

The Bank's Accounts

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I. SETTLEMENT OF ACCOUNTS FOR THE 121ST FISCAL YEAR¹

On April 25, 2006, the Policy Board finalized the Bank of Japan's financial statements (the inventory of property, balance sheet, and statement of income) for the 121st fiscal year (fiscal 2005: April 1, 2005–March 31, 2006), prepared under Article 52, Paragraph 1 of the Bank of Japan Law, and the statement of income for the second half of the 121st fiscal year (October 1, 2005–March 31, 2006). The Bank submitted these financial statements to the Minister of Finance together with the Executive Auditors' opinion and received the Minister's approval on May 23.

On April 25, 2006, the Policy Board also finalized the schedule for the financial statements for the 121st fiscal year. These were then audited by the Executive Auditors, whose opinion was that the statements duly complemented the financial statements.

The overview of the settlement of accounts for fiscal 2005 is as below.

A. Assets and Liabilities (Table 1)

The balance sheet of the Bank at the end of fiscal 2005 shows that total assets decreased by 3.8 percent (5,654.4 billion yen) from a year earlier to 144,862.9 billion yen, mainly due to a decrease in holdings of Japanese government securities (JGSs).² Total liabilities decreased by 3.9 percent (5,819.1 billion yen) from the previous year to 142,001.7 billion yen, mainly due to decreases in current deposits and deposits of the government.

Detailed developments in the Bank's balance sheet in fiscal 2005 are as follows.

Total assets at the end of March 2006 were down year on year, the first time in seven years that total assets at the fiscal year-end have been down from the previous fiscal year-end. This was mainly because holdings of JGSs decreased by 5.9 percent (93,273.1 billion yen) from a year earlier, reflecting the fact that the amount of JGSs purchased and underwritten by the Bank was less than the amount of those redeemed.

The Bank continued to make efforts to maintain the quality of its balance sheet in terms of liquidity and soundness of assets. Specifically, the Bank continued to underwrite one-year treasury bills (TBs) to refund maturing Japanese government bonds (JGBs) held by the Bank with a view to, for example, protecting the liquidity of its assets. Most

1. The financial statements and the schedule for the financial statements for the first half of the 121st fiscal year (April 1–September 30, 2005) were finalized by the Policy Board on October 28, 2005. The financial statements had received the Minister of Finance's approval on November 22, 2005.

2. JGSs comprise Japanese government bonds (JGBs), treasury bills (TBs), and financing bills (FBs). The term "Japanese government securities" has been renamed from "government securities," which was used in the *Annual Review* prior to the 2006 issue. The definition of the term remains unchanged.

of the one-year TBs underwritten in fiscal 2004 to refund JGBs were sold or redeemed in cash. In order to refund the rest of the one-year TBs again, the Bank underwrote one-year TBs, taking into account the Ministry of Finance's request for the Bank to cooperate in smoothing out the proportion of JGSs reaching maturity. The Bank refunded these TBs again, having concluded that the liquidity of its assets would still be sufficient to conduct money market operations smoothly (see "The Bank's Other Operations" Section III.D on pages 85–87).

Turning to liabilities, the amount outstanding of current account deposits at the Bank was 31,201.5 billion yen at end-March 2006, decreasing by 12.7 percent from a year earlier, as the Bank conducted money market operations in accordance with a new guideline for money market operations decided at the Monetary Policy Meeting (see "Monetary Policy" Section III.A on pages 41–43). The amount outstanding of deposits of the government was 6,569.3 billion yen, decreasing by 13.4 percent from a year earlier, reflecting the management of treasury funds. Meanwhile, the amount outstanding of banknotes issued remained almost unchanged from the previous year, registering 74,978.1 billion yen at end-March 2006, an increase of 0.4 percent from the previous year.

B. Profits and Losses (Table 2)

The Bank's statement of income for fiscal 2005 shows that operating profits increased by 220.4 billion yen to 727.8 billion yen, mainly because net foreign exchange-related gains³ expanded due to a depreciation of the yen.

Special profits amounted to 3.2 billion yen, due to gains on disposal of premises and movable property. Meanwhile, special losses amounted to 168.8 billion yen, due mostly to the transfer of funds that resulted from net foreign exchange-related gains to the provision for possible losses on foreign exchange transactions.

As a result of the above, net income before taxes for the term increased by 147.6 billion yen from the previous year, to 562.1 billion yen. Net income for the term—after subtracting corporate income tax, inhabitants taxes, and enterprise taxes—increased by 139.8 billion yen to 333.8 billion yen.

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

Table 1

Principal Assets and Liabilities¹

bil. yen

Item	End of fiscal 2004 (March 31, 2005)	End of fiscal 2005 (March 31, 2006)
Total Assets	150,517.3 (+0.8) <+1,135.3>	144,862.9 (-3.8) <-5,654.4>
Of which:		
Receivables under resale agreements	5,228.4 (-53.0) <-5,905.3>	5,189.7 (-0.7) <-38.6>
Bills purchased	37,609.9 (+38.2) <+10,390.7>	37,814.4 (+0.5) <+204.5>
Japanese government securities	99,123.9 (-0.9) <-898.0>	93,273.1 (-5.9) <-5,850.8>
Pecuniary trusts (stocks held as trust property)	2,022.5 (+3.8) <+73.8>	1,996.9 (-1.3) <-25.5>
Total Liabilities	147,820.9 (+0.7) <+988.5>	142,001.7 (-3.9) <-5,819.1>
Of which:		
Banknotes	74,671.9 (+4.6) <+3,268.6>	74,978.1 (+0.4) <+306.1>
Deposits (excluding those of the government)	36,128.6 (-2.5) <-944.6>	31,414.1 (-13.0) <-4,714.4>
Deposits of the government	7,587.1 (-42.0) <-5,493.3>	6,569.3 (-13.4) <-1,017.8>
Payables under repurchase agreements	24,452.0 (+23.0) <+4,566.7>	24,357.7 (-0.4) <-94.3>
Bills sold	1,793.2 (-30.2) <-777.6>	1,400.5 (-21.9) <-392.7>

