



ANNUAL REVIEW 2013

BANK OF JAPAN



BANK OF JAPAN

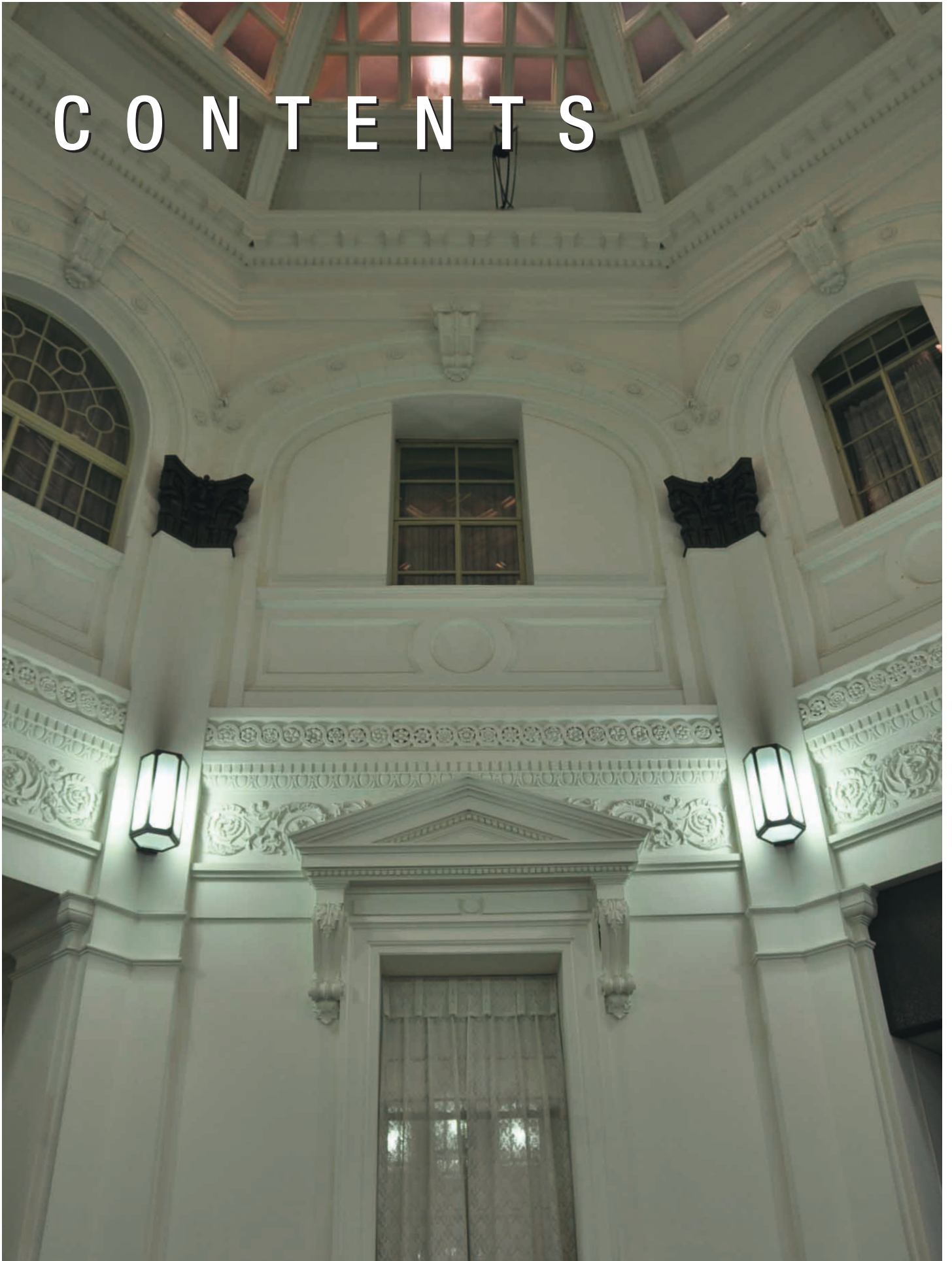
ANNUAL REVIEW 2013

Year Ended March 31, 2013

OUR POLICY AND OPERATIONS



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A portrait of a middle-aged man with grey hair and glasses, wearing a dark blue pinstriped suit, a white shirt, and a red tie with white polka dots. He is sitting in a black leather office chair behind a dark wood desk. He is holding a blue folder or book. On the desk in front of him are several other books or folders in green, red, and black. The background is a dark wood-paneled wall.

**FOREWORD BY
THE GOVERNOR**

**BANK OF JAPAN**

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 introduced in January 2013 the "price stability target" of 2 percent in terms of the year-on-year rate of change in the consumer price index (CPI), and then in early April, decided to introduce quantitative and qualitative monetary easing. The Bank works to fulfill the two missions by conducting, besides monetary policy, business operations in areas ranging from financial system and bank examination, payment and settlement systems, market infrastructure, international finance, banknotes, treasury funds, Japanese government securities, to public communications. The Bank pursues its policies through the precise and deliberate execution of this wide range of business 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 2012 and the *Annual Review 2013* have been drawn up and released to explain to readers the implementation of the Bank's business operations during fiscal 2012. Throughout the year, the Bank continued to address various issues and move forward with a number of action plans, while ensuring the timely conduct of its business operations and organizational management in view of changes in circumstances. The Bank will proceed with its efforts as the country's central bank to achieve the sustainable growth and development of Japan's economy. I hope this year's *Annual Review* will help readers to gain an overview of the Bank's efforts.

A handwritten signature in black ink, reading 'Haruhiko Kuroda'.

Haruhiko Kuroda
Governor of the Bank of Japan

About the Bank of Japan

I. Core Purposes

II. Capital

III. The Bank's Officers

IV. Organization

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

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 2013, 55,008,000 yen is subscribed by the government, and the rest by the private sector (Table 2).¹

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

III. THE BANK'S OFFICERS

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

The Governor, Deputy Governors, and Members of the Policy Board are appointed by the Cabinet, subject to the consent of the House of Representatives and the House of Councillors. Auditors are appointed by the Cabinet. Executive Directors and Counsellors are appointed by the Minister of Finance based on the Board's recommendation.⁵

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

2. Stipulated by Article 53, paragraph 4.

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

4. Stipulated by Article 16, paragraph 2.

5. Stipulated by Article 23.

The terms of office are five years for the Governor, Deputy Governors, and Members of the Policy Board; four years for Auditors and Executive Directors; and two years for Counsellors.⁶ The Bank's officers, excluding Executive Directors, are not dismissed against their will during their terms of office, except in the

cases prescribed in the Act, such as the formal commencement of bankruptcy proceedings against them.⁷

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

6. Stipulated by Article 24.

7. Stipulated by Article 25.

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

Table 1

History of the Bank of Japan

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

Table 2

Subscribers by Category

Subscribers	Amount of subscription (thous. yen) ¹	Percentage of the total subscription (%)
The government	55,008	55.0
The private sector	44,991	45.0
Individuals	39,003	39.0
Financial institutions	2,219	2.2
Public organizations	191	0.2
Securities companies	97	0.1
Other firms	3,479	3.5
Total	100,000	100.0

Note: 1. Rounded down to the nearest 1,000 yen. As of the end of March 2013.

Table 3

Duties and Powers of the Bank's Officers

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

Policy Board Members¹



Standing from left to right: Takehiro Sato, Sayuri Shirai, Ryuzo Miyao, Yoshihisa Morimoto, Koji Ishida, and Takahide Kiuchi
Seated from left to right: Kikuo Iwata, Haruhiko Kuroda, and Hiroshi Nakaso

Haruhiko Kuroda

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

Date of Birth

October 25, 1944

Education

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

1967 Joined Japan's Ministry of Finance (MOF)

1987 Director, International Organizations Division, International Finance Bureau

1988 Secretary to the Minister of Finance

1989 Director, International Tax Affairs Division, Tax Bureau

1990 Director, Income Tax and Property Tax Policy Division, Tax Bureau

1991 Director, Co-ordination Division, Tax Bureau

1993 Regional Commissioner, Osaka Regional Taxation Bureau, National Tax Agency

1994 Deputy Director-General, International Finance Bureau, MOF

1996 President, Institute of Fiscal and Monetary Policy

1997 Director-General, International Finance Bureau

1998 Director-General, International Bureau

1999 Vice Minister of Finance for International Affairs

2003 Special Advisor to the Cabinet and Professor, Graduate School of Economics,
Hitotsubashi University

2005 President, Asian Development Bank

2013 Present position

Note: 1. Members are as of August 20, 2013.

Kikuo Iwata *Deputy Governor*

Date of Birth October 3, 1942
Education The University of Tokyo (1966, B.A. in Economics; 1969, M.A. in Economics; and 1973, completed a Ph.D. Program in Economics)

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

Ryuzo Miyao

Date of Birth July 3, 1964
Education Kobe University (1987, B.A. in Economics and 1989, M.A. in Economics) Harvard University (1994, Ph.D. in Economics)

1989 Research Associate, Kobe University
1995 Associate Professor, Kobe University
2003 Professor, Kobe University
2008 Director, Research Institute for Economics and Business Administration, Kobe University
2010 Present position

Sayuri Shirai

Date of Birth January 2, 1963
Education Keio University (1987, B.A. in Sociology and 1989, M.A. in Economics) Columbia University (1993, Ph.D. in Economics)

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

Takehiro Sato

Date of Birth August 2, 1961
Education Kyoto University (1985, B.A. in Economics)

1985 Joined The Sumitomo Bank, Ltd.
1999 Joined Morgan Stanley Japan, Ltd.
2006 Executive Director, Chief Economist for Japan, Morgan Stanley Japan Securities Co., Ltd. (MSJS)⁵
2010 Managing Director, Chief Economist for Japan, Head of Japan Interest Rate Strategy, MSJS
2012 Managing Director, Chief Economist for Japan, Head of Japan Fixed Income Research, Morgan Stanley MUFG Securities Co., Ltd.⁶
Present position

Hiroshi Nakaso *Deputy Governor*

Date of Birth October 12, 1953
Education The University of Tokyo (1978, B.A. in Economics)

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

Yoshihisa Morimoto

Date of Birth June 25, 1944
Education The University of Tokyo (1967, B.A. in Law)

1967 Joined The Tokyo Electric Power Company, Incorporated (TEPCO)
1998 General Manager, Pricing & Power Contract Department, TEPCO
2001 Director and General Manager, Marketing & Customer Relations Department, TEPCO
2002 Managing Director, TEPCO
2004 Executive Vice President and General Manager, Marketing & Sales Division, TEPCO
2007 Vice Chairman, The Federation of Electric Power Companies of Japan, and Director, TEPCO
2010 Present position

Koji Ishida

Date of Birth June 22, 1947
Education The University of Tokyo (1970, B.A. in Economics)

1970 Joined The Sumitomo Bank, Ltd.
2001 Managing Director and General Manager, Planning Department, The Sumitomo Bank, Ltd.
Managing Director and General Manager, Corporate Planning Department, Sumitomo Mitsui Banking Corporation (SMBC)²
2004 Senior Managing Director (Representative Director), Sumitomo Mitsui Financial Group, Inc. (SMFG)³
2006 President, SMBC Leasing Co., Ltd.
2007 President, Sumitomo Mitsui Finance and Leasing Co., Ltd. (SMFL)⁴
2011 Present position

Takahide Kiuchi

Date of Birth November 29, 1963
Education Waseda University (1987, B.A. in Economics)

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

Notes: 2. Established in 2001 through merger of The Sumitomo Bank, Ltd. and The Sakura Bank, Ltd.

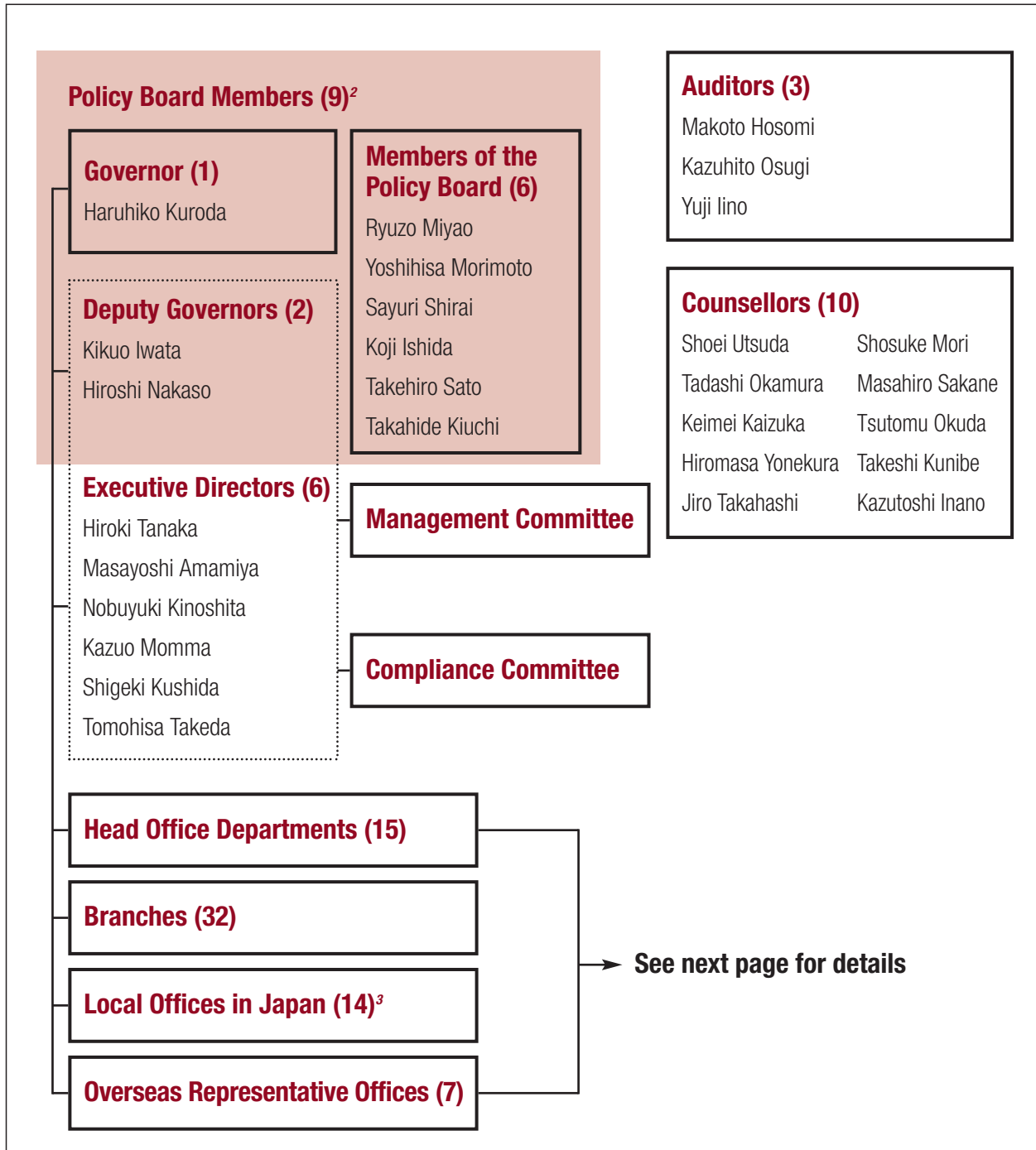
3. Established in 2002 as a holding company, and SMBC then became a wholly-owned subsidiary of SMFG.

