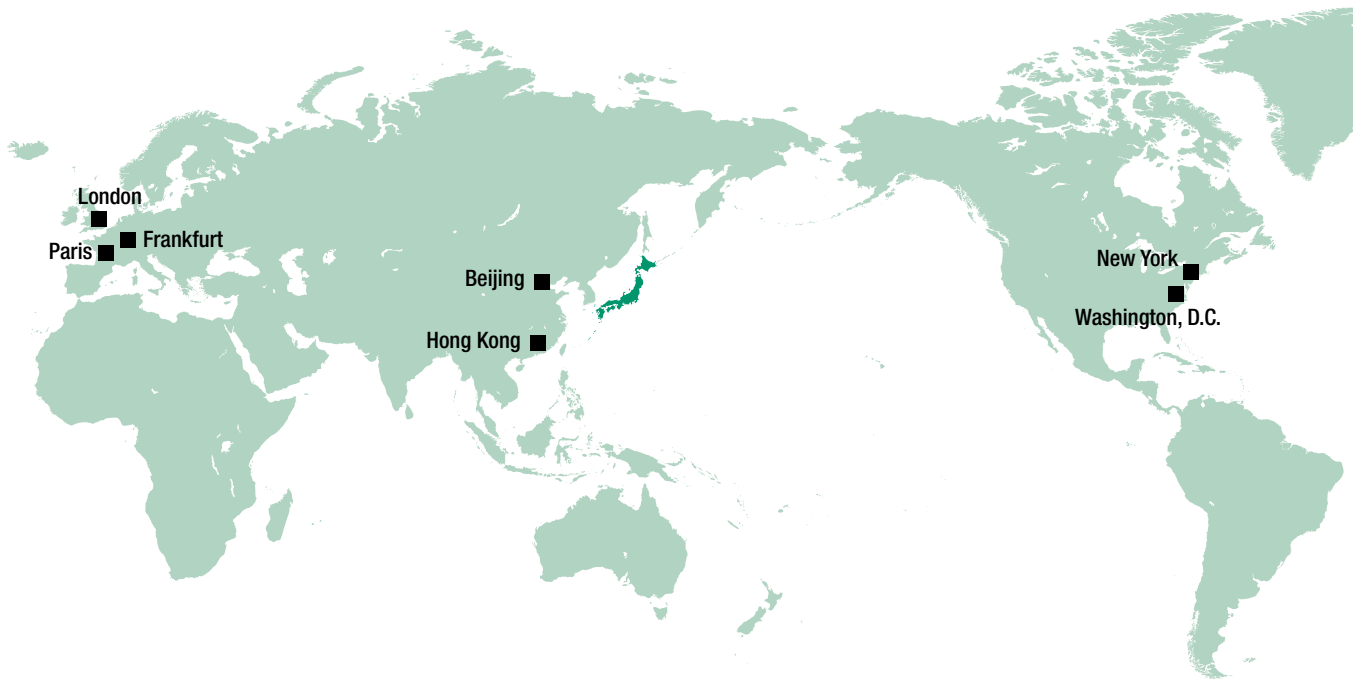
The seven overseas representative offices perform a liaison function, gather information, and conduct research.

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 2017.

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 2017.²

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 96.

2. The summaries of these two issues in English are available on the Bank's website; for excerpts from these summaries, see pages 30–34. 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 risk management and business management.

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 and implementing 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 2017¹

	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	125 (126)	125 (126)	125 (126)	125 (126)	125 (126)
Trust banks	14 (15)	14 (15)	10 (10)	10 (10)	14 (15)
Foreign banks	50 (49)	50 (49)	37 (36)	41 (40)	38 (37)
<i>Shinkin</i> banks	253 (255)	253 (255)	113 (112)	137 (136)	172 (171)
Financial instruments business operators	34 (35)	34 (35)	29 (30)	34 (35)	33 (34)
Bankers associations	33 (33)	0 (0)	0 (0)	0 (0)	0 (0)
Other institutions	18 (19)	9 (10)	9 (9)	9 (10)	11 (11)
Total	527 (532)	485 (490)	323 (323)	356 (357)	393 (394)

Note: 1. Figures in parentheses indicate the number of institutions as of the end of fiscal 2016.

Table 2
Number of Financial Institutions Examined

	Fiscal 2015	Fiscal 2016	Fiscal 2017
Domestically licensed banks ¹	30	33	29
<i>Shinkin</i> banks	36	37	54
Other institutions ²	12	15	17
Total	78	85	100

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 tailor its publications and releases 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 takes steps to refine 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 2017

I. Introduction

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

- A. First Half of Fiscal 2017 (April–September 2017)
- B. Second Half of Fiscal 2017 (October 2017–March 2018)

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 2017, 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 2017 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 2017" (see pages 47–50).

The Strategic Priorities states that the Bank shall 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. In fiscal 2016, the Bank conducted the interim review and decided to maintain the current content. A thorough review of the entire content of the Strategic Priorities will be conducted separately.

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

A. First Half of Fiscal 2017 (April–September 2017)

1. Economic developments

- a. Looking back at the first half of fiscal 2017, Japan's economy was expanding moderately, with a virtuous cycle from income to spending operating.

Exports followed an increasing trend on the back of growth in overseas economies. Turning to domestic demand, public investment increased, and housing investment was more or less flat.

Business fixed investment was on a moderate

increasing trend, with corporate profits improving. Private consumption increased its resilience against the background of steady improvement in the employment and income situation. Reflecting these developments in demand both at home and abroad, industrial production followed an increasing trend.

- b. On the price front, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) was in the range of 0.5–1.0 percent, with the rate of increase accelerating. Inflation expectations remained in a weakening

1. For the text of "The Bank of Japan's Strategic Priorities for Fiscal 2014–2018," see Appendix 2 on pages 82–87.

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 2017 and June 2018. The full texts of both issues in Japanese and summaries in English are available on the Bank's website.

phase, although some indicators showed an uptrend in such expectations, after hitting bottom around summer 2016.

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 Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control.

The Nikkei 225 Stock Average rose, mainly on the back of favorable corporate earnings, amid a rise in stock prices in the United States and Europe, and was in the range of 20,000–20,500 yen at end-September.

In the foreign exchange market, the yen was more or less flat against the U.S. dollar, albeit with fluctuations, and was in the range of 112–113 yen at end-September. The yen continued to depreciate against the euro with uncertainties regarding political situations in Europe abating, and was in the range of 132–133 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, 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 at a moderate pace, and was at around 3 percent as of September. The year-on-year rates of change in

the amounts outstanding of CP and corporate bonds were positive at relatively high levels.

- c. The monetary base (currency in circulation plus current account balances at the Bank) continued to increase at a high year-on-year growth rate in the range of 15–20 percent. The year-on-year rate of change in the money stock (M2) was at around 4 percent.

3. MPMs³

- a. Four MPMs were held in the first half of fiscal 2017.

At the MPMs held in April and June, the Policy Board judged that Japan's economy was turning toward a moderate expansion. At the MPMs held in July and September, it judged that the economy was expanding moderately, with a virtuous cycle from income to spending operating.

- b. In the conduct of monetary policy, at all the MPMs held in the first half of fiscal 2017, 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.

The long-term interest rate:

The Bank will purchase Japanese government bonds (JGBs) so that 10-year JGB yields will remain at around zero percent. With regard to the

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

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 exchange-traded funds (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.

With regard to the future conduct of monetary policy, the Policy Board confirmed the following at all the MPMs held in the first half of fiscal 2017: "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."

B. Second Half of Fiscal 2017 (October 2017–March 2018)

1. Economic developments

- a. Looking back at the second half of fiscal 2017, Japan's economy was expanding moderately, with a virtuous cycle from income to spending operating.

Exports followed an increasing trend on the back of firm growth in overseas economies. Turning to domestic demand, housing investment weakened somewhat after having been more or less flat, and public investment was more or less flat, remaining at a relatively high level. On the other hand, business fixed investment was on an increasing trend with corporate profits and business sentiment maintaining their improving trend. Private consumption increased moderately, albeit with fluctuations, against the background of steady improvement in the employment and income situation. Reflecting these developments in demand both at home and abroad, industrial production followed an increasing trend.

- b. On the price front, the year-on-year rate of change in the CPI (all items less fresh food) was around 1 percent, with the rate of increase accelerating. Inflation expectations were more or less unchanged, after having remained in a weakening phase since summer 2015.

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 rose to the

range of 24,000–24,500 yen in late January, mainly on the back of favorable corporate earnings, amid a rise in stock prices in the United States and Europe. It then temporarily declined substantially with a global fall in stock prices in early February and remained more or less flat thereafter, albeit with fluctuations, being in the range of 21,000–21,500 yen at end-March.

In the foreign exchange market, the yen was more or less flat against the U.S. dollar through end-2017, and then appreciated amid the dollar depreciating against many currencies. Thereafter, the yen continued to appreciate against the U.S. dollar, mainly reflecting buying of yen as safe assets with a global fall in stock prices in early February, and was in the range of 106–107 yen at end-March. The yen was more or less flat against the euro, with fluctuations smoothed out.

- 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 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 in the range of around 2.0–2.5 percent. The year-on-year rates of change in the amounts outstanding of CP and corporate bonds were positive at relatively high levels.

- c. The monetary base continued to increase at a high year-on-year growth rate in the range of around 10–15 percent. The year-on-year rate of change in the M2 was in the range of 3.0–4.0 percent.

3. MPMs⁴

- a. Four MPMs were held in the second half of fiscal 2017.