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

Table 2

Principal Profits and Losses¹

bil. yen

Item	Fiscal 2004 (April 1, 2004–March 31, 2005)	Fiscal 2005 (April 1, 2005–March 31, 2006)
Operating profits/losses (A – B) ²	507.4 (...) <+529.7>	727.8 (+43.4) <+220.4>
Operating income (A)	784.6 <–984.0>	1,006.1 <+221.4>
Operating expenses (B)	277.2 <–1,513.7>	278.2 <+1.0>
Of which: “Core” operating income ³	536.6 <–1,093.8>	626.1 <+89.4>
Net government bond-related gains/losses ⁴	23.2 <+1,153.1>	23.5 <+0.3>
Net foreign exchange-related gains/losses ⁵	192.7 <+520.1>	336.2 <+143.5>
Special profits/losses (C – D) ²	–92.9 <–163.8>	–165.6 <–72.7>
Special profits (C)	3.9 <–67.2>	3.2 <–0.7>
Special losses (D)	96.9 <+96.5>	168.8 <+71.9>
Of which:		
Net transfer to/from provision for possible losses on securities transactions	... <...>	... <...>
Net transfer to/from provision for possible losses on foreign exchange transactions ⁶	–96.3 <–96.3>	–168.1 <–71.7>
Net income before taxes	414.4 (8.5 times) <+365.8>	562.1 (35.6) <+147.6>
Provision for corporate income tax, inhabitants taxes, and enterprise taxes	220.4 <+202.5>	228.3 <+7.8>
Net income	194.0 (3.5 times) <+138.5>	333.8 (72.0) <+139.8>

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

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

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

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

C. Transfers to/from Provisions

In preparing its financial statements, the Bank made transfers of funds to various provisions in accordance with rules and regulations including the Bank of Japan Law, the Bank's by-laws, and the Accounting Rules decided by the Policy Board on October 9, 1998. The following transfers were made in fiscal 2005.

1. Provision for possible loan losses

The provision for possible loan losses is maintained in accordance with Article 16 of the Accounting Rules. This provision is divided into two categories: the general provision and the special provision. Regarding the former, the Accounting Rules prescribe that it should be based on the past experience of the ratio of actual loan losses to total loans (the loan-loss ratio). In fiscal 2005, however, no transfer to the provision was made because the Bank had experienced no loan losses, which are the basis for calculating the loan-loss ratio, in the recent past.

With regard to the special provision, the exception clause of Article 16 of the Accounting Rules stipulates that the Bank's Policy Board should decide the necessity for and size of the special provision for possible losses on specific loans. In fiscal 2005, however, no transfer to the special provision was made because the Bank had no such loans.

2. Provision for retirement benefits

In fiscal 2001, the Bank introduced accounting for retirement benefits with a view to clarifying the Bank's financial situation, given the changes in accounting practices in the private sector. In line with the Accounting Rules, the Bank decided that appropriation for the provision for retirement benefits for fiscal 2005 would be based on the estimated amount of retirement benefit obligations at end-March 2006.

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

The Bank appropriates provisions for possible losses on securities transactions and foreign exchange transactions, pursuant to such rules and regulations as Article 15 of the Bank of Japan Law Enforcement Order, Articles 9, 10, and 11 of the Enforcement Regulations of the Bank of Japan Law, and Article 18 of the Bank's Accounting Rules. The amount of funds transferred to/from these provisions is determined by the following criteria, which are prescribed in Article 18 of the Accounting Rules: (1) for both securities transactions and foreign exchange transactions, about 50 percent of net gains/losses should be transferred to/from the relevant provisions; and (2) the level of the Bank's capital adequacy ratio should also be taken into consideration.⁴

4. For the definition of the Bank's capital adequacy ratio, see page 119.

In fiscal 2005, net gains on JGS transactions and foreign exchange transactions were recorded. In line with the above-mentioned rules and regulations, the Bank decided to transfer about 50 percent of net gains on foreign exchange transactions to the provision for possible losses on such transactions, taking into account the level of the Bank's capital adequacy ratio.

4. Provision for unrealized losses on stockholdings

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

In fiscal 2005, the Bank did not appropriate a provision for unrealized losses on stockholdings, as the market value of the Bank's total stockholdings exceeded their book value.

D. Appropriation of Net Income

On April 25, 2006, the Bank decided on the appropriation of net income under Article 53 of the Bank of Japan Law at its Policy Board meeting. In accordance with Paragraph 1 of the above Article, the Bank transferred 16.6 billion yen to the legal reserve (5 percent of net income for the fiscal year). After paying dividends totaling 5 million yen (5 percent of the face value of shares) upon the approval of the Minister of Finance in accordance with Article 53, Paragraph 4 of the Law, the Bank paid the remainder of its net income to the government (317.1 billion yen).

With regard to the appropriation of net income for the 121st fiscal year (see Section I.G.6 on page 126), the opinion of the Executive Auditors was that the Bank's net income was properly appropriated in accordance with Article 53 of the Law.

E. Preliminary Payment to the Government

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

On October 28, 2005, the Bank decided at its Policy Board meeting not to make a preliminary payment to the government. This was because, depending on financial conditions in the second half of fiscal 2005, there was a possibility that the Bank would make no final payment to the government due to a significant drop in its income.⁵

5. No preliminary payments have been made to the government in the past.

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

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

The capital adequacy ratio, after the appropriation of net income, rose to 7.40 percent at the end of fiscal 2005 (Table 3). This was the result of the following measures. First, the Bank transferred about 50 percent of net gains on foreign exchange transactions to the provision for possible losses on such transactions (see Section I.C.3 on pages 116–117). And second, it transferred to the legal reserve the amount required under Article 53, Paragraph 1 of the Bank of Japan Law (see Section I.D on page 117).