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

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

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

IV. ORGANIZATION

Organization Chart of the Bank¹

Notes: 1. As of August 20, 2013.

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	Nobuyasu Yoshioka (Director-General) Seiichi Shimizu (Director-General, Senior Secretary to the Governor)
Internal Auditors' Office	Yasuhiro Hayasaki (Director-General)
Monetary Affairs Department	Shinichi Uchida (Director-General)
Financial System and Bank Examination Department	Kimihito Etoh (Director-General) Tatsushi Kurihara (Director-General for Bank Examination)
Payment and Settlement Systems Department	Shuhei Aoki (Director-General)
Financial Markets Department	Hiromi Yamaoka (Director-General)
Research and Statistics Department	Eiji Maeda (Director-General)
International Department	Haruyuki Toyama (Director-General)
Currency Issue Department	Toru Umemori (Director-General)
Operations Department	Takeshi Nakamura (Director-General)
Information System Services Department	Ryuichi Shogan (Director-General)
Public Relations Department	Yoshiki Tanji (Director-General)
Personnel and Corporate Affairs Department	Norio Shimizu (Director-General)
Administration Department	Seikou Hattori (Director-General)
Institute for Monetary and Economic Studies	Tomoo Yoshida (Director-General)

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

Functions of Committees/Departments/Offices

COMMITTEES/DEPARTMENTS/OFFICES

Management Committee

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

Compliance Committee

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

Secretariat of the Policy Board

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

Internal Auditors' Office

Audits the Bank's business operations.

Monetary Affairs Department

Plans and formulates monetary policy measures.

Financial System and Bank Examination

Department

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

Payment and Settlement Systems Department

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

Financial Markets Department

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

Research and Statistics Department

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

International Department

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

Currency Issue Department

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

Operations Department

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

Information System Services Department

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

Public Relations Department

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

Personnel and Corporate Affairs Department

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

Administration Department

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

Institute for Monetary and Economic Studies

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

OTHER OFFICES

Branches

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

Local Offices in Japan

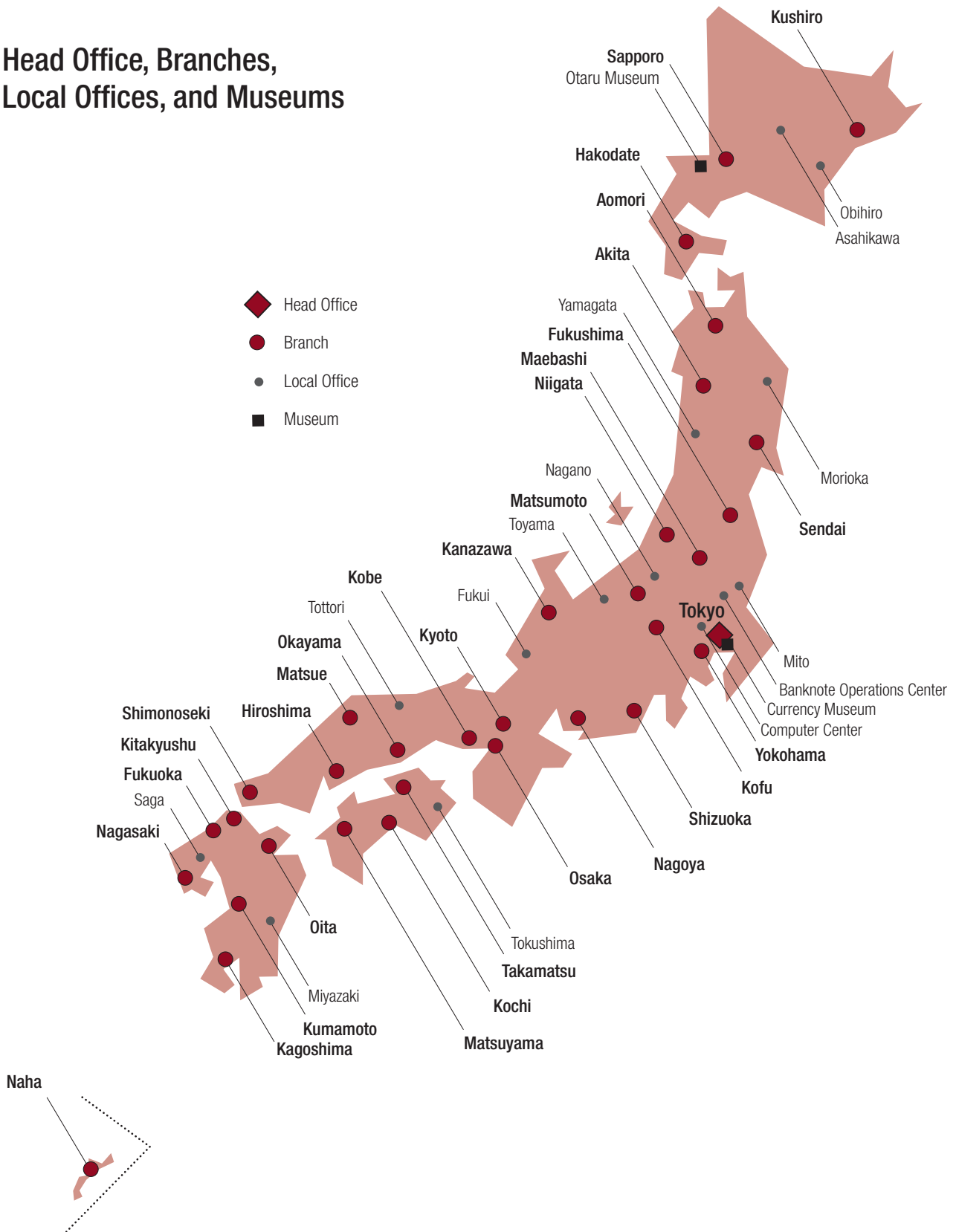
The computer center in Fuchu City, Tokyo, operates the Bank's systems. The banknote operations center in Toda City, Saitama Prefecture, receives, pays, and stores banknotes. The other twelve local offices handle some of the operations of the Head Office or branches.

Overseas Representative Offices

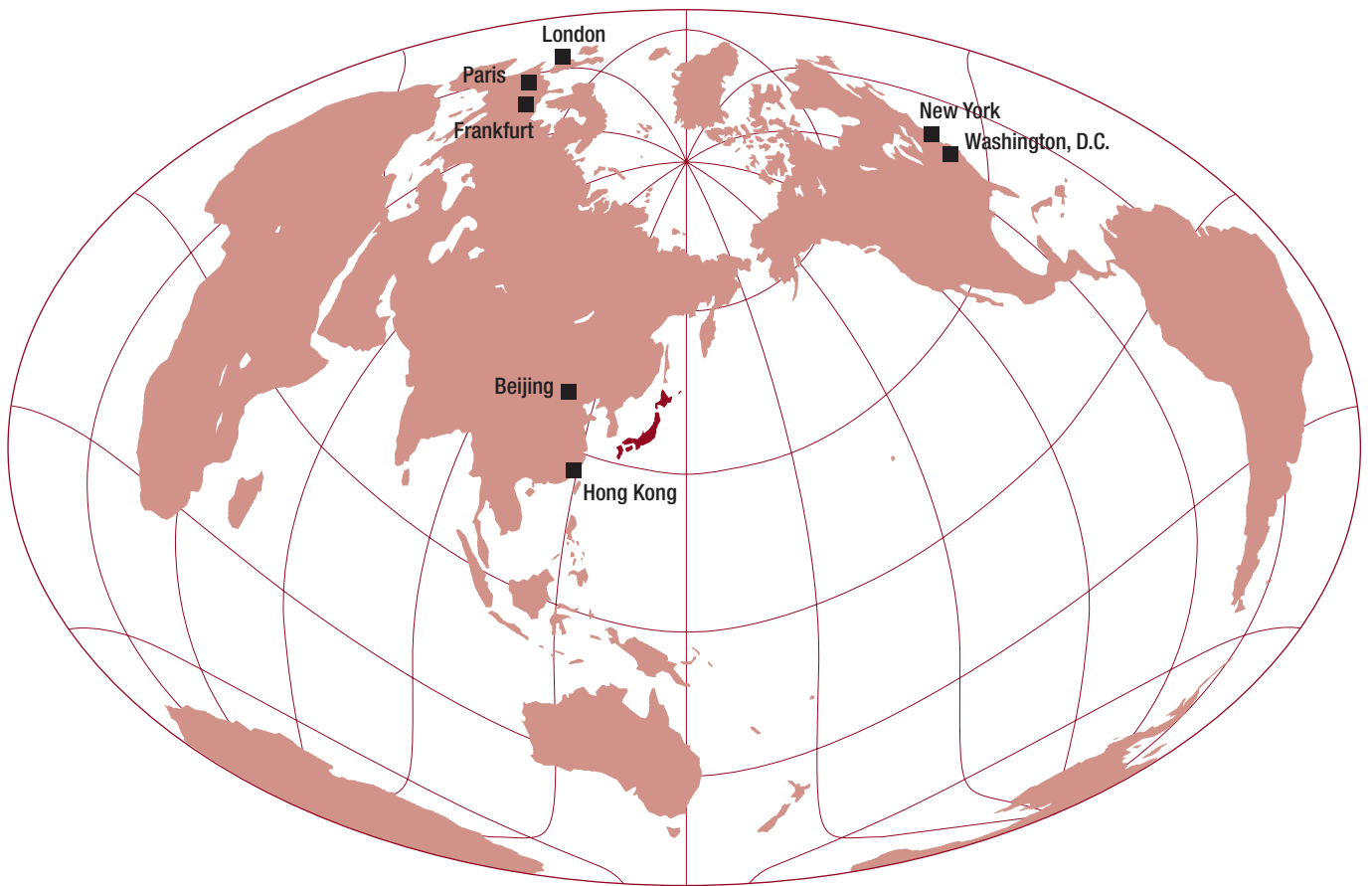
The seven overseas representative offices perform a liaison function, gather information, and conduct research.

The Bank's Offices

Head Office, Branches, Local Offices, and Museums



Overseas Representative Offices¹



Note: 1. For details, see page 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, with the aim of achieving price stability and thereby contributing to the sound development of the national economy, as stipulated in Article 2 of the Bank of Japan Act (hereafter the Act). Monetary policy is decided by the Policy Board at Monetary Policy Meetings (MPMs), and money market operations—the Bank's day-to-day provision and absorption of funds in the market—are carried out based on the guideline decided at each MPM. The Bank held 14 MPMs in fiscal 2012.

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

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

The Bank, pursuant to Article 54, paragraph 1 of the Act, prepares the *Semiannual Report on Currency and Monetary Control* approximately every six months, covering matters related to the conduct of monetary policy (those listed in the items of Article 15, paragraph 1 of the Act) and business operations that the Bank has conducted based thereon, and submits it to the Diet through the Minister of Finance. In the most recent two issues of this report, the Bank explains in detail economic and financial developments as well as the Bank's conduct of monetary policy and money market operations during fiscal 2012.²

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

2. The summaries of these two issues in English are available on the Bank's web site; for excerpts from these summaries, see pages 30–33. The full texts are available in Japanese on the web site (<http://www.boj.or.jp/index.html>).

II. FINANCIAL SYSTEM POLICY

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

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

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

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

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

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

Principle 1

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

Principle 2

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

Principle 3

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

Principle 4

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

Table 1

Number of Financial Institutions That Conduct Transactions with the Bank as of the End of Fiscal 2012¹

	Financial institutions that hold current accounts at the Bank		Of which: Financial institutions that have concluded on-site examination contracts with 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
City and regional banks	127	(128)	127	(128)	127	(128)
Trust banks	15	(17)	15	(17)	10	(11)
Foreign banks	55	(55)	55	(55)	42	(42)
<i>Shinkin</i> banks	261	(262)	261	(262)	109	(99)
Financial instruments business operators	36	(38)	36	(38)	30	(32)
Bankers associations	33	(33)	0	(0)	0	(0)
Other institutions	22	(21)	11	(11)	10	(10)
Total	549	(554)	505	(511)	328	(322)

Note: 1. Figures in parentheses indicate the number of institutions as of the end of fiscal 2011.

Table 2

Number of Financial Institutions Examined

	Fiscal 2010	Fiscal 2011	Fiscal 2012
Domestically licensed banks ¹	38	26	31
<i>Shinkin</i> banks	43	29	47
Other institutions ²	19	13	20
Total	100	68	98

Notes: 1. Established and licensed under Japanese legislation, excluding the Bank and government-related organizations.