At all the MPMs held in the second half of fiscal 2017, the Policy Board judged that Japan's economy was expanding moderately, with a virtuous cycle from income to spending operating.

- b. In the conduct of monetary policy, at all the MPMs held in the second half of fiscal 2017, 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.

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.

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

- (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 2017: "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."

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 following: developments in overseas economies and global financial markets, as well as their implications for Japan's economy; the determinants of wages in Japan; and the impact on prices of firms' measures to address labor shortages by improving productivity.
- (2) The Bank conducted multi-perspective analysis on the effects and impacts of monetary policy, focusing on the policy effects of QQE with Yield Curve Control, as well as the mechanism of inflation expectations formation. In addition, the Bank decided to extend the duration of operations such as the Fund-Provisioning Measure to Stimulate Bank Lending.
- (3) 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 2017.
 - (b) The Bank expanded the diversity of its *Bond Market Survey* respondents and enhanced the content of *Liquidity Indicators in the JGB Markets*, with a view to broadening and deepening its perspective on bond market liquidity and functioning and to facilitating dialogue with market participants.
- (4) 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. 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 2017, it achieved its intended objectives in implementing measures and provided a firm underpinning for monetary policy conduct. In fiscal 2018, 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 2017," the Bank conducted on-site examinations of financial institutions flexibly and efficiently in light of the extent of their influence on the financial system and their risk profiles; it also conducted "targeted on-site examinations" that had a more limited scope in terms of areas subject to examination, so as to allow the Bank efficiently and effectively to ascertain and assess the profitability of regional financial institutions and examine their management of market risk. Under this policy, the Bank carried out examinations of 100 financial institutions. It conducted thorough assessments, for example, of financial institutions' business operations and asset quality 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 and subsidiaries.
- (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 gained a better grasp of the effects and impacts on financial institutions of QQE with Yield Curve Control and continued to deepen its understanding of their business conditions, such as business operations, risk management, and profitability. In addition, 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 such as those associated with the need to ensure foreign currency liquidity. It also encouraged such institutions' efforts to improve their risk management, for example, through exchanging views with them.

- (3) In the two issues of the 2017 *Financial System Report*, released in April and October, the Bank, while refining scenarios for its macro stress testing and enhancing its analysis, examined financial intermediation by Japanese financial institutions and current conditions in the financial system; it also conducted assessments that focused particularly on the structural factors behind as well as the impacts of low profitability and intensified competition among financial institutions. In addition, the Bank continued to share awareness of challenges and risks, particularly with financial institutions, through the following initiatives in fiscal 2017: releasing four issues of the *Financial System Report Annex Series* providing more detailed analysis of and insight into selected topics; actively communicating with financial institutions, analysts, the media, academics, and other relevant parties, mainly through holding seminars and giving presentations at various international meetings (there were 80 such occasions in total); 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 2017—and sharing awareness of challenges and risks at all levels.
- (5) The Bank continued its stable execution of business operations for the Loan Support Program.
- (6) The Bank, with a view to maintaining an appropriate

grasp of business operations and asset quality at financial institutions with which it conducts transactions, made revisions to the "Inquiries Agreement" and related rules such as the "Criteria for Parties Eligible to Hold Current Accounts with the Bank and That Have Access to the Bank's Lending."

- (7) The Bank hosted large-scale seminars on topics such as operational reforms. It also held, for example, a series of workshops on utilizing IT to advance financial technology and various regional workshops.

2. Evaluation of progress

The Bank conducted thorough assessments 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 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 an environment of low interest rates and population decline. Moreover, it sharpened its focus on business conditions at systemically important financial institutions, taking into account the extent of their systemic implications, and facilitated necessary improvements.

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

During fiscal 2017, there were no circumstances that

required the Bank to provide loans pursuant to Articles 37 and 38 of the Bank of Japan 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, and that its intended effects were thereby achieved. In fiscal 2018, 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, regarding 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 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) In April 2017, the Bank released the results of a survey on cross-border yen payment services provided by banks, which was conducted 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.

(b) The Bank established the operational framework necessary to implement Global Access, which

allows BOJ-NET participant financial institutions access to the BOJ-NET from terminals in their overseas offices, and began accepting applications in December 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. In April 2018, the Bank announced that in fiscal 2018 it will commence preparation with the Hong Kong Monetary Authority toward implementation of a cross-border delivery-versus-payment (DVP) link between BOJ-NET JGB services and the Hong Kong Dollar Clearing House Automated Transfer System (HKD CHATS).
- (3) The Bank worked toward 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, holding three seminars for reporting institutions in fiscal 2017.
- (5) The Bank supported market participants' efforts to move to a T+1 JGB settlement cycle for outright transactions, which was implemented in May 2018. At the same time, settlement for JGB auctions was also shifted, in principle, to a T+1 settlement cycle, and the Bank proceeded steadily with preparations to achieve this.
- (6) In light of the development of the FX Global Code,

the Bank released a Statement of Commitment to the code in January 2018, and encouraged market participants in Japan to similarly demonstrate adherence to the code.

- (7) The Bank contributed to discussions with market participants on the reform of interest rate benchmarks, as follows.
 - (a) The Bank assisted in the implementation of the Japanese Bankers Association (JBA) TIBOR reform by the JBA TIBOR Administration, which took effect 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.
- (8) 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 2017, the Bank provided loans to exercise participants from the money market, securities markets, and foreign exchange market through Funds-Supplying Operations against Pooled Collateral.
- (9) The Bank's FinTech Center played a leading role in collecting and communicating information as well as carrying out related research through, for example, the FinTech Forum—twice in fiscal 2017—and a conference on artificial intelligence (AI) and financial services in April 2017. Moreover, the Bank and the European Central Bank (ECB) conducted joint research on the possible use of distributed ledger technology for market infrastructure and released their findings in September 2017 and March 2018.

2. Evaluation of progress

The Bank made progress broadly as scheduled in:

- (1) the implementation of initiatives toward the

enhancement of payment and settlement services, for example through commencing the acceptance of applications for Global Access; and (2) 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.

As for the reinforcement of the infrastructures of financial and capital markets, the Bank steadily proceeded with efforts relating to the demonstration of adherence to the FX Global Code and advanced measures for the collection of trading data, such as on repos. It also supported market participants' initiatives on shortening the JGB settlement cycle, TIBOR reform, 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 2017 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 2018, the Bank will continue to support market participants' efforts to move to a T+1 JGB settlement cycle for outright transactions, and to facilitate deliberations on the use of risk-free reference rates. In addition, it will continue efforts to encourage market participants to demonstrate adherence to the FX Global Code as well as to support their initiatives toward the collection of trading data, such as on repos. The Bank 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.
- (2) 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 continued to monitor and improve the level of the cleanliness of banknotes in circulation.
- (3) The Bank moved forward, as scheduled, with the replacement of automatic banknote examination machines, continuing with installations of the new model at its branches.
- (4) 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.
- (5) 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. With a view to further smoothing the circulation of coins, the Bank released revised guidelines (available only in Japanese) for their receipt and payment, which took effect in April 2018.

There was, however, an incident of misconduct in which an employee of the Bank stole commemorative coins held at the Bank's Head Office.

- (6) The Bank carried out a wide range of treasury funds and Japanese government securities (JGS) services with precision, while working toward more streamlined online processing of treasury funds.
- (7) 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 banknotes, the Bank made progress in securing confidence in banknotes, for example, proceeding smoothly with replacing automatic banknote examination machines with the new model. The Bank also made progress in firmly grasping the current situation of cash circulation by gathering information from relevant parties. Progress was also made in business operations relating to coins; the receipt and payment of coins at a coin delivery center outside the Bank's premises were carried out smoothly. However, public confidence in the stability of the Bank's business operations was undermined by an employee's misconduct involving commemorative coins.

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 2017, it conducted stable and efficient central banking operations overall, while reviewing its business processes in response to changes in its operational

environment. As regards business operations relating to coins, the Bank reviewed and revised its operational framework so as to prevent any recurrence of misconduct and to ensure strict compliance with the rules in handling coins. In fiscal 2018, the Bank, through these efforts, will work to restore public confidence in the stability of its business operations. It will also 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, including building a consensus on finalizing the Basel III reforms.
- (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 continued with necessary deliberation on and coordination of the provision of liquidity backstops to meet the local currency funding needs of Japanese financial institutions operating overseas; for example, it enhanced the practicability of its bilateral local currency swap arrangements with the Reserve Bank of Australia and with the Monetary Authority of Singapore. 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 in custody at the Bank as collateral, the Bank proceeded to consider and coordinate an expansion in the number of Asian partners participating in such arrangements.
 - (5) Under the framework of ASEAN Plus Three, the Bank, as the central bank of the co-chair country, together with the Ministry of Finance, played a key role, for example, by taking the lead in the planning and management of currency swap exercises based on the Chiang Mai Initiative Multilateralization (CMIM).
 - (6) The Bank made appropriate arrangements for and co-hosted international meetings, including the 50th Annual Meeting of the Asian Development Bank (ADB) in Yokohama and a BIS central bank governors' meeting, both held in May 2017.
 - (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 these interactions, 55 involved staff being sent from other central banks (491 people), while 12 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 2017, 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 2018, the Bank will proceed with preparations for the G-20 meetings to be held in Japan in 2019, as the central bank of the chair country, together with the Ministry of Finance. The Bank will also 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 an overall 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.