Table 3

The Bank's Capital Base and Capital Adequacy Ratio¹

bil. yen, except where otherwise noted

Item	End of fiscal 2003 (March 31, 2004)	End of fiscal 2004 (March 31, 2005)	End of fiscal 2005 (March 31, 2006)	Changes from a year earlier	[Reference]
					End of the first half of fiscal 2005 (September 30, 2005)
Capital accounts (A)	2,502.3	2,527.3	2,543.9	+16.6	2,527.3
Capital	0.1	0.1	0.1	...	0.1
Legal reserve and others ²	2,502.2	2,527.2	2,543.8	+16.6	2,527.2
Provisions (B)	2,672.7	2,769.1	2,937.2	+168.1	2,843.2
Provision for possible loan losses (excluding special provision for possible loan losses)
Provision for possible losses on securities transactions	2,243.3	2,243.3	2,243.3	...	2,243.3
Provision for possible losses on foreign exchange transactions	429.3	525.7	693.9	+168.1	599.9
Capital base³ (A) + (B) = (C)	5,175.0	5,296.4	5,481.2	+184.8	5,370.6
Annual average of banknotes issued (D)	70,526.0	72,029.3	73,985.7	+1,956.3	73,473.9
Capital adequacy ratio (C)/(D) × 100 (percent)	7.33	7.35	7.40	+0.05	7.30

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

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

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

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

Capital adequacy ratio

$$= (\text{capital} + \text{legal reserve}^6 + \text{special reserve}^7 + \text{general provision for possible loan losses}^8 + \text{provision for possible losses on securities transactions} + \text{provision for possible losses on foreign exchange transactions}) / (\text{period average of Bank of Japan notes issued}).$$

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

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

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

G. Financial Statements

1. Inventory of property as at March 31, 2006

Item	Value in yen	Unit (except where otherwise noted)
ASSETS		
Gold	441,253,409,037	
Cash	219,707,746,375	
Receivables under resale agreements	5,189,764,385,754	37
Bills purchased	37,814,400,000,000	798
Japanese government securities	93,273,125,903,616	Face value at 91,634,982,000,000 yen
Asset-backed securities	106,498,657,556	Face value at 106,500,000,000 yen
Pecuniary trusts (stocks held as trust property)	1,996,961,833,545	
Loans and bills discounted	30,000,000,000	
Electronic loans	30,000,000,000	1
Foreign currency assets	4,997,549,865,203	
Foreign currency deposits	57,106,716,593	
Foreign currency securities	4,798,178,387,438	
Foreign currency mutual funds	37,230,628,535	
Foreign currency pecuniary trusts	105,034,132,637	
Deposits with agents	92,454,127,477	Deposits with 96 agents
Other assets	474,009,494,662	
Bills and checks in process of collection	4,110,181,282	42
Capital subscription to the Deposit Insurance Corporation, and the Agricultural and Fishery Cooperative Savings Insurance Corporation	225,000,000	2
Capital subscription to an international financial institution	15,278,374,364	1
Provision of funds to the Deposit Insurance Corporation's "Jusen account"	100,000,000,000	1
Provision of funds to the New Financial Stabilization Fund	20,000,000,000	1
Withdrawn cash to be returned to the government	72,689,216,723	6
Accrued interest receivable	189,107,174,138	
Others	72,599,548,155	
Premises and movable property	227,213,221,230	
Land, buildings, and movable property	226,516,782,070	Land: (area) 726,376.24 square meters (value) 82,905,561,727 yen Buildings: (area) 648,220.22 square meters (value) 125,931,469,391 yen Movable property: 12,072
Construction in progress	299,048,222	
Lease deposits and intangible	397,390,938	
Total assets	144,862,938,644,455	
LIABILITIES		
Banknotes	74,978,125,068,094	
Deposits (excluding those of the government)	31,414,192,341,763	
Current deposits	31,201,506,527,869	1,225
Other deposits	212,685,813,894	124
Deposits of the government	6,569,351,570,693	
Treasury deposit	150,000,110,757	
Domestic designated deposit	6,122,691,900,772	
Other government deposits	296,659,559,164	
Payables under repurchase agreements	24,357,721,785,879	50
Bills sold	1,400,500,000,000	12
Other liabilities	161,075,875,016	
Remittances payable	7,329,625,890	
Unearned interest and discounts	523,355,071	
Taxes payable	116,947,000,000	
Others	36,275,894,055	
Provision for retirement benefits	183,564,330,885	
Provision for possible losses on securities transactions	2,243,348,993,013	
Provision for possible losses on foreign exchange transactions	693,902,000,000	
Total liabilities	142,001,781,965,343	
CAPITAL ACCOUNTS		
Capital	100,000,000	
Legal reserve	2,527,193,679,349	
Special reserve	13,196,452	
Net income	333,849,803,311	
Total capital accounts	2,861,156,679,112	
Total liabilities and capital accounts	144,862,938,644,455	

2. Balance sheet as at March 31, 2006

yen

ASSETS	
Gold	441,253,409,037
Cash	219,707,746,375
Receivables under resale agreements	5,189,764,385,754
Bills purchased	37,814,400,000,000
Japanese government securities	93,273,125,903,616
Asset-backed securities	106,498,657,556
Pecuniary trusts (stocks held as trust property)	1,996,961,833,545
Loans and bills discounted	30,000,000,000
Electronic loans	30,000,000,000
Foreign currency assets	4,997,549,865,203
Foreign currency deposits	57,106,716,593
Foreign currency securities	4,798,178,387,438
Foreign currency mutual funds	37,230,628,535
Foreign currency pecuniary trusts	105,034,132,637
Deposits with agents	92,454,127,477
Other assets	474,009,494,662
Bills and checks in process of collection	4,110,181,282
Capital subscription to the Deposit Insurance Corporation, and the Agricultural and Fishery Cooperative Savings Insurance Corporation	225,000,000
Capital subscription to an international financial institution	15,278,374,364
Provision of funds to the Deposit Insurance Corporation's "Jusen account"	100,000,000,000
Provision of funds to the New Financial Stabilization Fund	20,000,000,000
Withdrawn cash to be returned to the government	72,689,216,723
Accrued interest receivable	189,107,174,138
Others	72,599,548,155
Premises and movable property	227,213,221,230
Land, buildings, and movable property	226,516,782,070
Construction in progress	299,048,222
Lease deposits and intangible	397,390,938
Total assets	144,862,938,644,455
LIABILITIES	
Banknotes	74,978,125,068,094
Deposits (excluding those of the government)	31,414,192,341,763
Current deposits	31,201,506,527,869
Other deposits	212,685,813,894
Deposits of the government	6,569,351,570,693
Treasury deposit	150,000,110,757
Domestic designated deposit	6,122,691,900,772
Other government deposits	296,659,559,164
Payables under repurchase agreements	24,357,721,785,879
Bills sold	1,400,500,000,000
Other liabilities	161,075,875,016
Remittances payable	7,329,625,890
Unearned interest and discounts	523,355,071
Taxes payable	116,947,000,000
Others	36,275,894,055
Provision for retirement benefits	183,564,330,885
Provision for possible losses on securities transactions	2,243,348,993,013
Provision for possible losses on foreign exchange transactions	693,902,000,000
Total liabilities	142,001,781,965,343
CAPITAL ACCOUNTS	
Capital	100,000,000
Legal reserve	2,527,193,679,349
Special reserve	13,196,452
Net income	333,849,803,311
Total capital accounts	2,861,156,679,112
Total liabilities and capital accounts	144,862,938,644,455