2. Including financial instruments business operators and Japanese branches of foreign banks.

III. ENHANCEMENT OF PAYMENT AND SETTLEMENT SYSTEMS AND MARKET INFRASTRUCTURE

The Bank provides safe and convenient settlement assets in the form of banknotes and deposits in current accounts that financial institutions hold at the Bank. In addition, the Bank conducts settlement for Japanese government securities (JGSs) in its role as the book-entry transfer institution in the Japanese government bond (JGB) book-entry system. To ensure the safety and efficiency of these services, the Bank operates a computer network system for the settlement of funds and JGSs, the Bank of Japan Financial Network System (BOJ-NET).

The Bank conducts oversight of payment and settlement systems, monitoring their safety and efficiency and inducing improvements where necessary. Moreover, the Bank participates with other central banks in various international discussions and initiatives related to payment and settlement systems, including those of the Committee on Payment and Settlement Systems (CPSS) at the Bank for International Settlements (BIS).

The Bank also takes initiatives to improve the functioning and efficiency of the market infrastructure as well as to support stronger risk management of

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

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

IV. INTERNATIONAL OPERATIONS

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

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

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

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

V. ISSUANCE, CIRCULATION, AND MAINTENANCE OF BANKNOTES

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

authorized issuer of coins, and then put into circulation.

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

VI. SERVICES RELATING TO THE GOVERNMENT

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

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

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

VII. COMMUNICATION WITH THE PUBLIC

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

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

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

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

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

The Bank's Review of Fiscal 2012

I. Introduction

II. Review of Economic and Financial Developments

- A. First Half of Fiscal 2012 (April–September 2012)
- B. Second Half of Fiscal 2012 (October 2012–March 2013)

III. Progress in Addressing Issues and Implementing Action Plans

- A. Matters Relating to the Conduct of Monetary Policy
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- D. Matters Relating to the Regional Economic and Financial Environment
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- F. Matters Relating to Communication with the Public

I. INTRODUCTION

In March 2012, the Bank of Japan formulated and released "The Bank of Japan's Strategic Priorities for Fiscal 2012–2014." The Bank conducted its daily business operations for fiscal 2012 in accordance with these Strategic Priorities, which comprise the set of issues to be addressed and concrete measures to be taken during this period.

This section provides a brief review of economic and

financial developments in fiscal 2012, followed by a detailed evaluation of the Bank's progress made during the year.

The Strategic Priorities have a rolling three-year horizon. At the end of every fiscal year, the Bank conducts a performance review and then updates the Strategic Priorities accordingly, resetting the horizon to cover the next three years.¹

II. REVIEW OF ECONOMIC AND FINANCIAL DEVELOPMENTS²

A. First Half of Fiscal 2012 (April–September 2012)

1. Economic Developments

a. Looking back at the first half of fiscal 2012, Japan's economic activity started picking up moderately as domestic demand remained firm mainly supported by reconstruction-related demand. From around mid-2012, however, the pick-up came to a pause and the economy started to weaken somewhat as overseas economies moved somewhat deeper into a deceleration phase.

At the beginning of fiscal 2012, exports and industrial production showed signs of a pick-up, albeit at a moderate pace, but became relatively weak from around mid-2012 as overseas economies moved somewhat deeper into the deceleration phase. As for domestic demand, on the other hand, public investment increased, especially in that related to reconstruction

following the earthquake disaster, and housing investment continued to generally pick up. Business fixed investment followed a moderate increasing trend, albeit with fluctuations, as corporate profits improved on the whole. Meanwhile, against the background of improvement in consumer sentiment, private consumption increased moderately due to the effects of measures to stimulate demand for automobiles, and was resilient with the employment situation continuing to be on an improving trend.

b. The year-on-year rate of change in the domestic corporate goods price index (CGPI) was negative, mainly due to the effects of the decline in international commodity prices. The year-on-year rate of change in the consumer price index (CPI, all items less fresh food) stayed at around 0 percent.

1. For the text of "The Bank of Japan's Strategic Priorities for Fiscal 2013–2015," see Appendix 2 on pages 82–88.

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 2012 and June 2013. The full texts of both issues in Japanese and summaries in English are available on the Bank's web site.

2. Financial Developments

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

Long-term interest rates were on a declining trend following developments in U.S. long-term interest rates, temporarily declining to a level around 0.7 percent in late July. They subsequently rose somewhat and stayed at more or less around 0.8 percent toward the end of September.

The Nikkei 225 Stock Average remained soft toward late July following the decline in U.S. and European stock prices, temporarily falling to as low as the 8,000-8,500 yen level. It subsequently rose, albeit with fluctuations, and was in the range of 8,500-9,000 yen at the end of September, mainly reflecting that investors' risk aversion abated somewhat as concern about the European debt problem subsided to some extent.

In the foreign exchange market, the yen continued to appreciate against the U.S. dollar toward July as U.S. interest rates declined, mainly due to heightened concern about a deceleration in the U.S. economy. Thereafter, it moved within a relatively narrow range of around the 78-79 yen level overall. Amid heightened concern over the European debt problem, the euro depreciated toward late July, with the yen temporarily reaching the 94-95 yen level against the euro. The euro appreciated thereafter, mainly because concern over the European debt problem eased slightly as a result of policy measures taken by the European Central Bank. At the end of September, the yen traded at the 100-101 yen level against the euro.

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

In terms of credit demand, firms showed signs of increasing their demand mainly for working capital and funds related to mergers and acquisitions. With regard to firms' funding, the year-on-year rate of increase in the amount outstanding of lending by domestic commercial banks rose somewhat. The year-on-year rate of change in the amount outstanding of CP stayed positive, while that of corporate bonds, especially electric company bonds, stayed negative.

- c. The year-on-year rate of change in the monetary base (currency in circulation plus current accounts at the Bank) registered a marginal decline in April because the year-ago level was high as a result of large liquidity provision immediately after the earthquake disaster. Thereafter, it moved back into positive territory. The year-on-year rate of growth in the money stock (M2) remained at around 2.0–3.0 percent.

B. Second Half of Fiscal 2012 (October 2012–March 2013)

1. Economic Developments

- a. Looking back at the second half of fiscal 2012, Japan's economic activity had been relatively weak toward the end of 2012, mainly because overseas economies remained in a deceleration phase. After the turn of the year, however, it had stopped weakening and shown some signs of a pick-up against the background that domestic

demand remained resilient on the whole mainly due to improvement in household and business sentiment and that overseas economies had gradually headed toward a pick-up.

Exports continued to decrease toward the end of 2012 mainly due to the deceleration in overseas economies, but had stopped decreasing thereafter as these economies gradually headed toward a pick-up. As for domestic demand, public investment increased, especially that related to reconstruction following the earthquake disaster, and housing investment continued to generally pick up. Private consumption remained resilient on the whole. After the turn of the year, it gradually saw increased resilience, mainly because the effects of the decline in car sales due to the ending of some measures to stimulate demand for automobiles had fallen off and boosting effects of an improvement in consumer sentiment were observed. Meanwhile, business fixed investment continued to show some weakness on the whole due to the decrease in the manufacturing sector, but began to stop decreasing toward the end of fiscal 2012 as it had been resilient in the nonmanufacturing sector. Reflecting these developments in demand both at home and abroad, industrial production also continued to decrease toward the end of 2012, but had stopped decreasing thereafter and headed toward a pick-up.

- b. The year-on-year rate of decline in the CGPI had been on a narrowing trend, reflecting the pick-up in international commodity prices since autumn 2012 and the depreciation of the yen since the end of 2012. The year-on-year rate of change in the CPI (all items less fresh food) stayed at around

0 percent, but turned negative toward the end of fiscal 2012 due to the reversal of the previous year's movements in energy-related and durable consumer goods.

2. Financial Developments

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

Long-term interest rates, until mid-February, had generally been more or less unchanged, moving within a narrow range centering around 0.7–0.8 percent, albeit with fluctuations following developments in U.S. long-term interest rates. Since late February, they had declined to their lowest levels since fiscal 2003, partly due to increased demand from investors mainly caused by speculation about monetary policy, and were in the range of 0.5–0.6 percent at the end of March.

The Nikkei 225 Stock Average had generally been more or less unchanged toward mid-November. It had been rising thereafter mainly in response to the rise in U.S. and European stock prices and the depreciation of the yen, and was in the range of 12,000–12,500 yen at the end of March.

In the foreign exchange market, the yen depreciated against the U.S. dollar partly due to speculation about policies and developments in Japan's trade balance deficit, as investor sentiment improved mainly against the background that tail risks regarding developments in Europe had decreased. At the end of March, the yen traded at the 94–95 yen level against the U.S. dollar. The euro appreciated against the yen toward early February, temporarily reaching the

127-128 yen level. The euro subsequently depreciated as uncertainty about the European developments had drawn attention again, and at the end of March, the yen traded at the 120-121 yen level against the euro.

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

In terms of credit demand, firms showed signs of increasing their demand mainly for working capital and funds related to mergers and

acquisitions. With regard to firms' funding, the year-on-year rate of increase in the amount outstanding of lending by domestic commercial banks rose somewhat. The amount outstanding of CP and corporate bonds had been more or less around the year-ago level.

- c. The monetary base (currency in circulation plus current account balances at the Bank) had generally been increasing at a pace of more than 10 percent on a year-on-year basis. The year-on-year rate of growth in the money stock (M2) rose somewhat and was at around 3.0 percent at the end of fiscal 2012.

III. PROGRESS IN ADDRESSING ISSUES AND IMPLEMENTING ACTION PLANS

A. Matters Relating to the Conduct of Monetary Policy

1. In order for Japan's economy to overcome deflation and return to a sustainable growth path with price stability, the Bank will pursue powerful monetary easing through the comprehensive monetary easing measures that it has in place and will also engage in efforts, as central bank, to support strengthening the foundations for Japan's economic growth. At the same time, it will do its utmost to ensure financial market stability. In support of these policy operations, the Bank will enhance the quality of its research and analysis regarding developments in economic activity, prices, and the financial environment both at home and abroad. To this end and also with regard to the macroprudential perspective, the Bank will further strengthen its analysis of the effects of

developments in global financial markets on Japan's financial and economic activity, as well as its analysis of movements in other risk factors such as the accumulation of financial imbalances.

- (1) Japan's economic activity started picking up moderately from around the beginning of fiscal 2012 as domestic demand remained firm mainly supported by reconstruction-related demand. From around mid-2012, the pick-up came to a pause and the economy started to weaken somewhat as overseas economies moved somewhat deeper into a deceleration phase. Exports and industrial production decreased and domestic demand, such as business fixed investment, was also adversely affected. Thereafter, however, Japan's economy stopped weakening as overseas economies started to emerge from the deceleration phase and the effects of developments in the relations between Japan and

China in autumn 2012 diminished. In order to conduct monetary policy appropriately in this economic situation, the Bank acted to enhance the quality of its research and analysis on developments in economic activity, prices, and the financial environment.

- (2) In particular, the Bank conducted detailed research and analysis on, for example, the current financial environment and risk factors affecting its outlook, the effects of the Bank's monetary policy measures, and its basic thinking on price stability. In this regard, adopting a macroprudential perspective, the Bank assessed the extent of financial imbalance accumulation by continuing to examine early warning indicators related to matters such as excessive credit exposure at financial institutions.

2. In support of the above research and analysis, the Bank will maintain closer contact with overseas authorities and will conduct more frequent exchanges of information regarding economic and financial conditions at occasions such as international forums. The Bank will also deepen research and analysis not only with regard to advanced economies but also with regard to emerging economies.

- (1) The Bank, at international meetings, including those organized by the Bank for International Settlements (BIS) and the Organisation for Economic Co-operation and Development (OECD), exchanged information with overseas authorities with a view to better grasping overseas economic and financial conditions as well as developments in global financial markets. In addition, it obtained swift access to a wide range of information by making use of central bank networks particularly across Europe, North America, and Asia.

- (2) At the Annual Meetings of the International Monetary Fund (IMF) and the World Bank Group in October 2012, which were held in Japan for the first time in 48 years, the Bank organized a number of events, including seminars on global finance and the global economy as well as on Asian economies; it also supported the lively discussions among participants on economic and financial developments around the world.

- (3) The Bank maintained close contact and frequent exchanges of information with other central banks and international organizations in Asia regarding economic and financial conditions in the region by participating in the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), the BIS Asian Consultative Council (ACC), the Tripartite Governors' Meeting of the Bank, the People's Bank of China, and the Bank of Korea, and the Association of Southeast Asian Nations Plus Three (ASEAN Plus Three).

- (4) The Bank also played an active part in the compilation of a report on reference interest rates by a Working Group established by the BIS Economic Consultative Committee (ECC), which was chaired by one of the Bank's officers.

3. The Bank will conduct money market operations appropriately, with a view to maintaining financial market stability and the proper functioning of market mechanisms, while ensuring that its business operations are executed and systems are operated with precision and deliberation. It will also make sure that transactions with the government are properly conducted.

- (1) In its conduct of money market operations, the Bank continued its ample and flexible provision of funds

through, for example, the expansion of the Asset Purchase Program. Furthermore, the Bank worked out the operational details of the lending arrangement for small-lot investments and loans as well as the U.S. dollar lending arrangement for foreign currency-denominated investments and loans, both of which were established under the fund-provisioning measure to support strengthening the foundations for economic growth (hereafter the Growth-Supporting Funding Facility). It also worked out the operational details of the fund-provisioning measure to stimulate bank lending (hereafter the Stimulating Bank Lending Facility).

- (2) The Bank ensured that transactions with the government were conducted properly, in accordance with the relevant laws and regulations.

4. To facilitate the conduct of monetary policy, the Bank will discuss matters related to the frameworks for money market operations.

- (1) While pursuing powerful monetary easing, the Bank also worked out various measures to encourage financial institutions in their efforts to make use of the accommodative financial conditions and to support strengthening the foundations for economic growth; in addition, it devised measures for ensuring the smooth functioning and stability of financial markets. The following are the major measures taken by the Bank.
 - (a) Expansions of the Asset Purchase Program in April, September, October, and December 2012, and in January 2013, as well as the introduction of the open-ended asset purchasing method.
 - (b) Establishment of the Loan Support Program together with the introduction of the Stimulating Bank Lending Facility, one of its constituent parts.

- (c) Extensions of the effective period of the temporary bilateral liquidity swap arrangements with the Bank of Canada, the Bank of England, the European Central Bank, the Federal Reserve, and the Swiss National Bank, as well as of the funds-supplying operations against pooled collateral in these currencies.