- (2) At each of the following branches, the Bank, in cooperation with the respective local finance bureaus, requested that financial institutions take special measures in response to disasters: Akita, Niigata, Kanazawa, Nagoya, Kyoto, Osaka, Fukuoka, and Oita.
- (3) The Bank maintained 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 maintained 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*. With a view to communicating with the public in a more effective and efficient manner, the Bank revised the content of the report starting from the April 2017 issue, and

from June also began to release the annex series to the report, which provides more detailed analysis of and insight into selected topics (the annex series is available only in Japanese).

- (5) In fiscal 2017, the Bank's Center for Advanced Financial Technology (CAFT) hosted the following seminars and workshops targeted mainly at regional financial institutions: 6 seminars on corporate governance reforms and the advancement of financial technology through the utilization of IT; also, 18 workshops on the topics of operational reforms, private finance initiatives (PFIs) and public-private partnerships (PPPs), support for start-up firms, agri-finance, support for firms making renewed efforts for business revitalization and discontinuance, and support for business succession of firms.

2. Evaluation of progress

The Bank, at its Head Office and branches, conducted central banking operations in an overall stable manner. It also maintained 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 2017, 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 2018, 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 to disseminate its findings, while giving due consideration to regional revitalization.

G. Strengthen External Communication

1. Progress in implementing specific measures

- (1) In accordance with the Bank of Japan 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 the *Semiannual Report on Currency and Monetary Control* to the Diet in June and December 2017, and releasing the full texts of the 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 2016 in May 2017.
- (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* (hereafter the Outlook Report) released in April, July, and October 2017 as well as in January 2018; a document that contains a summary of the opinions presented at each MPM (Summary of Opinions); and press conferences, speeches, and articles by the

⁵ Excerpts from the summaries of the two issues of the report dealing with developments in fiscal 2017, namely, the issues released in December 2017 and June 2018, can be found on pages 30–34.

Governor, Deputy Governors, and Members of the Policy Board.

- (b) With regard to the Outlook Report, the Bank revised the design and layout so that related text and charts now appear on the same page, mainly with a view to making "The Background" section easier to read.
- (3) The Bank was also involved in the following public relations activities, which it sought to make clear, intelligible, and accessible to a wide range of target audiences, thereby promoting better understanding among the public of its conduct of monetary policy and business operations.
- (a) In addition to making the Bank's releases available on its websites, the Bank made further use of social networking sites through, for example, the launch of a Facebook page in December 2017, thereby disseminating a steady stream of up-to-date information to a wider audience. The number of page views on the Bank's website was around 206 million, of which around 103 million were made to its English-language pages. The number of page views on its branches' websites was around 3.7 million in total. Followers of the Bank's Twitter accounts totaled around 120,000.
- (b) The Bank continued to enhance the content of *Nichigin*, its public relations magazine (available only in Japanese). It also published collected offprints of each of the following series from the magazine: *Taidan* (Talking with the Experts: A Series of Conversations with Leaders in Their Fields), and *Chiiki no Sokojikara* (The Might of Regional Japan).
- (c) In October 2017, the Bank changed the route for in-house tours of its Head Office (for which advance reservation is necessary) due to ongoing 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—including those who attended short tours on the day—was around 19,000, while branches received around 27,000.
- (d) The Bank hosted various public relations events, providing opportunities for the public to deepen their understanding of the Bank's policies and business operations. These events included special in-house tours for families visiting with primary and junior high school children during school holiday seasons in spring and summer. The Bank also hosted at its Head Office the "BOJ Grand-Prix," an essay and presentation contest primarily for college students, for which there were 112 entries.
- (e) 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 39.
- (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 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 4,300

- 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 2017 totaled around 111,000. The Bank also operated the Bank of Japan Otaru Museum appropriately; the number of visitors during fiscal 2017 totaled around 97,000.
- (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 3,678 historical official documents were added to the Archives, and there were a total of 133 requests for access.
- (8) The Bank made public the findings of its research and analysis on economic and financial developments, releasing 13 papers in the *Bank of Japan Review Series*, 17 in the *Bank of Japan Working Paper Series*, 21 in the *Institute for Monetary and Economic Studies (IMES) Discussion Paper Series*, 3 in the *Bank of Japan Research Laboratory Series*, and 5 research papers.
- (9) The Bank held the following conferences at its Head Office.
- (a) In May 2017, the IMES hosted an international conference entitled "Monetary Policy: Lessons Learned and Challenges Ahead."
- (b) In November 2017, the Bank and the University of Tokyo co-hosted a conference entitled "A New Perspective of Macroeconomic Analysis: Interaction between Business Cycles and Economic Growth."
- (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 April 2017, the Bank improved the usability of the *Amounts Outstanding in the Call Money Market*. It tabulated the figures for the most recent month and also the monthly figures for the past year. Moreover, it expanded the number of items available in the BOJ Time-Series Data Search from selected items only to all items.
- (b) In June 2017, the Bank conducted a periodical revision of broadly-defined liquidity (L) in the *Money Stock Statistics* (MSS) and improved the accuracy of the data.
- (c) In August 2017, the Bank released new items in the *Regular Derivatives Market Statistics in Japan*.
- (d) As for the *Tankan* (Short-Term Economic Survey of Enterprises in Japan), the Bank commenced release of data for "research and development (R&D) investment" in April 2017. It also introduced a new sampling methodology and revised the sample used in the survey in March 2018.
- (11) Through the following measures, the Bank promoted an in-depth understanding of the statistics it compiled.
- (a) In July 2017, the Bank released explanations on the compilation method for the corporate goods price index (CGPI).
- (b) In November 2017, the Bank updated the explanations of the *Flow of Funds Accounts Statistics* (FFA) to reflect its data revisions.
- (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 deliberations on Japan's balance of payments statistics.

- (13) As the secretariat of the Central Council for Financial Services Information (CCFSI), and in light of changes in the environment surrounding the provision of financial information to the public, the Bank supported the CCFSI's efforts to develop a range of financial information-related activities; for example, the CCFSI developed and distributed new teaching materials for junior high school students, expanded and improved lectures to college students on financial literacy, and published user-friendly website pages including those designed for mobile devices (available only in Japanese) on the CCFSI's official website *Shiruporuto* (Gateway to Knowledge).

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 light of changes in the environment surrounding the provision of financial information to the public, the Bank supported the CCFSI's efforts to develop a range of financial information-related activities, thereby contributing to the promotion of financial literacy among the public.

Based on the above, the Bank considers that, in fiscal 2017, it steadily implemented the measures scheduled under its strategic objective of strengthening external communication. In fiscal 2018, 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 opinion and public needs.

The Bank's Organizational Management in Fiscal 2017

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 2017, 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 2017, the total amount of actual expenses increased from the previous fiscal

year by 2.5 percent (4.8 billion yen) to 192.9 billion yen. Regarding the Bank's budget for expenses for fiscal 2018, 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 2017 was 13,254 person-months¹ (including 10,266 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 2017, 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 4,653 at the end of March 2018, up 7 from the previous fiscal year (Table 1).

Regarding remuneration, the Bank raised the annual remuneration for its officers—through increasing their bonuses—in fiscal 2017 by 0.4 percent from the previous fiscal year.

Also, in consideration of such factors as the reductions in retirement allowances for national government officials, the Bank decided to reduce the retirement allowances of its officers by 3.5 percent.

As for its employees, the Bank raised the annual remuneration for fiscal 2017 by 0.2 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 2.204 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 2018

number of people; figures in parentheses are as of the end of March 2017

Total		4,653	(4,646)
Head Office ¹		2,750	(2,766)
Branches		1,827	(1,806)
Local offices ¹		52	(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 also 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, under an action plan compiled and released in March 2016 pursuant to the Act on Promotion of Women's Participation and Advancement in the Workplace, 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. Having taken these initiatives, in May 2017, the Bank was awarded the highest rating, Level 3, of the *Eruboshi* (L Star) certification from the Minister of Health, Labour and Welfare in recognition of the excellence of its performance in this regard. 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. In March 2018, as the Bank had achieved the goals for the third phase one year ahead of the initial schedule, it formulated and released action plans for the fourth phase, to start from fiscal 2018.

(3) With regard to staff recruitment for fiscal 2018, 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.

Following an instance of misconduct in which an employee of the Bank stole commemorative coins held at the Bank's Head Office, the Bank took disciplinary actions against those involved. It also decided to redouble its efforts with regard to staff education and training so as to ensure integrity in the execution of duties by the Bank's staff.

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 2017, the Internal Auditors' Office audited 4 departments at the Bank's Head Office (the Monetary Affairs Department, the International Department, the Operations Department, and the Information System Services Department), 3 overseas representative offices (London, Paris, and Frankfurt), 15 branches (Sapporo, Aomori, Akita, Fukushima, Maebashi, Yokohama, Niigata, Kyoto, Osaka, Kobe, Okayama, Takamatsu, Oita, Nagasaki, and Kumamoto), and 3 local offices (Mito, Asahikawa, and Tokushima).

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 2017

**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, 2018, the Bank of Japan released the "Financial Statements for the 133rd 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 133rd fiscal year, i.e., fiscal 2017 (April 1, 2017–March 31, 2018), and the schedule for the financial statements for fiscal 2017.

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 2017 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 2017 shows that total assets increased by 7.8 percent (38,196.3 billion yen) from the previous fiscal year-end to 528,285.6 billion yen, mainly due to an increase in holdings of Japanese government securities (JGSs).¹ Total liabilities increased by 7.8 percent (37,912.8 billion yen) from the previous fiscal year-end to 524,336.3 billion yen, mainly due to an increase in current deposits (Table 1).

Detailed developments in the Bank's balance sheet in fiscal 2017 are as follows.