3. Statement of income for the 121st fiscal year (April 1, 2005–March 31, 2006)

yen

Operating income	1,006,133,751,953
Interest on loans and discounts	902,885
Interest on loans	902,885
Interest on receivables under resale agreements	205,757,000
Discounts on bills purchased	1,120,664,197
Interest and discounts on Japanese government securities	430,459,685,946
Interest and discounts on asset-backed securities	14,325,655
Gains on sale of Japanese government securities	24,529,073,911
Gains on foreign currency assets	438,409,483,073
Foreign exchange gains	336,290,121,686
Gains on foreign currency securities	98,818,371,402
Gains on foreign currency mutual funds	1,526,125,174
Interest on foreign currency deposits and loans	1,774,864,811
Other operating income	111,393,859,286
Gains on pecuniary trusts (stocks held as trust property)	54,800,846,997
Dividends	604,103,804
Fees and commissions	46,067,721,122
Other income	9,921,187,363
Operating expenses	278,282,682,749
Interest on payables under repurchase agreements	333,815,544
Discounts paid on bills sold	41,071,017
Losses on sale of Japanese government securities	876,207,648
Losses on foreign currency assets	878,189,316
Losses on foreign currency pecuniary trusts	878,189,316
General and administrative expenses and costs	230,718,531,322
Cost of production of banknotes	61,737,716,000
Administrative expenses for treasury business and Japanese government securities	39,946,778,513
Personnel expenses	49,215,104,503
Expenses for transportation and communications	5,877,531,746
Expenses for maintenance and repairs	1,397,193,303
Other general and administrative expenses and costs	51,142,138,756
Taxes excluding corporate income tax, inhabitants taxes, and enterprise taxes	4,191,645,205
Depreciation and amortization	17,210,423,296
Other general and administrative expenses	45,434,867,902
Fees and commissions paid	162,556,160
Other expenses	45,272,311,742
Operating profits	727,851,069,204
Special profits	3,211,229,608
Gains on disposal of premises and movable property	3,211,229,608
Special losses	168,894,816,328
Losses on disposal of premises and movable property	749,816,328
Transfer to provision for possible losses on foreign exchange transactions	168,145,000,000
Net income before taxes	562,167,482,484
Provision for corporate income tax, inhabitants taxes, and enterprise taxes	228,317,679,173
Net income	333,849,803,311

4. Summary of significant accounting policies

a. Securities

Yen-denominated bonds and commercial paper (CP) 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.

Stockholdings are valued at cost determined by the moving-average method.

Impairment procedures will be applied for asset-backed securities and stocks whose market value has fallen considerably.

Securities held as trust property in pecuniary trusts⁹ are valued in accordance with the procedures prescribed above according to the type of securities.

b. Premises and equipment

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 after April 1, 1998, at a rate based on the Corporation Tax Law.

(2) Leasehold improvements and equipment

Depreciation is computed by the declining-balance method at a rate based on the Corporation Tax Law.

(3) Others

Depreciation is computed in accordance with the Corporation Tax Law.

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.

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.

⁹ Includes (1) "money trusts," where the beneficiaries entrust money 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 as trust property, and at the end of the term receive securities or other forms of property in which the money has been invested.

(2) Provision for retirement benefits

Appropriation for the provision for retirement benefits is based on the estimated amount of retirement benefit obligations at the fiscal year-end.

Unrecognized actuarial differences are amortized from the following fiscal year by the straight-line method over a certain number of years, within the average remaining service period (ten years) of employees prevailing at the time when the differences arise.

An unrecognized net obligation arising from the application of the new accounting standard, which amounted to 158,412,228,000 yen, is being amortized equally over a period of five years.

(3) Provisions for possible losses on securities transactions and foreign exchange transactions

Provisions for possible losses on securities transactions and for possible losses on foreign exchange transactions are maintained pursuant to the following rules and regulations: Article 15 of the Bank of Japan Law Enforcement Order; Articles 9, 10, and 11 of the Enforcement Regulations of the Bank of Japan Law; and Article 18 of the Bank's Accounting Rules.

(4) Provision for unrealized losses on stockholdings

A provision for unrealized losses on stockholdings is appropriated when the market value is less than the book value, in an amount equivalent to the difference between these.

e. Significant changes in the accounting standard

The Bank of Japan decided to introduce impairment accounting for fixed assets from fiscal 2005 in line with the asset-impairment accounting standards established by the Business Accounting Council of the Financial Services Agency (FSA) on August 9, 2002.

Impairment procedures were not applied in fiscal 2005.

Explanatory Notes to Accounting for Retirement Benefits¹

1. Projected benefit obligation			yen
Projected benefit obligation	(A)	-202,862,326,000	
Fair value of plan assets	(B)	...	
<hr/>			
Unfunded projected benefit obligation	(C) = (A) + (B)	-202,862,326,000	
Unrecognized actuarial differences	(D)	19,297,995,115	
Unrecognized prior service cost	(E)	...	
Unrecognized transitional obligation	(F)	...	
<hr/>			
Net amount recorded on the balance sheet	(G) = (C) + (D) + (E) + (F)	-183,564,330,885	
Prepaid pension cost	(H)	...	
<hr/>			
Provision for retirement benefits	(G) - (H)	-183,564,330,885	
2. Pension expenses			yen
Service costs		4,985,889,000	
Interest costs		4,218,497,000	
Expected return on plan assets		...	
Amortization of actuarial differences		4,108,742,398	
Amortization of prior service cost		...	
Amortization of transitional obligation		31,682,445,600	
Others (such as extra retirement benefits)		...	
<hr/>			
Pension expenses		44,995,573,998	
3. Assumptions			
Discount rate		2.0%	
Expected rate of return on plan assets		...	
Method of attributing the projected benefits to periods of service		Straight-line method	
Amortization period of actuarial differences		10 years	
Amortization period of service cost		...	
Amortization period of transitional obligation		5 years	

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

5. Executive Auditors' opinion¹⁰

May 2, 2006

**Executive Auditors' Opinion on the Bank of Japan's Financial Statements
for the 121st Fiscal Year**

Pursuant to Article 52, Paragraph 1 of the Bank of Japan Law (Law No. 89, 1997), we have audited the financial statements of the Bank of Japan for the 121st fiscal year indicated below. In our opinion, the financial statements present fairly the state of property and the results of operations for the 121st fiscal year.