5. As part of the above process, the Bank will deepen its theoretical and empirical analysis of the conduct of monetary policy and further consider strategies for disseminating information on monetary policy and for communicating with market participants, taking into account related academic discussion and research developments at home and abroad.

- (1) The Bank, taking into account academic research developments both at home and abroad, deepened its theoretical and empirical analysis of the conduct and effects of monetary policy, both its own and that of other central banks.
- (2) In order to achieve better understanding of updates to its monetary policy conduct, the Bank maintained a web page entitled "Recent Conduct of Monetary Policy toward a Sustainable Growth Path with Price Stability,"³ in which it provided concise summaries and explanations of its policy schemes. It also released and regularly updated the amount outstanding of the Bank's financial assets purchased as well as that of funds-supplying operations.
- (3) The Bank also made public the findings of its research and analysis through, for example, the releases of the *Bank of Japan Review Series*, the *Bank of Japan Working Paper Series*, as well as various reports and research papers. As part of these efforts, it outlined the effects on Japan's

3. This web page is no longer available.

economy of demographic changes, including the low birth rate and population aging, and disseminated proposals for raising the economy's productivity through various media.

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

(1) In the *Outlook for Economic Activity and Prices*, the Bank focused particularly on the following topics that were crucial for making its projections of economic activity and prices at home and abroad: the effects of the consumption tax hike on Japan's economy and prices; and Japan's experience of transition from the so-called High Growth Era to the Stable Growth Era, as a reference for projecting the outlook for emerging economies. It provided a detailed explanation of these two topics in the October 2012 issue.

7. The Bank will engage in discussions on the structural problems faced by Japan's economy as well as on various systemic reforms that affect monetary policy by, for example, participating in the relevant government advisory councils.

(1) The Bank expressed its opinion on the structural problems faced by Japan's economy and their impact on the conduct of monetary policy at various governmental meetings including the Council on National Strategy and Policy and the Council on Economic and Fiscal Policy. The Bank, in its capacity as central bank, also actively participated in discussions held by the Financial System Council's Working Group on the Medium- and Long-Term Modalities of the Japanese Financial Industry.

8. The Bank will enhance its fundamental research within fields such as economics and finance,

and across other fields related to the infrastructure of the financial system, such as law, accounting, and information security, as well as its research into the history of finance. It will make use of these findings in conducting monetary policy. The Bank will strengthen cooperation with other central banks, as well as academics and research institutes both at home and abroad, so as to steadily raise the quality of such research activities. Furthermore, the Bank will make efforts to efficiently manage the activities of the Archives and the Currency Museum and to offer services well tailored to users' needs.

(1) In light of the global financial crisis of autumn 2008 as well as the issues faced by central banks around the world, the Bank conducted fundamental research on the macroeconomy and monetary policy from both theoretical and empirical perspectives as well as on microeconomic aspects of the financial system. Steady progress was also made in finance-related research, including research into risk management, advanced financial engineering, legal and accounting systems, information security, and financial history.

(2) In May 2012, the Bank hosted an international conference on the theme of demographic changes and macroeconomic performance. This yielded fruitful discussion between distinguished academics, both domestic and foreign, as well as overseas authorities, on the various channels by which demographic changes affect the macroeconomy.

(3) The Bank worked to improve both user friendliness and the administrative efficiency of its Archives, which have the status of national archives and are managed in accordance with the act on the

management of official documents. Moreover, the Bank's Currency Museum redesigned its web site and implemented measures to enhance its services for visitors by, for example, holding feature exhibitions.

B. Matters Relating to the Financial System

1. The Bank will promptly implement measures deemed necessary to maintain the stability of the financial system, including those as the lender of last resort.

(1) During fiscal 2012, the Bank provided no loans pursuant to Articles 37 and 38 of the Bank of Japan Act.

2. International discussion on maintaining financial system stability deepened in light of the global financial crisis following the Lehman shock. More specific progress has been made toward establishing new international rules regarding financial regulation and supervision, as well as in corresponding efforts by individual countries and regions around the world. Meanwhile, the scope of discussion at international forums has widened to include the international monetary system and the resolution frameworks for financial institutions. Given these developments, the Bank will conduct research and planning related to the financial system, giving due consideration to institutional factors unique to each country as well as Japan's past experience. The Bank will make use of the findings to actively contribute to policy formulation both at home and abroad.

(1) At international conferences and other such occasions addressing macroprudential matters and the establishment of a concrete framework for as well as the implementation of new financial

regulations, the Bank explained its view in light of Japan's past financial system-related experiences. It was also active in providing information in these areas, for example, through the release of the *Financial System Report*.

(2) The Bank actively participated in discussions and information exchange within Asia, through its activities at the EMEAP Working Group on Banking Supervision—serving as Co-Chair—as well as at various meetings such as the ACC and ASEAN Plus Three, with a view to establishing a concrete framework for and implementing new financial regulations. In this way, the Bank played a significant part in promoting information sharing and in building a consensus in the region, thereby contributing to the expansion of Asia's presence in international discussions.

3. As part of the above efforts, the Bank will actively participate in discussions at various forums, such as meetings of the Group of Twenty (G-20) countries, the Group of Seven (G-7) countries, the Financial Stability Board (FSB), and the Basel Committee on Banking Supervision (Basel Committee). The Bank will also actively exchange information with overseas authorities, including supervisory colleges. In this way, the Bank will engage positively in policy making processes to improve and ensure the stability of the global financial system. It will also play an active role in the domestic application of the conclusions of such international discussions, as well as in their practical implementation. Furthermore, the Bank will ensure it has an accurate grasp of how Japanese financial institutions are responding to changes in financial regulations.

- (1) The Bank actively participated in discussions at international conferences on strengthening the robustness of the global financial system, such as meetings of the G-20 countries, the G-7 countries, the FSB, and the Basel Committee. These included discussions on the assessment of vulnerabilities in the financial system, on the establishment of a concrete framework for regulating systemically important financial institutions, on the development of cross-border resolution frameworks for financial institutions, on the revision of the Basel regulatory framework—specifically, the review of trading book capital requirements, the securitization framework for regulatory capital requirements, and the liquidity standard, as well as the introduction of a framework for controlling large exposures—and on the regulation and monitoring of the global shadow banking system.
- (2) At meetings including those of the G-20 countries and the FSB, the Bank has made use of Japanese expertise in areas such as the interconnectedness of the financial system and the real economy to engage constructively in the drafting of well-balanced reforms aimed at maintaining the stability of the global financial system.
- (3) Assessment of Japan's financial sector under the Financial Sector Assessment Program (FSAP) was conducted by the IMF for the first time in ten years. The Bank exchanged opinions and information on various relevant issues and contributed to the assessment through stress testing and other such quantitative analysis using the analytical and assessment methods employed in the *Financial System Report*.
- (4) In light of instability in European financial markets, the Bank actively exchanged information on the

financial system with overseas authorities, mainly through supervisory colleges. While strengthening ties with supervisory authorities at home and abroad and enhancing dialogue with financial institutions, the Bank played an active role in (1) working out the domestic application of, as well as preparing for the practical implementation of, new financial regulations such as those governing bank capital and liquidity, and (2) discussions on the revision of resolution frameworks for securities companies and other such financial institutions.

4. The Bank will ensure that it maintains an accurate grasp of business conditions at financial institutions by continuing to conduct its on-site examinations and off-site monitoring efficiently and effectively, while strengthening the feedback between them. The Bank will also encourage financial institutions to step up efforts to improve their management of risks through activities organized by the Bank's Center for Advanced Financial Technology (CAFT).

- (1) The Bank worked to ensure that on-site examinations were conducted effectively and efficiently in line with its "On-Site Examination Policy for Fiscal 2012," by making use of information obtained through its off-site monitoring as well as selecting institutions to be examined based on their risk profiles and capital strength. The number of financial institutions examined in fiscal 2012 was 98, increasing substantially from 68 in the previous fiscal year in the immediate aftermath of the Great East Japan Earthquake.
- (2) With regard to off-site monitoring, the Bank worked to keep informed of financial institutions' business conditions and risk profiles, taking into account

economic and financial developments both at home and abroad as well as revisions to various frameworks—for example, the European debt problem and the expiration of the Act Concerning Temporary Measures to Facilitate Financing for Small and Medium-Sized Enterprises, etc. at the end of fiscal 2012. Regarding management of business activities and risks at financial institutions, the Bank facilitated necessary improvements in management procedures at individual financial institutions, making use of the feedback between its on-site examinations and off-site monitoring.

- (3) The CAFT hosted seminars on business reconstruction at small and medium-sized firms and financial institutions' efforts in this regard. It also released a paper on the risk management framework necessary to boost asset-based lending (ABL) (available only in Japanese).

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

- (1) In the *Financial System Report*, the Bank refined its methods for the comprehensive assessment and analysis of the stability of Japan's financial system from a macroprudential perspective, as described in "The Bank of Japan's Initiatives on the Macroprudential Front," via the following: enhancing analytical tools such as indicators of financial imbalances and macro stress testing; and improving the Financial Macro-econometric Model to account for the interconnectedness of the financial system and the real economy. The findings were then communicated to the public.

- (2) The Bank facilitated communication with concerned parties in order to ensure the stability of the financial system by releasing papers on the following topics: correlation risk between stockholdings and loans or bondholdings at Japan's banks; risks involved in trading over-the-counter (OTC) derivatives; and macroprudential policy measures.

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

- (1) The Bank made reports on business operations and risk-taking at financial institutions based on the findings from its off-site monitoring as well as on the findings from its on-site examinations and trend analysis incorporating these, making use of this information in implementing monetary policy. In the *Financial System Report*, the Bank presented its assessment of the stability of the financial system and pointed out the challenges facing Japan's financial institutions, aiming to enhance the analysis used in the Bank's conduct of policies.

- (2) The Bank utilized its experience in conducting the Growth-Supporting Funding Facility, as well as insights obtained through its on-site examinations, off-site monitoring, and various surveys, to produce a fully-specified institutional design for the new lending arrangements for small-lot investments and loans as well as foreign currency-denominated investments and loans, and for the Stimulating Bank Lending Facility. The Bank also supported financial institutions' efforts to strengthen the foundations for economic growth by, for example, delivering speeches on ABL and actively disseminating related information.

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

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

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

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

(1) With regard to the review of international standards for payment and settlement systems, the Bank contributed to finalizing the "Principles for Financial Market Infrastructures" and to efforts toward

implementation of the principles. As part of international initiatives to reform OTC derivatives markets, the Bank participated in discussions at forums and working groups made up of central banks and supervisory authorities, including those focusing on the development of international cooperative oversight arrangements for central counterparties (CCPs).

(2) The Bank continued with research and analysis related to measures to improve the functioning of Japan's payment and settlement systems from a medium- to long-term perspective. This included the Bank's contribution to the compilation of a report by the study group for enhancing corporate payment infrastructures.

3. The Bank, together with relevant parties, will proceed steadily with the establishment of the new BOJ-NET. The Bank will work toward implementing the first phase of the new BOJ-NET project—covering auctions for money market operations and for the issuance of Japanese government securities (JGSs), as well as the transfer of JGSs associated with money market operations—around fiscal 2013, and the second phase—including settlement of funds and of JGSs—around fiscal 2015.

(1) With regard to the establishment of the new BOJ-NET, the Bank proceeded steadily with the system development process while managing the overall project properly.

(2) The Bank proceeded with the planning of running tests of the first phase of the new BOJ-NET project and made an outline of the proposed tests available to financial institutions and other interested parties.

(3) The Bank continued deliberations on the operating hours and business operations of the new BOJ-NET

after implementing the second phase of the project.

4. In accordance with the Bank's oversight policy, the Bank will firmly monitor the safety and efficiency of payment and settlement systems both at home and abroad as well as encourage relevant parties to make improvements, using the "Principles for Financial Market Infrastructures," the international standards issued by the Committee on Payment and Settlement Systems (CPSS) and the Technical Committee of the International Organization of Securities Commissions (IOSCO).

(1) In cooperation with relevant authorities, the Bank continued with its oversight of payment and settlement systems both at home and abroad. It also promoted efforts toward the domestic implementation of the "Principles for Financial Market Infrastructures." In particular, it updated its oversight policy after consulting with market participants.

5. With a view to further enhancing the stability and efficiency of financial markets and in consideration of international developments, the Bank will carry out research and planning related to improving financial market structures and adjusting market infrastructure. It will work toward securing improvements in these areas, in discussion and cooperation with relevant parties at home and abroad. Specifically, the Bank will support market participants' efforts to reduce settlement risk and to enhance financial market functioning by, for example, shortening the Japanese government bond (JGB) settlement cycle—namely, ensuring a smooth transition to a T+2 cycle, followed by preparations for realizing a T+1 cycle—and enhancing the

functioning of corporate bond markets and securitization markets.

(1) The Bank took the following initiatives to reduce settlement risk and enhance financial market functioning.

(a) The Bank reviewed the situation regarding the T+2 JGB settlement cycle for outright transactions, which was shortened from a T+3 cycle in April 2012 in order to reduce settlement risk in financial markets as a whole. The Bank subsequently assisted market participants in their efforts to realize a T+1 cycle for outright transactions.

(b) In order to stimulate corporate bond markets, the Bank participated in meetings of the Study Group to Vitalize the Corporate Bond Market hosted by the Japan Securities Dealers Association (JSDA) and contributed to the compilation of a report entitled "Work toward Vitalization of the Corporate Bond Market" (available only in Japanese).

(c) The Bank shared with market participants its understanding of the challenges to be met through conducting the *Tokyo Money Market Survey* and disseminating to market participants information on developments in the Japanese money market and how issues in the market were being addressed.

6. Based on its experience following the Great East Japan Earthquake and the government's reappraisal of potential damage scenarios, the Bank will assess the current business continuity framework and improve contingency arrangements as necessary. It will also step up efforts to ensure the effective and efficient implementation of such arrangements, in

cooperation with relevant parties, including ministries and government agencies as well as financial institutions.