Looking at assets at the fiscal year-end, holdings of JGSs increased by 7.3 percent (30,614.6 billion yen) from the previous fiscal year-end to 448,326.1 billion yen, with the Bank proceeding with its purchases of these assets. Loans and bills discounted increased by 1,747.3 billion yen from the previous fiscal year-end to 46,411.9 billion yen, due to an increase in the amount of loans provided through the Loan Support Program.² Pecuinary trusts (index-linked exchange-traded funds held as trust property) increased by 5,999.4 billion yen from the previous fiscal year-end to 18,934.8 billion yen, with the Bank proceeding with its purchases of these assets.

Turning to liabilities, current deposits increased by 10.4 percent (35,482.4 billion yen) from the previous fiscal year-end to 378,237.9 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 4.2 percent (4,200.2 billion yen) from the previous fiscal year-end to 104,000.4 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 2017, operating profits increased by 133.5 billion yen from the previous fiscal year to 1,228.7 billion yen, mainly due to rises in net gains on pecuniary trusts and interest income on JGSs (Tables 2 and 3).

Meanwhile, net special losses amounted to 338.8 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 258.1 billion yen from the previous fiscal year to 764.7 billion yen. After transferring 38.2 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 (726.5 billion yen).

The capital adequacy ratio, after the appropriation of net income, rose from its previous fiscal year-end level of 8.07 percent to 8.09 percent at the end of fiscal 2017 (Table 4).

Table 1

Principal Assets and Liabilities¹

bil. yen

Item	End of fiscal 2016 (Mar. 31, 2017)	End of fiscal 2017 (Mar. 31, 2018)
Total assets	490,089.3 (+20.8) <+84,441.1>	528,285.6 (+7.8) <+38,196.3>
Of which:		
Japanese government securities	417,711.4 (+19.6) <+68,515.9>	448,326.1 (+7.3) <+30,614.6>
Commercial paper	2,035.7 (+3.3) <+65.7>	2,057.4 (+1.1) <+21.6>
Corporate bonds	3,214.4 (+1.4) <+44.0>	3,192.1 (-0.7) <-22.3>
Pecuniary trusts (stocks held as trust property)	1,188.4 (-13.2) <-180.7>	1,048.8 (-11.7) <-139.5>
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	12,935.3 (+70.9) <+5,367.7>	18,934.8 (+46.4) <+5,999.4>
Pecuniary trusts (Japan real estate investment trusts held as trust property)	382.2 (+30.2) <+88.6>	476.1 (+24.6) <+93.8>
Loans and bills discounted	44,664.5 (+31.2) <+10,619.2>	46,411.9 (+3.9) <+1,747.3>
Foreign currency assets	6,608.1 (-1.3) <-89.0>	6,369.5 (-3.6) <-238.5>
Total liabilities	486,423.4 (+21.0) <+84,325.0>	524,336.3 (+7.8) <+37,912.8>
Of which:		
Banknotes	99,800.1 (+4.4) <+4,205.3>	104,000.4 (+4.2) <+4,200.2>
Deposits (excluding those of the government)	356,378.8 (+26.0) <+73,439.2>	399,638.3 (+12.1) <+43,259.4>
Deposits of the government	21,750.7 (+15.8) <+2,971.0>	15,124.8 (-30.5) <-6,625.9>
Payables under repurchase agreements	3,425.2 (18.0 times) <+3,235.2>	311.2 (-90.9) <-3,113.9>

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 Program¹

bil. yen

Item	End of fiscal 2015 (Mar. 31, 2016)	End of fiscal 2016 (Mar. 31, 2017)	End of fiscal 2017 (Mar. 31, 2018)
Total amount outstanding	31,407.8	45,710.2	48,018.3
Loans made under the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth	6,985.8	8,713.9	9,354.7
Loans made under the Fund-Provisioning Measure to Stimulate Bank Lending	24,422.0	36,996.3	38,663.6

Note: 1. Includes foreign currency-denominated loans that are not included in "loans and bills discounted."

Table 2

Principal Profits and Losses¹

bil. yen

Item	Fiscal 2016 (Apr. 1, 2016–Mar. 31, 2017)	Fiscal 2017 (Apr. 1, 2017–Mar. 31, 2018)
Operating profits/losses	1,095.2 (+43.6) <+332.6>	1,228.7 (+12.2) <+133.5>
Of which: "Core" operating income ²	1,273.7 <-122.5>	1,310.4 <+36.7>
Net government bond-related gains/losses ³	...	...
Net foreign exchange-related gains/losses ⁴	-148.1 <+260.1>	-211.9 <-63.7>
Net gains/losses on pecuniary trusts (stocks held as trust property)	217.5 <+166.3>	251.2 <+33.7>
Net gains/losses on pecuniary trusts (index-linked exchange-traded funds held as trust property)	172.2 <+67.4>	278.9 <+106.6>
Net gains/losses on pecuniary trusts (Japan real estate investment trusts held as trust property)	13.8 <+3.0>	18.1 <+4.3>
Interest on excess reserve balances under the complementary deposit facility ⁵	-187.3 <+34.3>	-183.6 <+3.6>
Special profits/losses⁶	-387.7 <-142.3>	-338.8 <+48.9>
Of which:		
Net transfer to/from provision for possible losses on bonds transactions	-461.5 <-11.3>	-445.1 <+16.4>
Net transfer to/from provision for possible losses on foreign exchange transactions	74.0 <-130.0>	105.9 <+31.8>
Net income before taxes	707.4 (+36.8) <+190.2>	889.9 (+25.8) <+182.4>
Provision for corporate income tax, inhabitants taxes, and enterprise taxes	200.7 <+94.6>	125.1 <-75.6>
Net income⁷	506.6 (+23.3) <+95.6>	764.7 (+50.9) <+258.1>

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 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 (-209.0 billion yen) and interest income on the balances to which a negative interest rate is applied (25.3 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 2015 (Apr. 1, 2015– Mar. 31, 2016)	Fiscal 2016 (Apr. 1, 2016– Mar. 31, 2017)	Fiscal 2017	First half of	Second half of
				the fiscal year (Apr. 1, 2017– Sept. 30, 2017)	the fiscal year (Oct. 1, 2017– Mar. 31, 2018)
1. Net government bond-related gains/losses	...	...	...	...	...
Of which:					
Gains on sale of Japanese government bonds	...	...	...	...	...
Losses on sale of Japanese government bonds	...	...	...	...	...
2. Net foreign exchange-related gains/losses²	–408.3	–148.1	–211.9	128.8	–340.8
3. Net gains/losses on pecuniary trusts (stocks held as trust property)	51.1	217.5	251.2	115.0	136.2
Of which:					
Dividends and others	53.7	52.2	55.4	26.7	28.7
Losses on impairment	–4.4	–4.3	...	...	...
Net gains/losses on sale	1.8	169.5	195.8	88.2	107.5
4. Net gains/losses on pecuniary trusts (index-linked exchange-traded funds held as trust property)	104.8	172.2	278.9	256.0	22.9
Of which:					
Distributions and others	104.8	172.2	278.9	256.0	22.9
Losses on impairment	...	...	...	...	...
Net gains/losses on sale	...	...	...	...	...
5. Net gains/losses on pecuniary trusts (Japan real estate investment trusts held as trust property)	10.8	13.8	18.1	8.6	9.5
Of which:					
Distributions and others	10.8	13.8	18.1	8.6	9.5
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 2015 (Apr. 1, 2015– Mar. 31, 2016)	Fiscal 2016 (Apr. 1, 2016– Mar. 31, 2017)	Fiscal 2017	First half of the fiscal year	Second half of the fiscal year
				(Apr. 1, 2017– Sept. 30, 2017)	(Oct. 1, 2017– Mar. 31, 2018)
6. "Core" operating income	1,396.3	1,273.7	1,310.4	641.3	669.0
Yen assets	1,326.7	1,197.5	1,220.0	596.7	623.3
Of which:					
Interest on loans and discounts	34.8	9.6	0.0	0.0	0.0
Interest on receivables under resale agreements	–0.0	...	...	...	...
Interest and discounts on Japanese government securities	1,287.5	1,186.9	1,221.1	597.2	623.9
Treasury discount bills	–20.8	–123.0	–69.8	–47.3	–22.5
Japanese government bonds	1,308.3	1,309.9	1,290.9	644.5	646.4
Interest on commercial paper	1.0	–0.3	–0.1	–0.0	–0.0
Interest and discounts on corporate bonds	3.2	1.2	–0.9	–0.4	–0.5
Interest on foreign currency assets	69.6	76.2	90.3	44.6	45.7
7. Interest-bearing assets (average amount outstanding)	358,263.1	441,575.6	494,983.4	486,125.8	503,889.7
Yen assets	351,924.6	435,036.4	488,322.0	479,506.0	497,186.3
Of which:					
Loans and bills discounted	35,164.9	35,498.7	46,204.9	45,087.3	47,328.6
Receivables under resale agreements	1.0	...	...	...	...
Japanese government securities	311,330.8	394,115.1	436,665.2	428,926.4	444,446.6
Treasury discount bills	47,554.0	50,697.0	29,831.7	35,000.9	24,634.0
Japanese government bonds	263,776.7	343,418.1	406,833.5	393,925.4	419,812.5
Commercial paper	2,224.8	2,241.3	2,252.8	2,294.4	2,210.9
Corporate bonds	3,202.9	3,181.1	3,199.0	3,197.8	3,200.2
Foreign currency assets	6,338.4	6,539.1	6,661.4	6,619.7	6,703.4
8. Yield on interest-bearing assets (percent)	0.389	0.288	0.264	0.263	0.266
Yen assets	0.376	0.275	0.249	0.248	0.251
Of which:					
Loans and bills discounted	0.099	0.027	0.000	0.000	0.000
Receivables under resale agreements	–0.120	...	...	...	...
Japanese government securities	0.413	0.301	0.279	0.277	0.281
Treasury discount bills	–0.043	–0.242	–0.234	–0.269	–0.183
Japanese government bonds	0.495	0.381	0.317	0.326	0.308
Commercial paper	0.048	–0.013	–0.004	–0.003	–0.005
Corporate bonds	0.102	0.038	–0.030	–0.027	–0.033
Foreign currency assets	1.098	1.165	1.356	1.345	1.368