The financial statements comprise the following:
Inventory of property as at March 31, 2006;
Balance sheet as at March 31, 2006; and
Statement of income for the 121st fiscal year.

Toshiharu Murayama
Sanya Suzuki
Yasutada Sasaki

Executive Auditors, Bank of Japan

6. Appropriation of net income for the 121st fiscal year

yen

Net income	333,849,803,311
Appropriations:	
Transfer to legal reserve	16,692,490,166
Dividends, 5 percent of share face value	5,000,000
Payment to the government	317,152,313,145
Total	333,849,803,311

¹⁰ This presents a translation, for convenience only, of the original report issued in Japanese.

H. Schedule for the Financial Statements for the 121st Fiscal Year

1. Details of assets

yen

Item	Balance at the beginning of the fiscal year	Balance at the end of the fiscal year	Changes during the fiscal year
1. Gold	441,253,409,037	441,253,409,037	0
2. Cash¹	267,111,081,311	219,707,746,375	-47,403,334,936
3. Receivables under resale agreements²	5,228,435,360,314	5,189,764,385,754	-38,670,974,560
Purchases of Japanese government securities under repurchase agreements	2,744,450,150,564	2,815,865,998,403	71,415,847,839
Purchases of commercial paper under repurchase agreements	2,483,985,209,750	2,373,898,387,351	-110,086,822,399
4. Bills purchased	37,609,900,000,000	37,814,400,000,000	204,500,000,000
5. Japanese government securities	99,123,927,195,747	93,273,125,903,616	-5,850,801,292,131
Financing bills and treasury bills	33,658,898,377,866	32,798,773,183,038	-860,125,194,828
Financing bills	7,629,090,584,809	6,332,403,529,428	-1,296,687,055,381
Treasury bills	26,029,807,793,057	26,466,369,653,610	436,561,860,553
Japanese government bonds	65,465,028,817,881	60,474,352,720,578	-4,990,676,097,303
2-year Japanese government bonds	9,357,590,920,991	6,051,725,177,370	-3,305,865,743,621
5-year Japanese government bonds	9,995,563,843,718	11,102,064,648,454	1,106,500,804,736
6-year Japanese government bonds	2,017,693,624,584	669,953,298,236	-1,347,740,326,348
10-year Japanese government bonds	32,020,965,222,034	29,697,435,600,756	-2,323,529,621,278
20-year Japanese government bonds	11,873,234,206,554	12,953,173,995,762	1,079,939,789,208
Other Japanese government bonds ³	199,981,000,000	0	-199,981,000,000
6. Asset-backed securities	83,099,617,627	106,498,657,556	23,399,039,929
Asset-backed bonds	100,000,000	0	-100,000,000
Asset-backed commercial paper	82,999,617,627	106,498,657,556	23,499,039,929
7. Pecuniary trusts (stocks held as trust property)⁴	2,022,529,362,820	1,996,961,833,545	-25,567,529,275
Stocks	2,004,784,973,270	1,973,659,044,580	-31,125,928,690
Dividends receivable and others	17,744,389,550	23,302,788,965	5,558,399,415
8. Loans and bills discounted	4,000,000,000	30,000,000,000	26,000,000,000
Electronic loans	4,000,000,000	30,000,000,000	26,000,000,000
9. Foreign currency assets	4,523,078,432,029	4,997,549,865,203	474,471,433,174
Foreign currency deposits ⁵	32,926,458,400	57,106,716,593	24,180,258,193
Foreign currency securities ^{6,7}	4,468,328,970,268	4,798,178,387,438	329,849,417,170
Foreign currency mutual funds	21,823,003,361	37,230,628,535	15,407,625,174
Foreign currency pecuniary trusts	0	105,034,132,637	105,034,132,637
10. Deposits with agents⁸	415,124,151,456	92,454,127,477	-322,670,023,979

Notes: 1. Coins reserved for circulation.

2. Monetary obligations arising from the purchase of JGSs and CP under repurchase agreements.

3. Government compensation bonds held by the Bank.

4. Stocks purchased from financial institutions through a trust bank, and other trust properties.

5. Deposits held at foreign central banks and the Bank for International Settlements.

6. Includes securities issued by foreign governments.

7. 1,579,920,635,493 yen of the amount outstanding of the foreign currency securities at the fiscal year-end comprises loans due to lending/borrowing of securities.

8. 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 the fiscal year	Balance at the end of the fiscal year	Changes during the fiscal year
11. Other assets	567,597,867,992	474,009,494,662	-93,588,373,330
Bills and checks in process of collection ⁹	6,833,380,718	4,110,181,282	-2,723,199,436
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 ¹⁰	12,715,067,265	15,278,374,364	2,563,307,099
Provision of funds to the Deposit Insurance Corporation's "Jusen account" ¹¹	100,000,000,000	100,000,000,000	0
Provision of funds to the New Financial Stabilization Fund ¹²	20,000,000,000	20,000,000,000	0
Withdrawn cash to be returned to the government ¹³	93,964,095,181	72,689,216,723	-21,274,878,458
Accrued interest receivable	204,929,037,573	189,107,174,138	-15,821,863,435
Others	128,931,287,255	72,599,548,155	-56,331,739,100

Notes: 9. Checks and bills received as cash and in process of collection.

10. A subscription to the Bank for International Settlements.

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

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

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

yen

Item	Balance at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	Of which:	Balance at the end of the fiscal year	Cumulative total of depreciation
				Depreciation		
12. Premises and movable property¹⁴	231,307,318,679	18,012,511,200	22,106,608,649	16,060,077,207	227,213,221,230	269,931,728,015
Land ¹⁵	79,866,949,057 (736,448.84)	3,045,188,950 (5,634.03)	6,576,280 (15,706.63)	...	82,905,561,727 (726,376.24)	...
Buildings ^{15,16}	132,594,755,731 (655,591.95)	4,961,152,029 (248.67)	11,624,438,369 (7,620.40)	11,298,465,985 (...)	125,931,469,391 (648,220.22)	241,899,410,277 (...)
Movable property ^{16,17}	18,028,876,776 (12,384)	4,858,865,941 (205)	5,207,991,765 (517)	4,712,162,110 (...)	17,679,750,952 (12,072)	27,390,829,488 (...)
Construction in progress ¹⁸	403,555,163	5,104,574,410	5,209,081,351	...	299,048,222	...
Lease deposits and intangible	413,181,952	42,729,870	58,520,884	49,449,112	397,390,938	641,488,250

Notes: 14. "..." indicates that figures are not applicable.