- (1) As a performance review of its efforts to date toward refining its business continuity arrangements, the Bank compiled a paper detailing and assessing its arrangements, and released it in May 2012 (available only in Japanese).
- (2) The Bank conducted a review of its business continuity arrangements in light of lessons learned in responding to the Great East Japan Earthquake, and considered what the Bank could do over the medium term to improve these arrangements.
- (3) The Bank, in cooperation with financial institutions and other relevant parties, implemented street-wide exercises under the scenario of an inland earthquake affecting Tokyo.
- (4) With the aim of examining the efficacy of business continuity arrangements and strengthening its contingency measures, the Bank conducted practical exercises that took into account lessons learned from the earthquake disaster under various disaster scenarios, as well as exercises addressing system disruptions.
- (5) The Bank released papers on financial institutions' business continuity arrangements and backup computer centers, thereby encouraging the strengthening of such arrangements.
- (6) The Bank exchanged views with relevant ministries and government agencies as well as financial institutions as part of the government's consideration of the implementation of the Act on Special Measures for Countermeasures against Novel Influenza and Other Diseases.

7. The Bank will contribute to the stability of the international currency system by, for example,

promoting efforts to ensure the stability of the currency system in Asia and strengthening cooperation with overseas authorities, especially central banks, through personnel exchange and technical assistance. It will also proceed with preparations for holding the Annual Meetings of the IMF and the World Bank Group in Tokyo in 2012, in cooperation with the government and other relevant parties.

- (1) The Bank took the following actions so as to promote efforts to ensure the stability of the currency system in Asia, and to strengthen cooperation with overseas authorities, especially central banks.
 - (a) The Bank proceeded with its consideration of and efforts to coordinate an expansion in the number of Asian partners participating in cross-border collateral arrangements—i.e., arrangements whereby central banks in partner countries provide liquidity in their domestic currencies utilizing JGSs held at the Bank as collateral.
 - (b) The Bank, through participating in EMEAP and the ACC, made efforts to ensure the stability of the currency system in Asia. Specifically, the Bank played a leading role through its hosting of the EMEAP Governors' Meeting, which was chaired by the Bank's Governor, in July 2012.
 - (c) Under the framework of ASEAN Plus Three, the Bank, together with the Ministry of Finance, worked to strengthen the regional financial safety net through various initiatives including the Chiang Mai Initiative Multilateralization (CMIM), contributing to the doubling of the total size of the CMIM as well as the introduction of a crisis prevention facility.
 - (d) The Bank was active in promoting the provision of technical assistance, the holding of seminars,

and the exchanging of personnel with central banks and governments in Asia.

(2) The Bank, in cooperation with the Ministry of Finance, planned and managed the Annual Meetings of the IMF and the World Bank Group. Efficient management of the meetings contributed to advancing discussions on ensuring the stability of the international currency system as well as to the outflow of information from Japan to the world.

8. The Bank will manage its foreign currency assets in a stable and efficient manner, while paying due attention to the appropriate management of risks. It will also obtain information on global financial markets via, for example, the monitoring of market developments involved in managing its foreign currency assets; the information will be utilized in conducting monetary policy.

(1) In light of recent changes in global financial market conditions, the Bank made revisions to the management of its foreign currency assets and established the "Principal Terms and Conditions for the Management of Foreign Currency Assets," which placed increased emphasis on a high degree of safety and liquidity in its asset management. The Bank managed its foreign currency assets appropriately, in accordance with these terms and conditions.

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

9. The Bank will, with precision and deliberation, carry out international operations on behalf of

the government and assist overseas central banks in their investment in yen assets.

(1) The Bank consistently executed with precision and deliberation international operations on behalf of the government. It also offered appropriate assistance to overseas central banks, providing services relating to acceptance of yen deposits to facilitate their investment in yen assets.

D. Matters Relating to the Regional Economic and Financial Environment

1. The Bank will maintain a sound grasp of economic and financial conditions in each region, including the progress of restoration and rebuilding following the disaster caused by the Great East Japan Earthquake, through close and frequent communication with local businesses and financial institutions. The Bank will make use of its findings in its conduct of monetary policy and other actions. In addition, the Bank will take advantage of such occasions to communicate with local business communities, and to provide a clear and accessible explanation of its view of economic and financial conditions both at home and abroad, as well as its thinking on the conduct of monetary policy.

(1) The Bank established the Regional Research Division in the Research and Statistics Department in July 2012, enhancing its framework for the research and analysis of regional economic developments. The Bank worked to gain a more accurate grasp of economic conditions in each region by assigning responsibility for research and analysis for each prefecture within a given jurisdiction to designated staff not only in branches and local offices but also in the new division at the Head Office, and by

increasing the frequency of meetings to exchange opinions with local businesses and chambers of commerce and industry.

- (2) With regard to rebuilding following the disaster caused by the Great East Japan Earthquake, the Bank continued to work to keep a detailed grasp of developments in, for example, reconstruction-related demand, by making use of its network of branches and offices in the disaster-stricken areas, such as its branches in Sendai City and Fukushima City, and by conducting its own field research.

2. The Bank will continue its efforts to strengthen relations with local communities by sharing the results of research and analysis on regional economic and financial developments through, for example, the regular release of the *Regional Economic Report* and by carrying out public relations activities at its Head Office, branches, and local offices.

- (1) Findings from the Bank's research and analysis on developments in regional economies were compiled and released each quarter in the *Regional Economic Report*.
- (2) The Bank continued to work to strengthen relations with local communities as follows. It disseminated the results of its research and analysis on regional economic and financial developments, for example, by organizing events such as speeches. It also undertook other public relations activities that provided opportunities to explain its policies and business operations as well as to gather more information on regional economic developments.

3. The Bank will strengthen its grasp of business conditions at regional financial institutions—including their performance as financial intermediaries—through its on-site examinations

and off-site monitoring, and will carry out more in-depth discussions with regional financial institutions on issues relating to business conditions.

- (1) While disparities remained among regional financial institutions in terms of their profitability and financial strength, the Bank, through robust on-site examinations and off-site monitoring, gained a detailed grasp of their business conditions. Moreover, the Bank kept suitably abreast of the situation with regard to regional financial institutions' management of the risks accompanying computer system integration projects, for example, by making visits to these institutions' premises for the purposes of opinion exchange, and urged improvement when necessary. In the course of on-site examinations and off-site monitoring, the Bank actively held dialogue with top management at regional financial institutions.

4. The Bank will support regional financial institutions' efforts to improve their management of risks through, for example, local seminars organized by the Bank's CAFT.

- (1) In Tokyo and other five cities across Japan, the CAFT hosted seminars for regional financial institutions on the current state of computer system risk management and related challenges, as well as on themes such as responses to changes in the business environment and the enhancement of risk communication.

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

(1) The Bank contributed to regional economic and financial activities, including activities in the areas stricken by the Great East Japan Earthquake, by ensuring that all operations throughout its offices, including operational procedures necessary for implementing policy measures effectively, were executed with precision and deliberation.

E. Matters Relating to Banknotes, Treasury Funds, and JGS Services

1. Matters Relating to Banknotes

a. The Bank will continue to work toward securing confidence in banknotes and coins by executing with precision and deliberation all related business, for example, maintaining the cleanliness of banknotes in circulation and promoting the smooth supply of cash.

(1) The Bank maintained the cleanliness of banknotes in circulation by ensuring the smooth supply of clean banknotes at the windows of its Head Office and branches and by examining the banknotes it received. It conducted regular surveys of damaged banknotes, putting the results to use in its examination of banknotes.

(2) In order to strengthen the emergency response capability of its cash handling services, given recent experiences responding to events such as an outbreak of the H5N1 avian influenza and the Great East Japan Earthquake, the Bank continued its efforts to ensure it had the necessary quantity of banknotes at its Head Office and branches for maintaining circulation.

b. As part of the above efforts, the Bank will conduct further research on anti-counterfeiting technologies and enhance the counterfeit detection features of cash processing machines.

The Bank will also work to prevent counterfeiting by enhancing communication and cooperation with relevant parties, including ministries and government agencies at home as well as other central banks, and by improving public relations activities aimed at achieving better public understanding of anti-counterfeiting measures.

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

c-1. The Bank will work to improve the efficiency of its channels for supplying cash, including coins.

c-2. With regard to banknote examination, the Bank will examine the likely changes in the future workload at its Head Office and branches in view of recent changes in the delivery routes of banknotes between financial institutions and the Bank. Based on this examination, and taking account of lessons learned in responding to the earthquake, the Bank will proceed with its consideration of possible changes in the following: the division of roles between its Head Office and branches, as well as among branches; and the Bank's operational framework for examining banknotes. Through these efforts, the Bank will seek to make its operational framework in this area even more stable and efficient.

(1) The Bank worked to maintain a firm grasp of trends in cash circulation through closer dialogue with private security and transportation companies—which have come to play an important role in cash circulation—as well as with financial institutions.

Based on information gathered, the Bank reviewed the methods for transporting cash between its Head Office and branches, as well as among branches, with a view to improving efficiency.

- (2) With regard to banknote examination, the Bank considered possible changes in the division of roles between its Head Office and branches, as well as among branches, in addition to considering possible changes in its operational framework for examining banknotes. In the course of its consideration of these matters, the Bank looked into the functioning of cash handling facilities run by private security and transportation companies.

2. Matters Relating to Treasury Funds and JGS Services

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

- (1) The Bank strove to execute the provision of treasury funds and JGS services with precision and deliberation, while continuing work to improve its operational risk management. Re-bidding in JGB auctions, however, was conducted in May 2012, due to an operational error during the initial bidding. The Bank took preventive steps in response, for example, by improving operational procedures and revising its framework for checking and validating these.

b. The Bank, responding steadily to the various institutional changes surrounding treasury funds and JGS services, will contribute to the improvement of the convenience of services for the public as well as to efforts to reform the JGS market.

- (1) With regard to online data processing for payments

of public pensions, the Bank proceeded with its system development as scheduled and established an operational framework in cooperation with relevant parties and private financial institutions. Online data processing was implemented in December 2012. As for the project to effect the centralized online payment of salaries for government employees, the Bank continued to support efforts made by related ministries and government agencies.

c. With regard to treasury funds and JGS services, the Bank will further examine possible changes in the division of roles between its Head Office and branches, as well as among branches, taking into account (1) the effects of the expansion of direct electronic payment of taxes, tariffs, and fees to the government; (2) movements toward the centralized online payment of salaries for government employees; and (3) lessons learned in responding to the earthquake. Through these efforts, it will seek to make its operational framework in this area even more stable and efficient. It will also conduct a systematic review of related future initiatives including possible institutional changes.

- (1) The Bank centralized services related to subsidy bonds within its Head Office from October 2011, also taking the opportunity to proceed with streamlining its operational procedures. Services related to subsidy bonds were executed steadily even during busy periods during fiscal 2012. The Bank also moved steadily forward with a detailed study of the concentration into particular locations of services that use optical character readers (OCR) for sorting and calculating revenue items, with a view to

launching the project in fiscal 2013. Meanwhile, taking into account movement toward the centralized online payment of salaries for government employees, the Bank examined possible changes to its operational framework for providing treasury funds and JGS services at its Head Office and branches that would make it even more stable and efficient.

F. Matters Relating to Communication with the Public

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

- (1) The Bank worked to enhance its communication with the public, for example, providing a clear explanation of its thinking on the most recent conduct of monetary policy at press conferences, as well as on other occasions such as speeches and meetings at home and abroad, in interviews including those with overseas media, and via a variety of communication channels including the Bank's web site.
- (2) In accordance with the Bank of Japan Act, the Bank submitted two issues of the *Semiannual Report on Currency and Monetary Control* to the Diet in fiscal 2012, in June and December.⁴
- (3) Besides holding regular in-house tours of the Head Office, the Bank hosted various public relations events: special in-house tours for parents and

children during school holiday seasons in spring and summer; also public lectures and feature exhibitions about the history of the Bank and other related themes as well as in-house tours of the Old Building—designated as an important cultural property—in October and November 2012. In addition, the Bank gave 17 on-campus lectures to college students on the functions and operations of the Bank. As for the "BOJ Grand Prix"—an essay and presentation contest primarily for college students—the Bank extended its promotional activities with an introductory video about the grand prix posted on its web site (available only in Japanese), with the result that the number of entries increased by 28 from the previous fiscal year to a record high of 136. Overall, the total number of in-house tour visitors to the Head Office rose substantially to around 45,000 in fiscal 2012—an increase of 68 percent from the previous fiscal year, when the tours were temporarily suspended as an energy-saving measure.

- (4) The Bank released a steady stream of up-to-date information in both English and Japanese on its web site. The number of page views on its web site rose to around 115 million, an increase of 5.8 percent from the previous fiscal year; of these page views, around 17 million were made to its English-language web site, an increase of 11.4 percent.

2. The Bank will look to respond better to users' diverse needs and make further enhancements to the effectiveness of its communication with the public. It will also work to enhance the quality and range of contents available on its web site, with a view to promoting better

4. Excerpts from the summaries of the two issues of the report dealing with developments in fiscal 2012, namely the issues released in December 2012 and June 2013, can be found on pages 30–33. The full texts of these two issues in Japanese as well as the summaries in English are available on the Bank's web site.

understanding of central banking operations.

(1) The Bank made efforts to improve the user-friendliness of its web site, modifying page layouts to accommodate user needs—for example, launching dedicated web pages for the Annual Meetings of the IMF and World Bank Group held in Tokyo. In addition, the Bank worked to improve the content available on its web site by, for example, revising "*Oshiete! Nichigin*," a question-and-answer section explaining the Bank's policies and business operations in plain terms (available only in Japanese), releasing the time-series data (in Japanese) for the quarterly *Opinion Survey on the General Public's Views and Behavior*, and deliberating on the more active use of video material.

3. The Bank will take the opportunity of internal operational reviews to canvass and exchange opinions with relevant ministries and government agencies, financial and business communities, as well as a wide range of other involved parties, and to gain a clear understanding of outside parties' needs regarding the Bank's operations. The Bank will take due note of these in its subsequent conduct of business operations.