Table 4

The Bank's Capital Base and Capital Adequacy Ratio¹

bil. yen, except where otherwise noted

Item	End of fiscal 2015 (Mar. 31, 2016)	End of fiscal 2016 (Mar. 31, 2017)	End of fiscal 2017 (Mar. 31, 2018)	[Reference]	
				Changes from a year earlier	End of the first half of fiscal 2017 (Sept. 30, 2017)
Capital accounts (A)	3,159.1	3,184.5	3,222.7	+38.2	3,184.5
Capital	0.1	0.1	0.1	...	0.1
Legal reserve and others ²	3,159.0	3,184.4	3,222.6	+38.2	3,184.4
Provisions (B)	4,275.4	4,662.8	5,002.0	+339.1	4,955.3
Provision for possible loan losses (excluding special provision for possible loan losses)	...	...	...	...	...
Provision for possible losses on bonds transactions	2,693.4	3,155.0	3,600.1	+445.1	3,383.0
Provision for possible losses on foreign exchange transactions	1,581.9	1,507.8	1,401.9	-105.9	1,572.3
Capital base³ (C) = (A) + (B)	7,434.6	7,847.4	8,224.8	+377.3	8,139.8
Annual average of banknotes issued (D)	92,295.7	97,198.8	101,588.7	+4,389.9	100,166.6
Capital adequacy ratio (C)/(D) × 100 (percent)	8.05	8.07	8.09	+0.02	8.12

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 2016 (Mar. 31, 2017)			End of fiscal 2017 (Mar. 31, 2018)		
	Book value	Market value ²	Difference	Book value	Market value ²	Difference
Japanese government securities	417,711.4	427,342.9	9,631.5	448,326.1	459,028.1	10,702.0
Commercial paper	2,035.7	2,035.7	...	2,057.4	2,057.4	...
Corporate bonds	3,214.4	3,207.5	-6.8	3,192.1	3,185.7	-6.3
Pecuniary trusts ³ (stocks held as trust property)	1,165.5	2,492.3	1,326.8	1,023.8	2,485.5	1,461.7
Pecuniary trusts ³ (index-linked exchange-traded funds held as trust property)	13,161.1	15,930.3	2,769.2	19,338.4	24,484.5	5,146.0
Pecuniary trusts ³ (Japan real estate investment trusts held as trust property)	379.9	459.1	79.2	470.0	514.2	44.1

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, 2018

Item	Value in yen	Unit (except where otherwise noted)
ASSETS		
Gold	441,253,409,037	
Cash	274,310,402,218	
Japanese government securities	448,326,107,324,120	Face value at 438,172,412,200,000 yen
Commercial paper	2,057,433,361,381	Face value at 2,057,400,000,000 yen
Corporate bonds	3,192,117,557,051	Face value at 3,171,600,000,000 yen
Pecuniary trusts (stocks held as trust property)	1,048,895,987,596	
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	18,934,845,109,326	
Pecuniary trusts (Japan real estate investment trusts held as trust property)	476,123,314,723	
Loans and bills discounted	46,411,919,000,000	
Electronic loans	46,411,919,000,000	1,595
Foreign currency assets	6,369,516,422,097	
Foreign currency deposits	1,128,294,451,167	
Foreign currency securities	2,716,237,615,380	
Foreign currency mutual funds	58,235,330,550	
Foreign currency loans	2,466,749,025,000	
Deposits with agents	24,045,314,835	Deposits with 86 agents
Other assets	521,137,257,715	
Bills and checks in process of collection	56,588,173	7
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	42,819,080,560	6
Refund on accrued tax	4,302,872,300	
Accrued interest receivable	444,217,878,187	
Others	14,237,464,131	
Tangible fixed assets	207,853,084,417	
Buildings	97,529,908,898	611,036.68 square meters
Land	82,743,135,513	516,363.89 square meters
Lease assets	8,210,619,191	Number of lease property: 18,356
Construction in progress	6,604,809,352	
Other tangible fixed assets	12,764,611,463	Number of movable property: 10,072
Intangible fixed assets	122,309,624	
Utility rights	122,309,624	
Total assets	528,285,679,854,140	
LIABILITIES		
Banknotes	104,000,474,891,160	
Deposits (excluding those of the government)	399,638,338,405,152	
Current deposits	378,237,940,665,775	1,130
Other deposits	21,400,397,739,377	140
Deposits of the government	15,124,804,613,741	
Treasury deposit	150,000,141,286	
Domestic designated deposit	14,657,400,509,376	
Other government deposits	317,403,963,079	
Payables under repurchase agreements	311,294,637,524	10
Other liabilities	59,637,024,252	
Remittances payable	12,700,369,266	
Taxes payable	7,584,000,000	
Lease liabilities	8,558,825,733	
Others	30,793,829,253	
Provision for retirement benefits	199,757,700,976	
Provision for possible losses on bonds transactions	3,600,127,993,013	
Provision for possible losses on foreign exchange transactions	1,401,912,000,000	
Total liabilities	524,336,347,265,818	
NET ASSETS		
Capital	100,000,000	
Legal reserve	3,184,419,611,234	
Special reserve	13,196,452	
Net income	764,799,780,636	
Total net assets	3,949,332,588,322	
Total liabilities and net assets	528,285,679,854,140	

2. Balance sheet as at March 31, 2018

yen

ASSETS	
Gold	441,253,409,037
Cash	274,310,402,218
Japanese government securities	448,326,107,324,120
Commercial paper	2,057,433,361,381
Corporate bonds	3,192,117,557,051
Pecuniary trusts (stocks held as trust property)	1,048,895,987,596
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	18,934,845,109,326
Pecuniary trusts (Japan real estate investment trusts held as trust property)	476,123,314,723
Loans and bills discounted	46,411,919,000,000
Electronic loans	46,411,919,000,000
Foreign currency assets	6,369,516,422,097
Foreign currency deposits	1,128,294,451,167
Foreign currency securities	2,716,237,615,380
Foreign currency mutual funds	58,235,330,550
Foreign currency loans	2,466,749,025,000
Deposits with agents	24,045,314,835
Other assets	521,137,257,715
Bills and checks in process of collection	56,588,173
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	42,819,080,560
Refund on accrued tax	4,302,872,300
Accrued interest receivable	444,217,878,187
Others	14,237,464,131
Tangible fixed assets	207,853,084,417
Buildings	97,529,908,898
Land	82,743,135,513
Lease assets	8,210,619,191
Construction in progress	6,604,809,352
Other tangible fixed assets	12,764,611,463
Intangible fixed assets	122,309,624
Utility rights	122,309,624
Total assets	528,285,679,854,140
LIABILITIES	
Banknotes	104,000,474,891,160
Deposits (excluding those of the government)	399,638,338,405,152
Current deposits	378,237,940,665,775
Other deposits	21,400,397,739,377
Deposits of the government	15,124,804,613,741
Treasury deposit	150,000,141,286
Domestic designated deposit	14,657,400,509,376
Other government deposits	317,403,963,079
Payables under repurchase agreements	311,294,637,524
Other liabilities	59,637,024,252
Remittances payable	12,700,369,266
Taxes payable	7,584,000,000
Lease liabilities	8,558,825,733
Others	30,793,829,253
Provision for retirement benefits	199,757,700,976
Provision for possible losses on bonds transactions	3,600,127,993,013
Provision for possible losses on foreign exchange transactions	1,401,912,000,000
Total liabilities	524,336,347,265,818
NET ASSETS	
Capital	100,000,000
Legal reserve	3,184,419,611,234
Special reserve	13,196,452
Net income	764,799,780,636
Total net assets	3,949,332,588,322
Total liabilities and net assets	528,285,679,854,140

3. Statement of income for fiscal 2017 (April 1, 2017–March 31, 2018)

yen

Operating income	1,838,331,346,242
Interest on loans and discounts	144,360
Interest on loans	144,360
Interest and discounts on Japanese government securities	1,221,134,715,064
Interest on commercial paper	-104,950,493
Interest and discounts on corporate bonds	-974,041,525
Gains on foreign currency assets	44,701,730,974
Gains on foreign currency mutual funds	3,496,670,638
Interest on foreign currency deposits and loans	41,205,060,336
Other operating income	573,573,747,862
Gains on pecuniary trusts (stocks held as trust property)	251,292,892,384
Gains on pecuniary trusts (index-linked exchange-traded funds held as trust property)	278,940,506,814
Gains on pecuniary trusts (Japan real estate investment trusts held as trust property)	18,186,945,789
Dividends	799,897,457
Fees and commissions	9,593,066,770
Other income	14,760,438,648
Operating expenses	609,540,201,808
Interest on payables under repurchase agreements	-552,635,720
Losses on foreign currency assets	217,151,255,137
Foreign exchange losses	211,927,576,225
Losses on foreign currency securities	5,223,678,912
General and administrative expenses and costs	194,938,517,391
Cost of production of banknotes	51,905,766,000
Administrative expenses for treasury business and Japanese government securities	17,039,239,034
Personnel expenses	51,781,674,073
Expenses for transportation and communications	4,187,078,658
Expenses for maintenance and repairs	2,858,474,397
Other general and administrative expenses and costs	48,662,092,716
Taxes excluding corporate income tax, inhabitants taxes, and enterprise taxes	3,804,475,042
Depreciation and amortization	14,699,717,471
Other general and administrative expenses	198,003,065,000
Interest on excess reserve balances under the complementary deposit facility	183,661,718,937
Fees and commissions paid	105,443,650
Other expenses	14,235,902,413
Operating profits	1,228,791,144,434
Special profits	106,479,334,428
Gains on disposal of fixed assets	62,810
Transfer from provision for possible losses on foreign exchange transactions	105,963,000,000
Other special profits	516,271,618
Special losses	445,306,606,796
Losses on disposal of fixed assets	198,606,796
Transfer to provision for possible losses on bonds transactions	445,108,000,000
Net income before taxes	889,963,872,066
Provision for corporate income tax, inhabitants taxes, and enterprise taxes	125,164,091,430
Net income	764,799,780,636

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.