15. Figures in parentheses for "land" and "buildings" show areas in square meters.

16. Repairs to the buildings for the Bank's business operations were the main factor responsible for the increase in "buildings." Purchase of new automatic banknote examination machines was the main factor responsible for the increase in "movable property."

17. Figures in parentheses for "movable property" are the number of pieces of movable property.

18. An increase in "construction in progress" was mainly due to the repairs to the buildings for the Bank's business operations, and the decrease was mainly due to the debit and transfer of funds to "buildings" as the repairs to the buildings for the Bank's business operations had been completed.

2. Details of liabilities and capital accounts

yen

Item	Balance at the beginning of the fiscal year	Balance at the end of the fiscal year	Changes during the fiscal year
1. Banknotes	74,671,935,692,360	74,978,125,068,094	306,189,375,734
10,000 yen notes	67,701,521,575,000	68,436,282,310,000	734,760,735,000
5,000 yen notes	2,483,523,775,000	2,522,660,115,000	39,136,340,000
2,000 yen notes	838,396,419,000	433,762,076,000	-404,634,343,000
1,000 yen notes	3,483,756,954,500	3,422,597,563,000	-61,159,391,500
Other banknotes ⁷	164,736,968,860	162,823,004,094	-1,913,964,766
2. Deposits (excluding those of the government)	36,128,603,741,784	31,414,192,341,763	-4,714,411,400,021
Current deposits	35,756,250,174,069	31,201,506,527,869	-4,554,743,646,200
Current deposits of financial institutions ²	34,820,734,542,062	29,862,129,425,312	-4,958,605,116,750
Other current deposits of nonfinancial institutions ³	935,515,632,007	1,339,377,102,557	403,861,470,550
Other deposits ⁴	372,353,567,715	212,685,813,894	-159,667,753,821
3. Deposits of the government	7,587,171,368,925	6,569,351,570,693	-1,017,819,798,232
Treasury deposit	150,000,097,746	150,000,110,757	13,011
Domestic designated deposit ⁵	7,069,110,299,185	6,122,691,900,772	-946,418,398,413
Other government deposits ⁶	368,060,971,994	296,659,559,164	-71,401,412,830
4. Payables under repurchase agreements⁷	24,452,067,102,646	24,357,721,785,879	-94,345,316,767
Sales of Japanese government bonds under repurchase agreements to the government	22,314,246,933,275	20,845,735,741,009	-1,468,511,192,266
Sales of treasury bills and financing bills under repurchase agreements to foreign central banks and other foreign entities	1,606,226,725,431	2,910,798,592,550	1,304,571,867,119
Sales of Japanese government bonds under repurchase agreements to financial institutions	531,593,443,940	601,187,452,320	69,594,008,380
5. Bills sold	1,793,200,000,000	1,400,500,000,000	-392,700,000,000
6. Other liabilities	271,478,208,782	161,075,875,016	-110,402,333,766
Remittances payable	7,208,124,769	7,329,625,890	121,501,121
Unearned interest and discounts	128,788,758	523,355,071	394,566,313
Taxes payable	210,104,000,000	116,947,000,000	-93,157,000,000
Others	54,037,295,255	36,275,894,055	-17,761,401,200

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

2. Deposits held by financial institutions including institutions such as *tanshi* companies and securities finance companies.

3. Deposits held by institutions, for example, securities companies.

4. Deposits held by foreign central banks and others.

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

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

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

yen

Item	Balance at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	Balance at the end of the fiscal year
7. Provisions⁸	2,916,513,736,787	213,140,573,998	8,838,986,887	3,120,815,323,898
Provision for retirement benefits	147,407,743,774	44,995,573,998	8,838,986,887	183,564,330,885
Provision for possible losses on securities transactions	2,243,348,993,013	0	0	2,243,348,993,013
Provision for possible losses on foreign exchange transactions	525,757,000,000	168,145,000,000	0	693,902,000,000
8. Capital accounts	2,502,345,635,711	24,961,240,090	0	2,527,306,875,801
Capital	100,000,000	0	0	100,000,000
Legal reserve ⁹	2,502,232,439,259	24,961,240,090	0	2,527,193,679,349
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 Law.

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

3. Details of revenues and expenses

a. Operating income

Interest on loans and discounts	
Interest on loans	902,885 yen from electronic loans.
Interest on receivables under resale agreements	42,296,083 yen from interest income on purchase of Japanese government securities under resale agreements and 163,460,917 yen from interest income on purchase of commercial paper under resale agreements.
Discounts on bills purchased	1,120,664,197 yen
Interest and discounts on Japanese government securities	430,459,685,946 yen from interest income on Japanese government securities after an adjustment.
Interest and discounts on asset-backed securities	14,325,655 yen from interest income on asset-backed securities after an adjustment.
Gains on sale of Japanese government securities	269,971,606 yen from gains on sale of financing bills and treasury bills and 24,259,102,305 yen from those of Japanese government bonds.
Gains on foreign currency assets	
Foreign exchange gains	336,290,121,686 yen from gains on foreign currency assets resulting from fluctuations in foreign exchange rates during the fiscal year and arising from revaluation at the end of the fiscal year.
Gains on foreign currency securities	Total of 191,135,253,490 yen from interest and discounts on foreign currency securities and 1,444,521,531 yen from lending fees on them; and 93,761,403,619 yen of losses arising from sale, redemption, and revaluation at end-March 2006 of foreign currency securities.
Gains on foreign currency mutual funds	1,526,125,174 yen
Interest on foreign currency deposits and loans	1,774,864,811 yen from interest income on foreign currency deposits held at foreign central banks and the Bank for International Settlements.
Other operating income	
Gains on pecuniary trusts (stocks held as trust property)	54,800,846,997 yen from gains arising from dividends.
Dividends	604,103,804 yen for dividends from shares of the Bank for International Settlements held by the Bank.
Fees and commissions	46,067,721,122 yen for fees and commissions for operations regarding Japanese government securities, the BOJ-NET, foreign exchange transactions, and other operations.
Other income	9,921,187,363 yen from transfer from provision for retirement benefits and other miscellaneous income.