(1) In fiscal 2012, the Bank provided pertinent responses to 9,200 inquiries and comments (excluding letters or e-mails motivated by business purposes, those where the writing or intent was unclear, and those that were incorrectly addressed) which it received on a wide range of matters including the conduct of monetary policy; this represented an increase of 1.9 percent from the previous fiscal year. The Bank also received and responded appropriately to requests for information disclosure.

(2) The Bank continued to hold regular meetings about treasury services with financial institutions designated as agents permitted to offer such services in their branches and offices, as well as working-level meetings for BOJ-NET users linked to the Head Office; both types of meeting were established as channels for exchanging views on the Bank's operations.

4. With the aim of improving user-friendliness, the Bank will make appropriate refinements of the statistics it compiles in line with the principles of the revised Statistics Act (Act No. 53 of 2007). In the course of this undertaking, the Bank will look to further strengthen its communication with the public, actively engage in information-sharing with international organizations, and cooperate with the government's statistical offices that have been working to improve the accuracy of the GDP statistics.

(1) Regarding statistics, the Bank proceeded with the following actions.

(a) Members of the Bank's senior staff, namely, a Deputy Director-General and an Associate Director-General, served respectively as Vice chairman and as member of the Executive of the Irving Fisher Committee on Central Bank Statistics. Together with committee members from other central banks, and in cooperation with relevant domestic parties, they contributed to improving the international reporting systems for financial statistics.

(b) The Bank, in cooperation with the BIS and overseas central banks, made progress in examining possible improvements to statistics compiled by the BIS, namely, the International Locational Banking Statistics and International

Consolidated Banking Statistics.

- (c) As for the *Tankan* (Short-Term Economic Survey of Enterprises in Japan), the Bank finalized its policy on the revision/abolition of particular survey items, including the introduction of survey items on the inflation outlook of firms, and started to address the associated system issues. The Bank also continued to look into different methodologies for constructing samples that utilize Economic Census data and the "establishment frame database"—a collection of information on business establishments that is systematically organized so that information may be retrieved using computers.
- (d) The Bank, taking account of international demand to refine the Flow of Funds Accounts, proceeded to look into the reclassification of public and private sectors and compilation of statistics on the issuance and holding of bonds classified by their residual maturity.
- (e) The Bank revised the base year for the CGPI from 2005 to 2010. It improved the accuracy and enhanced the contents of the statistics by, for example, expanding the coverage of goods and unifying standards for the stage of price collection to a single standard—namely, the point of shipment by producers. Since the CGPI is used as a deflator by the government's statistical office when compiling the System of National Accounts (SNA) statistics, the Bank contributed to improving the accuracy of the deflator.
- (f) The Bank commenced arrangements for revising the base year for the Corporate Services Price Index (CSPI) from 2005 to 2010, and conducted deliberations on issues such as the selection of

new items for inclusion in the CSPI and the use of Economic Census data. The Bank also participated in projects for revising an international manual on the compilation of service price statistics, and shared its knowledge regarding the CSPI with statistics compilers from other countries.

- (g) With regard to the balance of payments, the Bank pushed forward with preparations for the conversion and reporting of statistics based on the revised format defined in the sixth edition of the *Balance of Payments and International Investment Position Manual* by the IMF. Such preparations included revisions to statistics as well as system development.
 - (h) The Bank, as a statistics compiler itself, exchanged views with the government, which is responsible for compiling major economic statistics such as the *Survey of Household Economy* and Indices of Industrial Production; meanwhile, as a user of government statistics, the Bank also provided feedback.
- 5. In support of the activities of the Central Council for Financial Services Information (CCFSI) and Local Financial Services Information Committees (hereafter Local Committees), the Bank will continue to contribute to financial education and raise public awareness and understanding of financial and economic issues. To this end, the Bank will thoroughly evaluate the efficacy of the various approaches employed to date, and concentrate future efforts on those that have proved the most effective and efficient.**
- (1) As the secretariat of the CCFSI, the Bank proceeded with the following actions, in cooperation with Local

Committees and relevant parties—including relevant ministries as well as local public bodies and financial and economic organizations.

- (a) Regarding support for the promotion of financial education, the Bank organized festivals at five locations where children could learn about money with their parents; it also organized open classes at 17 schools, as well as seminars for school teachers and undergraduate and graduate students on teacher-training courses. In addition, the Bank held essay competitions for students and teachers as well as lectures for students at eight universities.
- (b) In terms of raising awareness and understanding of financial and economic issues among the public, the Bank engaged in the following: the

revision of publications, such as *A Guide to Financial Instruments* (available only in Japanese) as well as the *Databook on People's Lives and Financial Affairs*, which provides key statistics on people's financial circumstances (available only in Japanese); and the dispatch of speakers to public lectures organized by Local Committees.

- (2) The Bank, as the secretariat of the CCFSI, continued to conduct the *Survey of Household Finances* (available only in Japanese); it also conducted and released the results of the *Financial Literacy Survey*, which was introduced in fiscal 2011 (available only in Japanese). In addition, the Bank exchanged information on financial education with other countries at events organized by the OECD.

The Bank's Organizational Management in Fiscal 2012

I. Statement of Accounts and Budget for Expenses

II. IT Investment

III. Human Resources

**IV. Organizational Management Measures Implemented in
Fiscal 2012**

V. Internal Audits

I. STATEMENT OF ACCOUNTS AND BUDGET FOR EXPENSES

As for the Bank of Japan's expenses for fiscal 2012, the Bank duly made, in line with the budget, the disbursements necessary to cover "The Bank of Japan's Strategic Priorities for Fiscal 2012–2014" (the 2012–14 Strategic Priorities). With regard to the Bank's statement of accounts for fiscal 2012, the total amount of actual expenses increased from the previous fiscal year by 1.4 percent (2.5 billion yen) to 180.8 billion yen. Regarding the Bank's budget for expenses for fiscal 2013, the Bank has carefully examined overall expenditure in compiling a suitable budget for the year

while appropriating a significant portion to cover "The Bank of Japan's Strategic Priorities for Fiscal 2013–2015,"¹ including the construction of a new Bank of Japan Financial Network System (BOJ-NET). The total amount of actual expenses in the Bank's statement of accounts for fiscal 2012 and that of expenses in its budget for fiscal 2013 reflect the provisional and exceptional measure taken by the Bank to reduce its officers' and employees' remuneration in support of rebuilding efforts following the disaster caused by the Great East Japan Earthquake.²

II. IT INVESTMENT

The Bank steadily carried out the system development projects necessary to achieve the goals set out in the 2012–14 Strategic Priorities, while working to raise the efficiency and streamline the development of such projects. Specifically, projects such as construction of

the new BOJ-NET proceeded as scheduled. The scale of system development for fiscal 2012 was 13,827 person-months³ (including 10,781 person-months that were outsourced).

III. HUMAN RESOURCES

The Bank maintained the number of employees necessary to achieve the goals set out in the 2012–14 Strategic Priorities without breaking the ceiling on the number of full-time employees for fiscal 2012, which was set at 4,900. Following the Bank's efforts to further increase the overall efficiency of its business operations while securing the staff needed to enhance its

capabilities, the number of full-time employees was 4,663 at the end of March 2013, down 12 from the previous fiscal year (Table 1).

Regarding remuneration, the Bank reduced its officers' remuneration by between 10 and 30 percent as a provisional and exceptional measure for fiscal 2012 and 2013, in support of rebuilding efforts

1. For the text of the Strategic Priorities for fiscal 2013–2015, see Appendix 2 on pages 82–88.

2. A cut in officers' or employees' remuneration increases the Bank's payment to the government because the Bank pays the government its entire net income—after deducting expenses and income taxes—excluding certain provisions and dividends.

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

following the earthquake disaster. 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. These would be reduced incrementally by 2 percent during the initial transition period from March 1, 2013 through September 30, 2013, then by 8 percent from October 1, 2013 through June 30, 2014. The full reduction of 13 percent would come into effect from July 1, 2014 onward.

As for its employees, the Bank decided to reduce the annual remuneration by between 5.94 percent and 9.79 percent as a provisional and exceptional measure for fiscal 2012 and 2013, in support of rebuilding efforts following the earthquake disaster. With regard to the base levels of annual remuneration for both fiscal 2012 and 2013, to which the reduction rates were applied when calculating the actual annual remuneration, base levels of both salaries and bonuses were kept unchanged from the previous fiscal year.

Table 1

Number of Full-Time Employees as of the End of March 2013

number of people; figures in parentheses are as of the end of March 2012

Total	4,663	(4,675)
Head Office ¹	2,691	(2,677)
Branches	1,899	(1,925)
Local offices ¹	49	(49)
Overseas representative offices	24	(24)

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

IV. ORGANIZATIONAL MANAGEMENT MEASURES IMPLEMENTED IN FISCAL 2012

With a view to addressing the issues and moving forward with the action plans stated in the 2012–14 Strategic Priorities, the Bank implemented the following measures with respect to organizational management.

A. Stable and Efficient Business Operations

The Bank continued to ensure that all operations were executed with precision and deliberation. In particular, it ensured that the necessary operational procedures were put in place in a swift and appropriate manner to implement policy measures effectively.

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

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

With a view to the efficient execution of its business operations, the Bank, based on the Plan-Do-Check-Act (PDCA) cycle, part of which involved operational restructuring and the assessment of its business processes, made efforts to raise the efficiency with which it used management resources as well as the efficiency and productivity of its business operations. These efforts included the following: keeping low priority business operations to a minimum, or where possible abolishing them completely; streamlining business

processes by, for example, making greater use of outsourcing; and achieving a more flexible allocation of human resources. Specifically, the Bank worked to achieve wide-ranging efficiency gains across areas that included the construction of the new BOJ-NET, the provision of services relating to banknotes, treasury funds, and Japanese government securities (JGSs), and the compilation of statistics. The Bank also worked to improve the efficiency of its system development through streamlining development processes, employing new technology, and promoting outsourcing.

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

B. Human Resource Development

The Bank improved job rotation and career development programs, and vigorously promoted personnel exchanges with outside institutions, with a view to developing human resources.

With the aim of promoting working arrangements that take into account employees' work-life balance, the Bank proceeded with improving the employment and working conditions of its employees based on the second phase of the action plans set out in "Measures to Support the Development of the Next Generation" by, for example, implementing measures to support employees who are raising children.

C. Performance Reviews

Every fiscal year the Bank conducts performance reviews of the progress that has been made in the business operations and organizational management highlighted in the Strategic Priorities. Its evaluation of progress in fiscal 2012 for "Issues and Action Plans" and "Organizational Management" set out in the 2012–14 Strategic Priorities is described in the sections entitled "The Bank's Review of Fiscal 2012" and "The Bank's Organizational Management in Fiscal 2012" in this issue of the Annual Review.

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 2012, the Internal Auditors' Office audited 4 departments at the Bank's Head Office (the Financial Markets Department, the Information System Services

Department, the Public Relations Department, and the Personnel and Corporate Affairs Department), 2 overseas representative offices (Hong Kong and Beijing), 16 branches (Sapporo, Sendai, Fukushima, Yokohama, Kofu, Osaka, Shimonoseki, Takamatsu, Matsuyama, Kochi, Kitakyushu, Fukuoka, Oita, Nagasaki, Kumamoto, and Naha), and 5 local offices (Asahikawa, Morioka, Yamagata, Tokushima, and Saga). In addition, in fiscal 2012 the Bank carried out target inspections on services related to subsidy bonds that are now handled centrally at its Head Office.



The Bank's Accounts:

Financial Statements
and Other Documents
for Fiscal 2012

**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, 2013, the Bank of Japan released the "Financial Statements for the 128th Fiscal Year" (in Japanese only), which contains the Bank's financial statements (the inventory of property, balance sheet, and statement of income) for the 128th fiscal year, i.e., fiscal 2012 (April 1, 2012–March 31, 2013), and the schedule for the financial statements for fiscal 2012.

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 2012 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 2012 (the end of March 2013) shows that total assets increased by 18.2 percent (25,355.8 billion yen) from the previous fiscal year-end to 164,812.7 billion yen, mainly due to an increase in holdings of Japanese government securities (JGSs),¹ offsetting a decrease in loans and bills discounted. Total liabilities increased by 18.6 percent (25,282.3 billion yen) from the previous fiscal year-end to 161,523.9 billion yen, mainly due to an increase in current deposits (Table 1).

Detailed developments in the Bank's balance sheet in fiscal 2012 are as follows.

Looking at assets at the fiscal year-end, holdings of JGSs increased by 43.7 percent from the previous fiscal year-end to 125,355.6 billion yen, reflecting the fact that the amount of JGSs purchased and underwritten by the Bank exceeded the amount of those redeemed and sold. Loans and bills discounted decreased by 34.6 percent from the previous fiscal year-end to 25,487.0 billion yen, mainly due to a decrease in the amount of funds provided through funds-supplying operations against pooled collateral. Meanwhile, the amount outstanding of assets purchased and loans provided through the Asset Purchase Program² was 72,076.9 billion yen. The amount outstanding of loans provided through the Loan Support Program³ was 3,684.3 billion yen.

Turning to liabilities, current deposits increased by 68.8 percent from the previous fiscal year-end to 58,128.9 billion yen, mainly reflecting the Bank's provision of funds

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

2. The Bank aimed through this program to further enhance monetary easing via purchases of various financial assets and fixed-rate funds-supplying operations against pooled collateral that encouraged a decline in longer-term market interest rates and a reduction in risk premiums. This program was terminated on April 4, 2013 upon the introduction of quantitative and qualitative monetary easing.

3. 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.

through the Asset Purchase Program. Meanwhile, the amount outstanding of banknotes issued (banknotes in circulation) increased by 3.1 percent from the previous fiscal year-end to 83,378.2 billion yen.

With regard to the Bank's statement of income for fiscal 2012, operating profits increased by 595.6 billion yen from the previous fiscal year to 1,131.6 billion yen, mainly due to substantial net foreign exchange-related gains arising from the depreciation of the yen (Table 2).

Meanwhile, special losses amounted to 295.0 billion yen, due mainly to the transfer of funds to the provision for possible losses on foreign exchange transactions following net foreign exchange-related gains.