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	139
More than one year	429
<hr/>	
Total	568

b. Lessor

	mil. yen
Within one year	1
More than one year	35
<hr/>	
Total	37

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 2017	239,491,094,000
Service cost	6,181,220,000
Interest cost	957,733,000
Actuarial differences	2,894,190,430
Retirement benefits paid	-10,308,232,430
Prior service cost	...
Projected benefit obligation at the end of fiscal 2017	239,216,005,000

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

	yen
Projected benefit obligation	239,216,005,000
Fair value of plan assets	...
Unfunded projected benefit obligation	239,216,005,000
Unrecognized actuarial differences	-46,986,300,474
Unrecognized prior service cost	7,527,996,450
Net amount recorded on the balance sheet	199,757,700,976
Prepaid pension cost	...
Provision for retirement benefits	199,757,700,976

3. Retirement benefit cost

	yen
Service cost	6,181,220,000
Interest cost	957,733,000
Expected return on plan assets	...
Amortization of actuarial differences	5,997,536,145
Amortization of prior service cost	-1,158,153,300
Retirement benefit cost	11,978,335,845

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 11, 2018

Auditors' Opinion on the Bank of Japan's Financial Statements for Fiscal 2017

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 2017 indicated below. In our opinion, the financial statements present fairly the state of property and the results of operations for fiscal 2017.

The financial statements comprise the following:
Inventory of property as at March 31, 2018;
Balance sheet as at March 31, 2018; and
Statement of income for fiscal 2017.

Ryuichi Shogan
Toshihiko Fujita
Ryota Yanagihara

Auditors, Bank of Japan

6. Appropriation of net income for fiscal 2017

yen

Net income	764,799,780,636
Appropriations:	
Transfer to legal reserve	38,239,989,032
Dividends, 5 percent of share face value	5,000,000
Payment to the government	726,554,791,604
Total	764,799,780,636

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 2017	Balance at the end of fiscal 2017	Changes during fiscal 2017
1. Gold	441,253,409,037	441,253,409,037	0
2. Cash¹	203,111,546,945	274,310,402,218	71,198,855,273
3. Japanese government securities	417,711,474,033,271	448,326,107,324,120	30,614,633,290,849
Treasury discount bills	40,567,311,358,895	21,758,701,344,755	-18,808,610,014,140
Japanese government bonds	377,144,162,674,376	426,567,405,979,365	49,423,243,304,989
2-year Japanese government bonds	34,835,958,204,187	29,237,164,234,560	-5,598,793,969,627
5-year Japanese government bonds	102,622,057,920,578	111,153,738,875,305	8,531,680,954,727
10-year Japanese government bonds	136,733,565,138,672	162,707,526,065,010	25,973,960,926,338
20-year Japanese government bonds	66,681,399,273,463	80,879,933,788,712	14,198,534,515,249
30-year Japanese government bonds	24,535,529,425,847	30,112,756,738,081	5,577,227,312,234
40-year Japanese government bonds	5,030,473,713,629	6,092,084,940,416	1,061,611,226,787
Floating-rate Japanese government bonds	5,220,977,784,649	4,778,452,860,903	-442,524,923,746
Inflation-indexed bonds	1,484,201,213,351	1,605,748,476,378	121,547,263,027
4. Commercial paper²	2,035,734,736,594	2,057,433,361,381	21,698,624,787
Dematerialized commercial paper	2,035,734,736,594	2,057,433,361,381	21,698,624,787
5. Corporate bonds³	3,214,428,529,244	3,192,117,557,051	-22,310,972,193
6. Pecuniary trusts (stocks held as trust property)⁴	1,188,484,406,613	1,048,895,987,596	-139,588,419,017
Stocks	1,165,545,787,573	1,023,874,328,856	-141,671,458,717
Dividends receivable and others	22,938,619,040	25,021,658,740	2,083,039,700
7. Pecuniary trusts (index-linked exchange-traded funds held as trust property)⁵	12,935,375,253,468	18,934,845,109,326	5,999,469,855,858
Index-linked exchange-traded funds	12,935,375,253,468	18,934,845,109,326	5,999,469,855,858
8. Pecuniary trusts (Japan real estate investment trusts held as trust property)⁶	382,248,139,802	476,123,314,723	93,875,174,921
Japan real estate investment trusts	377,538,733,008	470,062,302,945	92,523,569,937
Distributions receivable	4,709,406,794	6,061,011,778	1,351,604,984
9. Loans and bills discounted	44,664,568,000,000	46,411,919,000,000	1,747,351,000,000
Electronic loans	44,664,568,000,000	46,411,919,000,000	1,747,351,000,000
Loans by Funds-Supplying Operations against Pooled Collateral ⁷	44,664,568,000,000	46,411,919,000,000	1,747,351,000,000
10. Foreign currency assets	6,608,110,818,466	6,369,516,422,097	-238,594,396,369
Foreign currency deposits ⁸	1,033,483,758,461	1,128,294,451,167	94,810,692,706
Foreign currency securities ^{9,10}	3,153,263,293,351	2,716,237,615,380	-437,025,677,971
Foreign currency mutual funds	56,740,771,654	58,235,330,550	1,494,558,896
Foreign currency loans ¹¹	2,364,622,995,000	2,466,749,025,000	102,126,030,000
11. Deposits with agents¹²	20,557,407,037	24,045,314,835	3,487,907,798

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; (4) loans made through the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas; and (5) 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. 136,400,657,347 yen of the amount outstanding of the foreign currency securities at the fiscal year-end comprises loans due to lending/borrowing of securities.

11. The amount outstanding at the beginning of the fiscal year comprises that of loans disbursed pursuant to the special rules for the U.S. dollar lending arrangement to enhance the Growth-Supporting Funding Facility conducted through the Loan Support Program and that of loans arising from the U.S. Dollar Funds-Supplying Operations against Pooled Collateral. The amount outstanding at the fiscal year-end comprises that of loans disbursed pursuant to the special rules for the U.S. dollar lending arrangement to enhance the Growth-Supporting Funding Facility conducted through the Loan Support Program.

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 2017	Balance at the end of fiscal 2017	Changes during fiscal 2017
12. Other assets	482,817,708,962	521,137,257,715	38,319,548,753
Bills and checks in process of collection ¹³	16,335,872	56,588,173	40,252,301
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	48,555,520,981	42,819,080,560	-5,736,440,421
Refund on accrued tax	0	4,302,872,300	4,302,872,300
Accrued interest receivable	406,746,871,832	444,217,878,187	37,471,006,355
Others	11,995,605,913	14,237,464,131	2,241,858,218

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 2017	Increase during fiscal 2017	Decrease during fiscal 2017	Of which:	Balance at the end of fiscal 2017	Cumulative total of depreciation
				Depreciation		
13. Tangible fixed assets¹⁶	201,053,056,570	36,113,117,377	29,313,089,530	13,853,426,348	207,853,084,417	357,537,094,918
Buildings ^{17,18}	93,551,705,085 (611,065.63)	12,089,960,063 (797.45)	8,111,756,250 (826.40)	8,078,903,912 (...)	97,529,908,898 (611,036.68)	330,128,616,515 (...)
Land ¹⁷	82,743,135,513 (516,204.05)	10,288 (532.86)	10,288 (373.02)	...	82,743,135,513 (516,363.89)	... (...)
Lease assets ^{19,20}	5,956,822,432 (20,777)	5,598,837,445 (4,028)	3,345,040,686 (6,449)	3,339,525,203 (...)	8,210,619,191 (18,356)	6,249,700,749 (...)
Construction in progress ²¹	7,915,861,070	14,019,163,930	15,330,215,648	...	6,604,809,352	...
Other tangible fixed assets ^{22,23}	10,885,532,470 (10,264)	4,405,145,651 (282)	2,526,066,658 (474)	2,434,997,233 (...)	12,764,611,463 (10,072)	21,158,777,654 (...)

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 the renovation of and repairs to buildings for the Bank's business operations.