b. Operating expenses

Interest on payables under repurchase agreements	333,815,544 yen for interest payment on sale of Japanese government securities under repurchase agreements.
Discounts paid on bills sold	41,071,017 yen
Losses on sale of Japanese government securities	200,865,578 yen for losses on sale of financing bills and treasury bills and 675,342,070 yen for those of Japanese government bonds.
Losses on foreign currency assets	878,189,316 yen
General and administrative expenses and costs	
Cost of production of banknotes	61,737,716,000 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	39,946,778,513 yen from fees and commissions paid to agents of the Bank for administration of treasury business and Japanese government securities.
Personnel expenses	442,267,500 yen for remuneration of the executives; 39,864,011,116 yen for remuneration of the staff; and 8,908,825,887 yen for retirement benefits.
Expenses for transportation and communications ¹	2,302,941,422 yen for transportation and 3,574,590,324 yen for communications.
Expenses for maintenance and repairs	1,397,193,303 yen on offices and other premises.
Other general and administrative expenses and costs	1,615,292,714 yen for the cost of expendable supplies; 2,071,318,447 yen for expenses for electricity and water supply; 12,583,001,448 yen for leasing fees for buildings and equipment; 8,879,424,086 yen for expenses for maintenance of buildings and equipment; and 25,993,102,061 yen for miscellaneous expenses.
Taxes, excluding corporate income tax, inhabitants taxes, and enterprise taxes	4,191,645,205 yen for taxes and public charges (including fixed-asset tax and urban development tax).
Depreciation and amortization	17,210,423,296 yen on buildings and movable property.
Other general and administrative expenses	
Fees and commissions paid	162,556,160 yen
Other expenses	45,272,311,742 yen for interest on transfers to provision for retirement benefits, domestic designated deposit, and other expenses.

Note: 1. Although it has become apparent that business trip expenses have been paid in excess in past fiscal years, the amount overpaid is not included in "expenses for transportation" or other items because it is not yet confirmed and is not expected to be significant.

c. Special profits

Gains on disposal of premises and movable property	3,211,229,608 yen for gains on sale of land for the Bank's premises and other properties.
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d. Special losses

Losses on disposal of premises and movable property	749,816,328 yen for losses on disposal of automatic banknote examination machines and other properties.
Transfer to provision for possible losses on foreign exchange transactions	168,145,000,000 yen

e. Net income

Net income before taxes	562,167,482,484 yen
Provision for corporate income tax, inhabitants taxes, and enterprise taxes	228,317,679,173 yen
Net income	333,849,803,311 yen

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

A. Introduction of Impairment Accounting for Fixed Assets

The Bank of Japan decided to introduce impairment accounting for fixed assets from fiscal 2005 in line with the asset-impairment accounting standards established by the Business Accounting Council of the FSA on August 9, 2002.

B. Changes in Accounting Rules Accompanying the Entrustment of Foreign Currency Assets

The Bank decided at its Policy Board meeting held on November 29, 2005 to make the following amendments to the Accounting Rules of the Bank of Japan before the Bank entrusted the investment decisions regarding part of its foreign currency-denominated assets to external entities.

Article 13 shall be amended as follows (sections underlined have been added while those crossed out have been deleted).

(Standards and methods for valuation of securities)

At the end of the first half of every fiscal year and of the full fiscal year, securities shall be valued as follows.

- (1) Yen-denominated bonds and commercial paper shall be valued at amortized cost determined by the moving-average method.
 - (2) Foreign currency-denominated bonds and foreign currency-denominated mutual funds shall be valued at market value.
 - (3) Stockholdings (~~including stocks held as trust property in pecuniary trusts~~) shall be valued at cost determined by the moving-average method.
2. Impairment procedures shall be applied for asset-backed securities and stocks whose market value has fallen considerably, at the ends of the first half of the fiscal year and of the full fiscal year.

3. Securities held as trust property in pecuniary trusts¹ shall be valued in accordance with procedures prescribed in the preceding two paragraphs according to the type of securities.

(Supplementary Provision)

The above amendments shall become effective from the accounting of fiscal year 2005, the 121st fiscal year of the Bank, which starts in April 2005.

Note: 1. Includes (1) "money trusts," where the beneficiaries entrust money 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 as trust property, and at the end of the term receive securities or other forms of property in which the money has been invested.

III. SETTLEMENT OF ACCOUNTS FOR GENERAL AND ADMINISTRATIVE EXPENSES AND COSTS FOR THE 121ST FISCAL YEAR

A. Overview

On April 25, 2006, the Bank finalized its settlement of accounts for general and administrative expenses and costs for the 121st fiscal year at its Policy Board meeting. Regarding general and administrative expenses and costs subject to the approval of the Minister of Finance under Article 51, Paragraph 1 of the Bank of Japan Law, the Bank submitted the annual report on the settlement of accounts, with the Executive Auditors' opinion attached, to the Minister of Finance for authorization (as prescribed in Article 52, Paragraph 2 of the Bank of Japan Law). The settlement of accounts for the purchase of premises used for the Bank's business operations is not subject to the Minister's authorization, but it was also audited by the Executive Auditors, who approved it as fairly presenting the expenses for such purchases.

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

The settlement of accounts for general and administrative expenses and costs (excluding the cost of fixed-asset purchases and contingency funds) for fiscal 2005 decreased by 0.1 percent (0.2 billion yen) to 209.3 billion yen compared to the previous year.¹⁷ The details of the above year-on-year changes are as follows.

a. Increasing factors

- (1) "Other general and administrative expenses and costs" increased by 2.0 billion yen. This was due to increases in leasing fees for buildings and equipment and in expenses for the maintenance of buildings and equipment that rose as a result of the introduction of equipment and programs for system development.
- (2) "Administrative expenses for treasury business and Japanese government securities" increased by 0.4 billion yen overall. Although fees and commissions paid to the Bank's agents for treasury funds services fell after national universities and other public organizations became incorporated administrative agencies, this was more than cancelled out by the rise in fees and commissions accompanying an increase in redemptions of JGSs.