Net income for the term—after subtracting corporate income tax and inhabitants and enterprise taxes—increased by 46.9 billion yen from the previous fiscal year to 576.0 billion yen. After transferring 28.8 billion yen to the legal reserve (5 percent of net income for the fiscal year) and paying dividends totaling 5 billion yen (5 percent of the face value of shares), the Bank paid the remainder of its net income to the government (547.2 billion yen).

The capital adequacy ratio, after the appropriation of net income, rose from its previous fiscal year-end level of 7.22 percent to 7.45 percent at the end of fiscal 2012 (Table 3).

Table 1

Principal Assets and Liabilities¹

bil. yen

Item	End of fiscal 2011 (March 31, 2012)	End of fiscal 2012 (March 31, 2013)
Total assets	139,456.9 (-2.0) <-2,906.2>	164,812.7 (+18.2) <+25,355.8>
Of which:		
Japanese government securities	87,247.1 (+12.9) <+9,947.9>	125,355.6 (+43.7) <+38,108.4>
Commercial paper	1,594.8 (5.8 times) <+1,320.5>	1,245.7 (-21.9) <-349.1>
Corporate bonds	1,990.6 (9.8 times) <+1,787.1>	2,887.2 (+45.0) <+896.6>
Pecuniary trusts (stocks held as trust property)	1,428.2 (-4.5) <-67.0>	1,378.0 (-3.5) <-50.2>
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	847.8 (4.6 times) <+662.7>	1,544.0 (+82.1) <+696.1>
Pecuniary trusts (Japan real estate investment trusts held as trust property)	73.6 (4.1 times) <+55.7>	118.9 (+61.6) <+45.3>
Loans and bills discounted	38,995.4 (-30.5) <-17,140.5>	25,487.0 (-34.6) <-13,508.3>
Foreign currency assets	5,872.3 (+25.2) <+1,182.1>	5,526.4 (-5.9) <-345.9>
Total liabilities	136,241.5 (-2.4) <-3,390.9>	161,523.9 (+18.6) <+25,282.3>
Of which:		
Banknotes	80,842.8 (-0.1) <-80.2>	83,378.2 (+3.1) <+2,535.4>
Deposits (excluding those of the government)	35,896.3 (-12.0) <-4,893.7>	58,320.0 (+62.5) <+22,423.6>
Deposits of the government	1,832.4 (-22.2) <-522.9>	1,494.1 (-18.5) <-338.2>
Payables under repurchase agreements	14,397.1 (+17.1) <+2,098.4>	14,505.4 (+0.8) <+108.3>

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

[Reference 1 to Table 1]

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

bil. yen

Item	End of fiscal 2010 (March 31, 2011)	End of fiscal 2011 (March 31, 2012)	End of fiscal 2012 (March 31, 2013)
Total amount outstanding	31,760.6	48,877.7	72,076.9
Japanese government securities	2,250.6	9,768.3	44,582.6
Commercial paper	274.2	1,594.8	1,245.7
Corporate bonds	203.5	1,990.6	2,887.2
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	185.1	847.8	1,544.0
Pecuniary trusts (Japan real estate investment trusts held as trust property)	17.8	73.6	118.9
Loans by funds-supplying operations against pooled collateral	28,829.2	34,602.4	21,698.3

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

2. For the details of this program, see note 2 on page 56.

[Reference 2 to Table 1]

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

bil. yen

Item	End of fiscal 2010 (March 31, 2011)	End of fiscal 2011 (March 31, 2012)	End of fiscal 2012 (March 31, 2013)
Total amount outstanding	3,684.3
Loans made under the fund-provisioning measure to support strengthening the foundations for economic growth	3,684.3

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

2. For the details of this program, see note 3 on page 56.

Table 2

Principal Profits and Losses¹

bil. yen

Item	Fiscal 2011 (April 1, 2011–March 31, 2012)	Fiscal 2012 (April 1, 2012–March 31, 2013)
Operating profits/losses	536.0 (9.9 times) <+481.8>	1,131.6 (2.1 times) <+595.6>
Of which: "Core" operating income ²	763.8 <-17.2>	741.0 <-22.7>
Net government bond-related gains/losses ³	1.2 <+1.2>	0.3 <-0.8>
Net foreign exchange-related gains/losses ⁴	-60.6 <+420.4>	603.6 <+664.2>
Net gains/losses on pecuniary trusts (stocks held as trust property)	-27.6 <-39.3>	-13.3 <+14.2>
Special profits/losses⁵	9.2 <+7.6>	-295.0 <-304.2>
Of which:		
Net transfer to/from provision for possible losses on bonds transactions	... <...>	... <...>
Net transfer to/from provision for possible losses on foreign exchange transactions	... <...>	-301.8 <-301.8>
Net transfer to/from provision for unrealized losses on index-linked exchange-traded funds	2.1 <+4.3>	... <-2.1>
Net transfer to/from provision for unrealized losses on Japan real estate investment trusts	0.1 <+0.2>	... <-0.1>
Net income before taxes	545.3 (9.8 times) <+489.5>	836.6 (+53.4) <+291.3>
Provision for corporate income tax, inhabitants taxes, and enterprise taxes	16.2 <+12.5>	260.6 <+244.3>
Net income ⁶	529.0 (10.1 times) <+476.9>	576.0 (+8.9) <+46.9>

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

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

3. Net gains/losses on sale of JGBs.

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

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

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

Table 3

The Bank's Capital Base and Capital Adequacy Ratio¹

bil. yen, except where otherwise noted

Item	End of fiscal 2010 (March 31, 2011)	End of fiscal 2011 (March 31, 2012)	End of fiscal 2012 (March 31, 2013)	Changes from a year earlier	[Reference] End of the first half of fiscal 2012 (September 30, 2012)
Capital accounts (A)	2,686.2	2,712.7	2,741.5	+28.8	2,712.7
Capital	0.1	0.1	0.1	...	0.1
Legal reserve and others ²	2,686.1	2,712.6	2,741.4	+28.8	2,712.6
Provisions (B)	3,037.8	3,037.8	3,339.6	+301.8	3,037.8
Provision for possible loan losses (excluding special provision for possible loan losses)
Provision for possible losses on bonds transactions	2,243.3	2,243.3	2,243.3	...	2,243.3
Provision for possible losses on foreign exchange transactions	794.5	794.5	1,096.3	+301.8	794.5
Capital base³ (C) = (A) + (B)	5,724.1	5,750.5	6,081.1	+330.6	5,750.5
Annual average of banknotes issued (D)	77,681.6	79,646.4	81,569.5	+1,923.0	80,679.1
Capital adequacy ratio (C)/(D) × 100 (percent)	7.36	7.22	7.45	+0.23	7.12

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.

II. FINANCIAL STATEMENTS

1. Inventory of property as at March 31, 2013

Item	Value in yen	Unit (except where otherwise noted)
ASSETS		
Gold	441,253,409,037	
Cash	323,540,126,250	
Japanese government securities	125,355,626,798,498	Face value at 124,195,860,250,000 yen
Commercial paper	1,245,715,573,746	Face value at 1,245,800,000,000 yen
Corporate bonds	2,887,292,458,984	Face value at 2,852,500,000,000 yen
Pecuniary trusts (stocks held as trust property)	1,378,033,869,914	
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	1,544,000,809,742	
Pecuniary trusts (Japan real estate investment trusts held as trust property)	118,972,150,107	
Loans and bills discounted	25,487,067,000,000	
Electronic loans	25,487,067,000,000	1,571
Foreign currency assets	5,526,470,710,319	
Foreign currency deposits	949,502,132,282	
Foreign currency securities	4,202,429,703,017	
Foreign currency mutual funds	47,169,195,020	
Foreign currency loans	327,369,680,000	
Deposits with agents	22,803,167,847	Deposits with 89 agents
Other assets	276,848,121,861	
Bills and checks in process of collection	2,072,328,960	14
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	60,168,087,633	6
Accrued interest receivable	162,261,697,825	
Others	36,842,633,079	
Tangible fixed assets	204,979,635,610	
Buildings	100,936,146,417	637,581.61 square meters
Land	82,861,043,896	611,170.62 square meters
Lease assets	7,449,941,655	Number of lease property: 23,785
Construction in progress	2,652,457,180	
Other tangible fixed assets	11,080,046,462	Number of movable property: 10,651
Intangible fixed assets	136,225,839	
Utility rights	136,225,839	
Total assets	164,812,740,057,754	
LIABILITIES		
Banknotes	83,378,274,888,019	
Deposits (excluding those of the government)	58,320,053,288,847	
Current deposits	58,128,929,684,391	1,165
Other deposits	191,123,604,456	124
Deposits of the government	1,494,128,994,225	
Treasury deposit	149,999,975,085	
Domestic designated deposit	958,134,134,169	
Other government deposits	385,994,884,971	
Payables under repurchase agreements	14,505,493,650,544	55
Other liabilities	286,743,176,540	
Remittances payable	7,926,965,793	
Unearned interest and discounts	8,219	
Taxes payable	256,601,459,000	
Lease liabilities	7,867,999,266	
Others	14,346,744,262	
Provision for retirement benefits	199,621,403,767	
Provision for possible losses on bonds transactions	2,243,348,993,013	
Provision for possible losses on foreign exchange transactions	1,096,310,000,000	
Total liabilities	161,523,974,394,955	
NET ASSETS		
Capital	100,000,000	
Legal reserve	2,712,623,789,214	
Special reserve	13,196,452	
Net income	576,028,677,133	
Total net assets	3,288,765,662,799	
Total liabilities and net assets	164,812,740,057,754	

2. Balance sheet as at March 31, 2013

yen

ASSETS	
Gold	441,253,409,037
Cash	323,540,126,250
Japanese government securities	125,355,626,798,498
Commercial paper	1,245,715,573,746
Corporate bonds	2,887,292,458,984
Pecuniary trusts (stocks held as trust property)	1,378,033,869,914
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	1,544,000,809,742
Pecuniary trusts (Japan real estate investment trusts held as trust property)	118,972,150,107
Loans and bills discounted	25,487,067,000,000
Electronic loans	25,487,067,000,000
Foreign currency assets	5,526,470,710,319
Foreign currency deposits	949,502,132,282
Foreign currency securities	4,202,429,703,017
Foreign currency mutual funds	47,169,195,020
Foreign currency loans	327,369,680,000
Deposits with agents	22,803,167,847
Other assets	276,848,121,861
Bills and checks in process of collection	2,072,328,960
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	60,168,087,633
Accrued interest receivable	162,261,697,825
Others	36,842,633,079
Tangible fixed assets	204,979,635,610
Buildings	100,936,146,417
Land	82,861,043,896
Lease assets	7,449,941,655
Construction in progress	2,652,457,180
Other tangible fixed assets	11,080,046,462
Intangible fixed assets	136,225,839
Utility rights	136,225,839
Total assets	164,812,740,057,754
LIABILITIES	
Banknotes	83,378,274,888,019
Deposits (excluding those of the government)	58,320,053,288,847
Current deposits	58,128,929,684,391
Other deposits	191,123,604,456
Deposits of the government	1,494,128,994,225
Treasury deposit	149,999,975,085
Domestic designated deposit	958,134,134,169
Other government deposits	385,994,884,971
Payables under repurchase agreements	14,505,493,650,544
Other liabilities	286,743,176,540
Remittances payable	7,926,965,793
Unearned interest and discounts	8,219
Taxes payable	256,601,459,000
Lease liabilities	7,867,999,266
Others	14,346,744,262
Provision for retirement benefits	199,621,403,767
Provision for possible losses on bonds transactions	2,243,348,993,013
Provision for possible losses on foreign exchange transactions	1,096,310,000,000
Total liabilities	161,523,974,394,955
NET ASSETS	
Capital	100,000,000
Legal reserve	2,712,623,789,214
Special reserve	13,196,452
Net income	576,028,677,133
Total net assets	3,288,765,662,799
Total liabilities and net assets	164,812,740,057,754

3. Statement of income for fiscal 2012 (April 1, 2012–March 31, 2013)

yen

Operating income	1,398,260,282,572
Interest on loans and discounts	33,239,426,120
Interest on loans	33,239,426,120
Interest and discounts on Japanese government securities	622,542,416,372
Interest on commercial paper	1,868,982,953
Interest and discounts on corporate bonds	6,533,928,400
Gains on sale of Japanese government securities	367,224,800
Gains on foreign currency assets	680,868,739,635
Foreign exchange gains	603,620,696,124
Gains on foreign currency securities	70,078,958,431
Gains on foreign currency mutual funds	4,589,007,722
Gains on foreign currency pecuniary trusts	1,907,047,553
Interest on foreign currency deposits and loans	673,029,805
Other operating income	52,839,564,292
Gains on pecuniary trusts (index-linked exchange-traded funds held as trust property)	21,471,587,757
Gains on pecuniary trusts (Japan real estate investment trusts held as trust property)	5,166,926,884
Dividends	633,286,793
Fees and commissions	11,174,198,775
Other income	14,393,564,083
Operating expenses	266,564,832,393
Interest on payables under repurchase agreements	19,902,268,038
General and administrative expenses and costs	189,917,166,374
Cost of production of banknotes	48,318,609,000
Administrative expenses for treasury business and Japanese government securities	17,990,227,533
Personnel expenses	47,589,624,388
Expenses for transportation and communications	4,306,826,728
Expenses for maintenance and repairs	1,978,502,555
Other general and administrative expenses and costs	50,110,096,815
Taxes excluding corporate income tax, inhabitants taxes, and enterprise taxes	3,875,595,811
Depreciation and amortization	15,747,683,544
Other general and administrative expenses	56,745,397,981
Losses on pecuniary trusts (stocks held as trust property)	13,371,076,375
Fees and commissions paid	129,678,562
Other expenses	43,244,643,044
Operating profits	1,131,695,450,179
Special profits	6,953,112,891
Gains on disposal of fixed assets	5,194,011,066
Other special profits	1,759,101,825
Special losses	301,989,618,617
Losses on disposal of fixed assets	179,618,617
Transfer to provision for possible losses on foreign exchange transactions	301,810,000,000
Net income before taxes	836,658,944,453
Provision for corporate income tax, inhabitants taxes, and enterprise taxes	260,630,267,320
Net income	576,028,677,133

4. Summary of significant accounting policies

a. Securities

Yen-denominated bonds and CP⁴ are valued at amortized cost determined by the moving-average method.