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

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

yen

Item	Balance at the beginning of fiscal 2017	Increase during fiscal 2017	Decrease during fiscal 2017	Of which:	Balance at the end of fiscal 2017	Cumulative total of depreciation
				Depreciation		
14. Intangible fixed assets	127,888,200	1,615,866	7,194,442	7,194,442	122,309,624	860,075,003
Utility rights	127,888,200	1,615,866	7,194,442	7,194,442	122,309,624	860,075,003

Appendix: Details of loans provided through the Loan Support Program

yen

Item	Balance at the beginning of fiscal 2017	Balance at the end of fiscal 2017	Changes during fiscal 2017
Total amount outstanding	45,710,227,995,000	48,018,368,025,000	2,308,140,030,000
Loans made under the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth ⁷	8,713,927,995,000	9,354,768,025,000	640,840,030,000
Loans made under the Fund-Provisioning Measure to Stimulate Bank Lending	36,996,300,000,000	38,663,600,000,000	1,667,300,000,000

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 2017	Balance at the end of fiscal 2017	Changes during fiscal 2017
1. Banknotes	99,800,187,532,462	104,000,474,891,160	4,200,287,358,698
10,000 yen notes	92,369,495,850,000	96,340,556,910,000	3,971,061,060,000
5,000 yen notes	3,074,336,285,000	3,204,580,957,500	130,244,672,500
2,000 yen notes	196,658,161,000	197,570,173,000	912,012,000
1,000 yen notes	4,012,481,897,500	4,111,787,317,500	99,305,420,000
Other banknotes ¹	147,215,338,962	145,979,533,160	-1,235,805,802
2. Deposits (excluding those of the government)	356,378,851,270,284	399,638,338,405,152	43,259,487,134,868
Current deposits	342,755,514,899,028	378,237,940,665,775	35,482,425,766,747
Other deposits ²	13,623,336,371,256	21,400,397,739,377	7,777,061,368,121
3. Deposits of the government	21,750,732,591,836	15,124,804,613,741	-6,625,927,978,095
Treasury deposit	150,000,364,761	150,000,141,286	-223,475
Domestic designated deposit ³	21,348,834,481,149	14,657,400,509,376	-6,691,433,971,773
Other government deposits ⁴	251,897,745,926	317,403,963,079	65,506,217,153
4. Payables under repurchase agreements⁵	3,425,244,243,579	311,294,637,524	-3,113,949,606,055
Other sales of Japanese government securities under repurchase agreements ⁶	3,425,244,243,579	311,294,637,524	-3,113,949,606,055
Of which:			
Under the Securities Lending Facility	2,423,668,097,407	311,294,637,524	-2,112,373,459,883
5. Other liabilities	207,457,263,916	59,637,024,252	-147,820,239,664
Remittances payable	4,902,514,996	12,700,369,266	7,797,854,270
Taxes payable	166,236,000,000	7,584,000,000	-158,652,000,000
Lease liabilities	6,259,806,975	8,558,825,733	2,299,018,758
Others ⁷	30,058,941,945	30,793,829,253	734,887,308

- 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. The balance at the beginning of the fiscal year comprises 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. The balance at the fiscal year-end comprises monetary obligations other than those arising from sales under repurchase agreements of JGBs to the government.
7. 27,127,699,203 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 2017	Increase during fiscal 2017	Decrease during fiscal 2017	Balance at the end of fiscal 2017
6. Provisions⁸	4,860,982,590,574	457,086,335,845	116,271,232,430	5,201,797,693,989
Provision for retirement benefits	198,087,597,561	11,978,335,845	10,308,232,430	199,757,700,976
Provision for possible losses on bonds transactions	3,155,019,993,013	445,108,000,000	0	3,600,127,993,013
Provision for possible losses on foreign exchange transactions	1,507,875,000,000	0	105,963,000,000	1,401,912,000,000
7. Net assets	3,159,198,248,008	25,334,559,678	0	3,184,532,807,686
Capital	100,000,000	0	0	100,000,000
Legal reserve ⁹	3,159,085,051,556	25,334,559,678	0	3,184,419,611,234
Special reserve ¹⁰	13,196,452	0	0	13,196,452

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

3. Details of revenues and expenses for fiscal 2017

a. Operating income

Interest on loans and discounts	
Interest on loans	144,360 yen from electronic loans.
Interest and discounts on Japanese government securities	1,221,134,715,064 yen from interest income on Japanese government securities after adjustment.
Interest on commercial paper	-104,950,493 yen from interest income on commercial paper after adjustment.
Interest and discounts on corporate bonds	-974,041,525 yen from interest income on corporate bonds after adjustment.
Gains on foreign currency assets	
Gains on foreign currency mutual funds	3,496,670,638 yen
Interest on foreign currency deposits and loans	41,205,060,336 yen
Other operating income	
Gains on pecuniary trusts (stocks held as trust property)	251,292,892,384 yen mainly from gains on sales.
Gains on pecuniary trusts (index-linked exchange-traded funds held as trust property)	278,940,506,814 yen mainly from distributions.
Gains on pecuniary trusts (Japan real estate investment trusts held as trust property)	18,186,945,789 yen mainly from distributions.
Dividends	799,897,457 yen for dividends from shares of the Bank for International Settlements held by the Bank.
Fees and commissions	9,593,066,770 yen for fees and commissions for operations regarding Japanese government securities, the Bank of Japan Financial Network System (BOJ-NET), foreign exchange transactions, and other operations.
Other income	14,760,438,648 yen from transfer from provision for retirement benefits and other miscellaneous income.

b. Operating expenses

Interest on payables under repurchase agreements	552,635,720 yen from interest income on sales of Japanese government securities under repurchase agreements.
Losses on foreign currency assets	
Foreign exchange losses	211,927,576,225 yen from losses on foreign currency assets resulting from revaluation following fluctuations in foreign exchange rates.
Losses on foreign currency securities	Total of 49,131,881,752 yen from interest and discounts on foreign currency securities and 57,632,272 yen from related lending fees; and 54,413,192,936 yen of losses arising from the sale, redemption, and revaluation at end-March 2018 of foreign currency securities.
General and administrative expenses and costs	
Cost of production of banknotes	51,905,766,000 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	17,039,239,034 yen from fees and commissions paid to agents of the Bank for administration of treasury business and Japanese government securities.
Personnel expenses	427,637,000 yen for remuneration of the officers; 40,999,884,643 yen for remuneration of the employees; and 10,354,152,430 yen for retirement allowances.
Expenses for transportation and communications	1,918,265,866 yen for expenses for transportation and 2,268,812,792 yen for expenses for communications.
Expenses for maintenance and repairs	2,858,474,397 yen on offices and other premises.
Other general and administrative expenses and costs	1,167,098,756 yen for the cost of expendable supplies; 1,634,921,592 yen for expenses for electricity and water supply; 8,132,801,282 yen for leasing fees for buildings and equipment; 8,612,964,843 yen for expenses for maintenance of buildings and equipment; and 29,114,306,243 yen for miscellaneous expenses.
Taxes excluding corporate income tax, inhabitants taxes, and enterprise taxes	3,804,475,042 yen for taxes and public charges (including fixed-asset tax and urban development tax).
Depreciation and amortization	14,699,717,471 yen on buildings and lease assets.
Other general and administrative expenses	
Interest on excess reserve balances under the complementary deposit facility	183,661,718,937 yen (net difference between interest payment of 209,023,353,468 yen on excess reserve balances to which a positive interest rate is applied and interest income of 25,361,634,531 yen on the balances to which a negative interest rate is applied).
Fees and commissions paid	105,443,650 yen
Other expenses	14,235,902,413 yen for transfer to provision for retirement benefits and other expenses.

c. Special profits

Gains on disposal of fixed assets	62,810 yen for gains on sales of office fixtures and equipment.
Transfer from provision for possible losses on foreign exchange transactions	105,963,000,000 yen
Other special profits	516,271,618 yen for gains from additional interest payments (received) on excess reserve balances under the complementary deposit facility.

d. Special losses

Losses on disposal of fixed assets	198,606,796 yen for losses on disposals of automatic banknote examination machines and other properties.
Transfer to provision for possible losses on bonds transactions	445,108,000,000 yen

e. Net income

Net income before taxes	889,963,872,066 yen
Provision for corporate income tax, inhabitants taxes, and enterprise taxes	125,164,091,430 yen
Net income	764,799,780,636 yen

IV. EXPENSES

With regard to the Bank's statement of accounts for fiscal 2017 (the 133rd fiscal year), the total amount of actual expenses increased by 2.5 percent (4.8 billion yen) to 192.9 billion yen compared to the previous fiscal year. This was due, among other factors, to increases in: "other general and administrative expenses and costs," particularly computerization expenses; and the "cost of fixed-asset purchases," reflecting a rise in expenses related to improvements to the Bank's premises.