¹⁷ Figures hereafter are rounded to the nearest 0.1 billion yen.

b. Decreasing factor

The “cost of production of banknotes” decreased by 3.0 billion yen due to the decrease in the unit cost of banknote production.

The surplus amounted to 13.0 billion yen compared to the initial budget, due mainly to smaller-than-budgeted expenses for the “other general and administrative expenses and costs” and the “cost of production of banknotes.”

2. Cost of fixed-asset purchases and contingency funds

The settlement of accounts for the “cost of fixed-asset purchases” was 10.2 billion yen, a decrease of 20.2 percent (2.6 billion yen) from the previous year, mainly because the cost of purchasing land for the renovation of the Bank of Japan Naha branch was no longer included.

The surplus amounted to 3.6 billion yen compared to the initial budget. This was due mainly to the delay in the renovation of flats for the Bank’s staff and the decrease in expenses for purchasing banknote examination machines.

No contingency funds were used in fiscal 2005.

B. Annual Report on Settlement of Accounts

1. Settlement of accounts for the 121st fiscal year

yen

Item	Initial budget	Use of contingency funds	Diversion of funds	Adjusted budget ¹	Settlement of accounts	Surpluses	Changes from the previous year's settlement of accounts
Cost of production of banknotes	64,495,972,000	0	0	64,495,972,000	61,737,716,000	2,758,256,000	-2,961,106,000
Administrative expenses for treasury business and Japanese government securities	42,084,478,000	0	0	42,084,478,000	39,946,778,513	2,137,699,487	386,354,365
Personnel expenses	50,692,712,000	0	0	50,692,712,000	49,215,104,503	1,477,607,497	144,074,046
Remuneration of the executives	445,544,000	0	0	445,544,000	442,267,500	3,276,500	-778,200
Remuneration of the staff	41,056,917,000	0	0	41,056,917,000	39,864,011,116	1,192,905,884	145,332,652
Retirement allowances	9,190,251,000	0	0	9,190,251,000	8,908,825,887	281,425,113	-480,406
Expenses for transportation and communications	6,421,412,000	0	0	6,421,412,000	5,877,531,746	543,880,254	216,063,037
Expenses for transportation	2,367,938,000	0	0	2,367,938,000	2,302,941,422	64,996,578	132,517,373
Expenses for communications	4,053,474,000	0	0	4,053,474,000	3,574,590,324	478,883,676	83,545,664
Expenses for maintenance and repairs	1,868,506,000	0	0	1,868,506,000	1,397,193,303	471,312,697	64,499,110
Other general and administrative expenses and costs	56,764,416,000	0	0	56,764,416,000	51,142,138,756	5,622,277,244	1,958,465,752
Cost of expendable supplies	2,062,968,000	0	0	2,062,968,000	1,615,292,714	447,675,286	-119,369,192
Expenses for electricity and water supply	2,231,192,000	0	0	2,231,192,000	2,071,318,447	159,873,553	-51,063,224
Leasing fees for buildings and equipment	13,968,592,000	0	0	13,968,592,000	12,583,001,448	1,385,590,552	1,420,494,572
Expenses for maintenance of buildings and equipment	9,465,436,000	0	0	9,465,436,000	8,879,424,086	586,011,914	711,189,791
Miscellaneous expenses	29,036,228,000	0	0	29,036,228,000	25,993,102,061	3,043,125,939	-2,786,195
Subtotal	222,327,496,000	0	0	222,327,496,000	209,316,462,821	13,011,033,179	-191,649,690
Cost of fixed-asset purchases	13,833,724,000	0	0	13,833,724,000	10,248,706,932	3,585,017,068	-2,599,297,136
Of which: Subject to the approval of the Minister of Finance ²	8,603,541,000	0	0	8,603,541,000	6,111,776,730	2,491,764,270	849,257,951
Contingency funds	1,000,000,000	0	0	1,000,000,000	0	1,000,000,000	0
Total	237,161,220,000	0	0	237,161,220,000	219,565,169,753	17,596,050,247	-2,790,946,826
Of which: Subject to the approval of the Minister of Finance ²	231,931,037,000	0	0	231,931,037,000	215,428,239,551	16,502,797,449	657,608,261

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. Annual report for the settlement of accounts for the fiscal year concerned is compiled and submitted to the Minister of Finance.

2. Executive Auditors' opinion¹²

May 2, 2006

Executive Auditors' Opinion on the Bank of Japan's Annual Report on Settlement of Accounts for the 121st Fiscal Year

Pursuant to Article 52, Paragraph 2 of the Bank of Japan Law (Law No. 89, 1997), we have audited the annual report on settlement of accounts of the Bank of Japan for the 121st fiscal year. In our opinion, the report presents fairly the general and administrative expenses and costs for the 121st fiscal year.

Toshiharu Murayama
Sanya Suzuki
Yasutada Sasaki

Executive Auditors, Bank of Japan

¹² This presents a translation, for convenience only, of the original report issued in Japanese.

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

General and administrative expenses and costs decreased by 1.4 billion yen overall in fiscal 2005 from a year earlier. This was because administrative expenses associated with the issuance of banknotes declined sharply as the cost of banknote production fell, although those for operations related to payment and settlement systems increased due mainly to an increase in expenses for system development.

Table 4

General and Administrative Expenses and Costs by Area of Business Operation¹

mil. yen

Area of business operation	General and administrative expenses and costs	Changes from a year earlier	Share of total (percent)
Issuance of banknotes	97,464	-3,138	42.2
Monetary policy	21,514	395	9.3
Financial system policy	18,780	92	8.1
Payment and settlement systems	28,596	1,912	12.4
Services relating to the government ²	64,365	-700	27.9
Total	230,719	-1,440	100.0

Notes: 1. Calculated based on "general and administrative expenses and costs" (230.7 billion yen) in the statement of income for the 121st fiscal year. Figures are rounded to the nearest million yen, thus they are not necessarily equal to the total of relevant items listed in the above table.

General and administrative expenses and costs for the Bank's various business and organizational divisions (international finance, research and statistics, external relations activities, and organizational management), which contribute jointly to each of the above areas of business operation, are amortized equally and included in the relevant sections of the above table.

2. Services provided by the Bank, specifically those relating to treasury funds, JGSs, and others.

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