1. Statement of accounts for fiscal 2017

yen

Item	Initial budget	Adjusted budget ¹	Actual	Surpluses	Changes from the previous year (actual)
Cost of production of banknotes	51,905,777,000	51,905,777,000	51,905,766,000	11,000	99,992,000
Administrative expenses for treasury business and Japanese government securities	17,904,439,000	17,904,439,000	17,039,239,034	865,199,966	-8,888,219
Personnel expenses	52,852,246,000	52,852,246,000	51,781,674,073	1,070,571,927	542,624,039
Remuneration of the officers	428,282,000	428,282,000	427,637,000	645,000	-1,137,500
Remuneration of the employees	42,222,637,000	41,858,637,000	40,999,884,643	858,752,357	-46,311,421
Retirement allowances	10,201,327,000	10,565,327,000	10,354,152,430	211,174,570	590,072,960
Expenses for transportation and communications	4,685,388,000	4,685,388,000	4,187,078,658	498,309,342	-3,796,120
Expenses for transportation	2,090,418,000	2,090,418,000	1,918,265,866	172,152,134	-2,226,585
Expenses for communications	2,594,970,000	2,594,970,000	2,268,812,792	326,157,208	-1,569,535
Expenses for maintenance and repairs	2,928,083,000	2,928,083,000	2,858,474,397	69,608,603	420,017,498
Other general and administrative expenses and costs	51,807,057,000	51,807,057,000	48,662,092,716	3,144,964,284	2,186,050,989
Cost of expendable supplies	1,393,452,000	1,393,452,000	1,167,098,756	226,353,244	-132,693,622
Expenses for electricity and water supply	2,299,577,000	2,299,577,000	1,634,921,592	664,655,408	-14,627,966
Leasing fees for buildings and equipment	8,368,508,000	8,368,508,000	8,132,801,282	235,706,718	586,356,895
Expenses for maintenance of buildings and equipment	9,144,381,000	9,144,381,000	8,612,964,843	531,416,157	371,107,447
Miscellaneous expenses	30,601,139,000	30,601,139,000	29,114,306,243	1,486,832,757	1,375,908,235
Subtotal	182,082,990,000	182,082,990,000	176,434,324,878	5,648,665,122	3,236,000,187
Cost of fixed-asset purchases	17,053,886,000	17,053,886,000	16,513,002,669	540,883,331	1,537,563,412
Of which:					
Subject to the approval of the Minister of Finance ²	4,505,192,000	4,505,192,000	4,390,150,694	115,041,306	-1,347,601,265
Contingency funds	1,000,000,000	1,000,000,000	0	1,000,000,000	0
Total	200,136,876,000	200,136,876,000	192,947,327,547	7,189,548,453	4,773,563,599
Of which:					
Subject to the approval of the Minister of Finance ²	187,588,182,000	187,588,182,000	180,824,475,572	6,763,706,428	1,888,398,922

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 2017¹

mil. yen

Area of business operation	Expenses	Changes from a year earlier	Share of total (percent)
Issuance of banknotes	82,597	+432	42.4
Monetary policy	23,535	+739	12.1
Financial system policy	17,853	+454	9.2
Payment and settlement systems	30,731	+122	15.8
Services relating to the government ²	40,223	+1,867	20.6
Total	194,939	+3,613	100.0

Notes: 1. Calculated based on "general and administrative expenses and costs" (194.9 billion yen) in the statement of income for fiscal 2017 (the 133rd 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 2017 and at the beginning of fiscal 2018.

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

A. 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 (the 132nd fiscal year) 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.

B. Financial Statements and Other Documents for the First Half of Fiscal 2017

From October through to early November 2017, 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 2017 (the 133rd 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 2017.

C. Financial Statements and Other Documents for Fiscal 2017

In May 2018, 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 2017 as well as the statement of income for the second half of fiscal 2017.

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 2017 as well as the results of operations for the second half of fiscal 2017.

II. Audits of Cash, Securities, and Books

In fiscal 2017, 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 2017, the Auditors conducted on-site audits on 32 branches, 12 of the Bank's local offices in Japan, and 3 overseas representative offices to assess business operations and expenses. They also conducted a total of 186 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 307 examinations of key documents and 4 special on-site visits to the Bank's premises.

APPENDIX 2: THE BANK OF JAPAN'S STRATEGIC PRIORITIES FOR FISCAL 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 89 for the ceiling on the number of full-time employees for fiscal 2018.

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 88 for the budget for expenses for fiscal 2018.

THE BANK OF JAPAN'S BUDGET FOR EXPENSES FOR FISCAL 2018¹

The Bank of Japan's budget for expenses for fiscal 2018 (the 134th 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 2018 marked a decrease of 1.4 percent from the previous year, of which the amount subject to the approval of the Minister of Finance decreased by 0.0 percent. This overall decrease was mainly due to a decrease of 16.7 percent in the cost of fixed-asset purchases, mainly owing to a decline in expenses related to improvements to the Bank's premises. On the other hand, other general and administrative expenses and costs increased by 2.3 percent, mainly due to a rise in computerization expenses.

1. Decided by the Policy Board on March 16, 2018.

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 2018, the Bank sought approval on March 16, 2018. All figures, including those in Table 1, are rounded off to the nearest whole number.

Table 1

Budget for Expenses for Fiscal 2018 (The 134th Fiscal Year)

Item	Initial budget (thous. yen)	Change from the previous year (percent)
Cost of production of banknotes	51,985,763	0.2
Administrative expenses for treasury business and Japanese government securities	17,283,548	-3.5
Personnel expenses	52,651,174	-0.4
Remuneration of the officers	430,729	0.6
Remuneration of the employees	41,918,480	-0.7
Retirement allowances	10,301,965	1.0
Expenses for transportation and communications	4,376,782	-6.6
Expenses for transportation	2,135,496	2.2
Expenses for communications	2,241,286	-13.6
Expenses for maintenance and repairs	2,847,923	-2.7
Other general and administrative expenses and costs	53,019,316	2.3
Cost of expendable supplies	1,282,491	-8.0
Expenses for electricity and water supply	1,975,814	-14.1
Leasing fees for buildings and equipment	7,921,846	-5.3
Expenses for maintenance of buildings and equipment	10,212,711	11.7
Miscellaneous expenses	31,626,454	3.4
Subtotal	182,164,506	0.0
Cost of fixed-asset purchases	14,210,765	-16.7
Of which: Subject to the approval of the Minister of Finance ¹	4,349,154	-3.5
Contingency funds	1,000,000	0.0
Total²	197,375,271	-1.4
Of which: Subject to the approval of the Minister of Finance ¹	187,513,660	-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 30,721,767 thousand yen, a 4.0 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 10,453 person-months (one person-month is the workload equivalent of one person working for one month in system development), and total of approximately 13,440 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 2018⁷**

The Bank has set the ceiling on the number of full-time employees for fiscal 2018 at 4,900.

7. Decided by the Policy Board on March 13, 2018.

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>

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

The Bank of Japan is the central bank of Japan.

日本語 English

Home Help Contact E-mail Service Site Map

Search

About the Bank Monetary Policy Financial System Payments and Markets Banknotes Treasury Funds JGS Services International Finance Research and Studies Statistics Announcements

The Bank's Market Operations

Monetary Base 495,420 billion yen (June 18, 2018)	Current Account Balances at the Bank of Japan 387,070 billion yen (June 18, 2018)
Basic Loan Rate 0.3 % (since December 19, 2008)	Interest Rate Applied to the Complementary Deposit Facility minus 0.1 % (applied to the Policy-Rate Balance, since February 16, 2018)
Uncollateralized Overnight Call Rate (averaged) -0.069 % (June 18, 2018)	Next Monetary Policy Meeting Date July 30 and 31, 2018

Note: P indicates preliminary figures. Bank of Japan Operations

What's New

- Jun. 18, 2018 **Statistics** BOJ Current Account Balances by Sector (May) (XLSX 37KB)
- Jun. 18, 2018 **Monetary Policy** Loan Disbursement under the Fund-Provisioning Measure to SBI...
- Jun. 18, 2018 **Research/Studies** Developments in Real Exports and Real Imports
- Jun. 18, 2018 **Statistics** The Results of BIS International Locational Banking Statistics and Int...
- Jun. 15, 2018 **Research/Studies** (Research Paper) A structural credit risk model based on purchase p...
- Jun. 15, 2018 **Monetary Policy** Statement on Monetary Policy (PDF 22KB)
- Jun. 15, 2018 **Research/Studies** (Research Paper) IMES DPS: Speed Limit Policy and Liquidity Trap...
- Jun. 13, 2018 **Research/Studies** (Research Lab) Determinants of the Natural Rate of Interest in Japan

Search by Topic Services

For Financial Institutions

FAQs

Release Schedule Annual Review

"Price Stability Target" of 2 Percent and "QQE with Yield Curve Control"

Warning against Scams Using the Bank's Name

Releases Related to the Great East Japan Earthquake

Releases Related to the 2016 Kumamoto Earthquake

Highlights

May 10, 2018 **Announcements** Speech by Governor Kuroda at the Kisaragi-kai Meeting (Japan's Economy and Monetary Policy)

Apr. 28, 2018 **Monetary Policy** Outlook for Economic Activity and Prices (April 2018, full text)

Apr. 12, 2018 **Research/Studies** Regional Economic Report (Summary) (Apr. 2018)

Apr. 19, 2018 **Research/Studies** Financial System Report (Apr. 2018)

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. Continually updated to reflect changes.

■ **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.



■ **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 of its history and organizational structure.



Find Us on Social Media

The Bank maintains an active presence on the social networking sites, Twitter and Facebook. The Bank's sites below provide updates concerning releases on the Bank's website. They may also be used by the Bank as extra channels for communication, for example, in cases of emergency.

► **Twitter Account: @Bank_of_Japan_e**

► **Facebook Account: @BankofJapan.en**

For the Bank's social networking site management policy, see: <http://www.boj.or.jp/en/snspolicy.htm>

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.

Time-series data for
BOJ's main statistics

Detailed explanations
on statistics and data
search

BOJ Time-Series Data Search

Beginners' Manual JAPANESE

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

* "BOJ's main time-series statistics" is updated three times on each business day at around 9:00, 12:00, and 15:00 JST. If you wish to obtain the latest data immediately after the release and before these update times, please find them through the "search by statistics" below.

Statistical data search

Search by statistics

Interest Rates on Deposits and Loans Flow of Funds
Financial Markets Other Bank of Japan Statistics
Payment and Settlement TANKAN
Money and Deposits Prices
Loans Public Finance
Balance Sheets of the Bank of Japan and Financial Institutions 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 and notes, as well as related materials and research.



■ 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/foboj.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
<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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