Foreign currency-denominated bonds and foreign currency-denominated mutual funds are valued at market value.

Stocks, beneficiary interests in index-linked exchange-traded funds, and investment equities issued by real estate investment corporations are valued at cost determined by the moving-average method.

Impairment procedures will be applied for CP, corporate bonds,⁵ stocks, beneficiary interests in index-linked exchange-traded funds, and investment equities issued by real estate investment corporations whose market values have fallen considerably.

Securities held as trust property in pecuniary trusts⁶ are valued in accordance with the procedures prescribed above according to the type of securities.

b. Tangible and intangible fixed assets

Depreciation is computed as follows:

(1) Buildings

Depreciation is computed by the declining-balance method while the straight-line method is applied to buildings acquired on or after April 1, 1998, at a rate based on the Corporation Tax Act.

(2) Accessory equipment in the Bank's buildings and movable property

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

(3) Lease assets arising from finance lease transactions that transfer ownership

Depreciation is computed based on the same depreciation method as is applied to fixed assets owned by the Bank.

(4) Lease assets arising from finance lease transactions that do not transfer ownership

Depreciation is computed using the straight-line method based on the assumption that the useful life equals the lease term and the residual value equals zero.

(5) Others

Depreciation is computed in accordance with the Corporation Tax Act.

4. CP here comprises the following types, in dematerialized or physical form: (1) CP issued by domestic corporations; (2) CP issued by foreign corporations with guarantees (dematerialized only); (3) asset-backed CP; and (4) CP issued by real estate investment corporations.

5. Includes bonds issued by real estate investment corporations.

6. Includes (1) "money trusts," where the beneficiaries entrust money to be held as trust property, and at the end of the term receive money; and (2) "pecuniary trusts other than money trusts," where the beneficiaries entrust money to be held as trust property, and at the end of the term receive securities or other forms of property in which the money has been invested.

c. Foreign currency transactions

Assets and liabilities denominated in foreign currencies are translated into yen at the foreign exchange rate prevailing at the balance-sheet date. However, the amount of capital subscription to an international financial institution is translated into yen at the foreign exchange rate prevailing at the time of subscription. Assets and liabilities deriving from the Bank's U.S. dollar funds-supplying operations against pooled collateral are translated into yen at the foreign exchange rates used in swap transactions with the Federal Reserve Bank of New York.

d. Transfers to/from provisions**(1) Provision for possible loan losses**

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

(2) Provision for retirement benefits

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

Unrecognized actuarial differences are amortized from the fiscal year following the one in which the difference arises; this is done using the straight-line method, which fixes the amount of the amortization and applies it over a certain number of years—within the average remaining service period of employees at the time (the amortization is applied over ten years).

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

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

(4) Provisions for unrealized losses on stockholdings, index-linked exchange-traded fund holdings, and Japan real estate investment trust holdings

Provisions for unrealized losses on stockholdings, index-linked exchange-traded fund holdings, and Japan real estate investment trust holdings will be registered for the difference between the market value and the book value for each in cases where the market value is less than the book value.

e. Significant changes in the accounting standard

In accordance with the amendment of the Corporation Tax Act, the Bank has changed its depreciation method for tangible fixed assets acquired on or after April 1, 2012, beginning with the financial statements for fiscal 2012. This change had little impact on the financial statements for the fiscal year.

Explanatory Notes to Lease Transactions

1. Finance lease transactions

Finance lease transactions that do not transfer ownership

a. Details of lease assets

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

b. Methods used in calculating the depreciation of lease assets

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

2. Operating lease transactions

Future minimum lease payments for non-cancelable operating lease transactions

a. Lessee

	mil. yen
Within one year	167
More than one year	164
<hr/>	
Total	332

b. Lessor

	mil. yen
Within one year	1
More than one year	45
<hr/>	
Total	47

Explanatory Notes to Accounting for Retirement Benefits¹

1. Projected benefit obligation			yen
Projected benefit obligation	(A)	-200,699,678,000	
Fair value of plan assets	(B)	...	
<hr/>			
Unfunded projected benefit obligation	(C) = (A) + (B)	-200,699,678,000	
Unrecognized actuarial differences	(D)	1,078,274,233	
Unrecognized prior service cost	(E)	...	
<hr/>			
Net amount recorded on the balance sheet	(F) = (C) + (D) + (E)	-199,621,403,767	
Prepaid pension cost	(G)	...	
<hr/>			
Provision for retirement benefits	(F) - (G)	-199,621,403,767	
2. Pension expenses			yen
Service costs		4,782,083,000	
Interest costs		4,003,226,000	
Expected return on plan assets		...	
Amortization of actuarial differences		1,229,810,276	
Amortization of prior service cost		...	
Others (such as extra retirement benefits)		...	
<hr/>			
Pension expenses		10,015,119,276	
3. Assumptions			
Discount rate		2.0%	
Expected rate of return on plan assets		...	
Method of attributing the projected benefits to periods of service		Straight-line method	
Amortization period of actuarial differences		10 years	
Amortization period of service cost		...	

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

5. Auditors' opinion⁷

May 9, 2013

Auditors' Opinion on the Bank of Japan's Financial Statements for Fiscal 2012

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 2012 indicated below. In our opinion, the financial statements present fairly the state of property and the results of operations for fiscal 2012.

The financial statements comprise the following:
Inventory of property as at March 31, 2013;
Balance sheet as at March 31, 2013; and
Statement of income for fiscal 2012.

Makoto Hosomi
Kazuhito Osugi
Yuji Iino

Auditors, Bank of Japan

6. Appropriation of net income for fiscal 2012

yen

Net income	576,028,677,133
Appropriations:	
Transfer to legal reserve	28,801,433,857
Dividends, 5 percent of share face value	5,000,000
Payment to the government	547,222,243,276
Total	576,028,677,133

⁷ This presents a translation, for convenience only, of the original report issued in Japanese.

III. SCHEDULE FOR THE FINANCIAL STATEMENTS

1. Details of assets

yen

Item	Balance at the beginning of fiscal 2012	Balance at the end of fiscal 2012	Changes during fiscal 2012
1. Gold	441,253,409,037	441,253,409,037	0
2. Cash¹	358,139,466,709	323,540,126,250	-34,599,340,459
3. Japanese government securities²	87,247,192,944,581	125,355,626,798,498	38,108,433,853,917
Treasury discount bills	16,560,545,604,150	34,006,385,099,605	17,445,839,495,455
Japanese government bonds	70,686,647,340,431	91,349,241,698,893	20,662,594,358,462
2-year Japanese government bonds	12,319,777,647,237	19,094,649,889,195	6,774,872,241,958
5-year Japanese government bonds	12,773,871,135,794	22,163,404,377,540	9,389,533,241,746
10-year Japanese government bonds	26,367,456,958,344	28,999,723,652,281	2,632,266,693,937
20-year Japanese government bonds	15,228,485,644,043	16,082,741,884,653	854,256,240,610
Floating-rate Japanese government bonds	2,277,172,298,365	3,110,219,438,261	833,047,139,896
Inflation-indexed bonds	998,406,118,309	1,129,185,050,088	130,778,931,779
Others	721,477,538,339	769,317,406,875	47,839,868,536
4. Commercial paper³	1,594,876,498,444	1,245,715,573,746	-349,160,924,698
Dematerialized commercial paper	1,594,876,498,444	1,245,715,573,746	-349,160,924,698
5. Corporate bonds⁴	1,990,643,768,227	2,887,292,458,984	896,648,690,757
6. Pecuniary trusts (stocks held as trust property)⁵	1,428,289,344,745	1,378,033,869,914	-50,255,474,831
Stocks	1,409,968,361,495	1,360,524,610,814	-49,443,750,681
Dividends receivable and others	18,320,983,250	17,509,259,100	-811,724,150
7. Pecuniary trusts (index-linked exchange-traded funds held as trust property)⁶	847,854,505,850	1,544,000,809,742	696,146,303,892
Index-linked exchange-traded funds	847,854,505,850	1,544,000,809,742	696,146,303,892
8. Pecuniary trusts (Japan real estate investment trusts held as trust property)⁷	73,634,787,553	118,972,150,107	45,337,362,554
Japan real estate investment trusts	72,751,330,737	117,481,388,575	44,730,057,838
Distributions receivable	883,456,816	1,490,761,532	607,304,716
9. Loans and bills discounted	38,995,460,000,000	25,487,067,000,000	-13,508,393,000,000
Loans on deeds	20,000,000,000	0	-20,000,000,000
Of which: Loans pursuant to "Principal Terms and Conditions for Provision of Subordinated Loans"	20,000,000,000	0	-20,000,000,000
Electronic loans	38,975,460,000,000	25,487,067,000,000	-13,488,393,000,000
Loans by complementary lending facility	7,000,000,000	1,000,000,000	-6,000,000,000
Loans by funds-supplying operations against pooled collateral ⁸	38,968,460,000,000	25,486,067,000,000	-13,482,393,000,000
10. Foreign currency assets	5,872,387,245,527	5,526,470,710,319	-345,916,535,208
Foreign currency deposits ⁹	67,373,884,694	949,502,132,282	882,128,247,588
Foreign currency securities ^{10,11}	4,594,177,572,539	4,202,429,703,017	-391,747,869,522
Foreign currency mutual funds	39,207,482,843	47,169,195,020	7,961,712,177
Foreign currency pecuniary trusts	136,412,645,451	0	-136,412,645,451
Foreign currency loans ¹²	1,035,215,660,000	327,369,680,000	-707,845,980,000
11. Deposits with agents¹³	32,401,238,412	22,803,167,847	-9,598,070,565

- Notes:
1. Coins reserved for circulation.
 2. Includes the amount outstanding of JGSs purchased through the Asset Purchase Program.
 3. Purchased through the Asset Purchase Program and comprises the following types in dematerialized or physical form: (1) CP issued by domestic corporations; (2) CP issued by foreign corporations with guarantees (dematerialized only); (3) asset-backed CP; and (4) CP issued by real estate investment corporations.
 4. Purchased through the Asset Purchase Program and includes corporate bonds issued by real estate investment corporations.
 5. Comprises stocks purchased from financial institutions through a trust bank, and dividends receivable and others.
 6. Comprises beneficiary interests in index-linked exchange-traded funds purchased through a trust bank through the Asset Purchase Program and distributions receivable.
 7. Comprises investment equities issued by real estate investment corporations purchased through a trust bank through the Asset Purchase Program and distributions receivable.
 8. Includes the amount outstanding of loans made under the fund-provisioning measure to support strengthening the foundations for economic growth, that of loans made through funds-supplying operations against pooled collateral conducted through the Asset Purchase Program, and that from the funds-supplying operation to support financial institutions in disaster areas. With regard to loans made under the fund-provisioning measure to support strengthening the foundations for economic growth, the amount outstanding at the fiscal year-end is that of loans made under the measure conducted through the Loan Support Program, excluding the amount outstanding of loans disbursed pursuant to the special rules for the U.S. dollar lending arrangement.
 9. Deposits held at foreign central banks and the Bank for International Settlements (BIS).
 10. Includes securities issued by foreign governments.
 11. 397,401,879,685 yen of the amount outstanding of the foreign currency securities at the fiscal year-end comprises loans due to lending/borrowing of securities.
 12. The amount outstanding at the beginning of the fiscal year comprises that of loans arising from 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 fund-provisioning measure to support strengthening the foundations for economic growth conducted through the Loan Support Program.
 13. 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 2012	Balance at the end of fiscal 2012	Changes during fiscal 2012
12. Other assets	367,430,843,764	276,848,121,861	-90,582,721,903
Bills and checks in process of collection ¹⁴	43,514,872	2,072,328,960	2,028,814,088
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 ¹⁵	15,278,374,364	15,278,374,364	0
Provision of funds to the Deposit Insurance Corporation's "Jusen account" ¹⁶	100,000,000,000	0	-100,000,000,000
Withdrawn cash to be returned to the government ¹⁷	59,321,645,761	60,168,087,633	846,441,872
Accrued interest receivable	159,830,148,482	162,261,697,825	2,431,549,343
Others	32,732,160,285	36,842,633,079	4,110,472,794

Notes: 14. Checks and bills received as cash and in process of collection.

15. A subscription to the BIS.

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

17. 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 2012	Increase during fiscal 2012	Decrease during fiscal 2012	Of which:	Balance at the end of fiscal 2012	Cumulative total of depreciation
				Depreciation		
13. Tangible fixed assets¹⁸	207,222,664,639	20,942,745,024	23,185,774,053	15,164,881,789	204,979,635,610	330,465,042,881
Buildings ^{19,20}	102,398,056,480 (644,551.51)	7,348,154,417 (0.00)	8,810,064,480 (6,969.90)	8,638,577,316 (...)	100,936,146,417 (637,581.61)	296,952,724,172 (...)
Land ¹⁹	82,879,147,996 (635,565.34)	0 (161.05)	18,104,100 (24,555.77)	... (...)	82,861,043,896 (611,170.62)	... (...)
Lease assets ^{21,22}	7,802,912,201 (23,546)	3,197,334,676 (4,455)	3,550,305,222 (4,216)	3,545,184,708 (...)	7,449,941,655 (23,785)	7,894,572,474 (...)
Construction in progress ²³	2,163,999,280	8,203,995,637	7,715,537,737	...	2,652,457,180	...
Other tangible fixed assets ^{24,25}	11,978,548,682 (10,803)	2,193,260,294 (213)	3,091,762,514 (365)	2,981,119,765 (...)	11,080,046,462 (10,651)	25,617,746,235 (...)

Notes: 18. "..." indicates that figures are not applicable.

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

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

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

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

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

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

25. 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 2012	Increase during fiscal 2012	Decrease during fiscal 2012	Of which:	Balance at the end of fiscal 2012	Cumulative total of depreciation
				Depreciation		
14. Intangible fixed assets	148,989,783	2,084,074	14,848,018	14,848,018	136,225,839	812,884,978
Utility rights	148,989,783	2,084,074	14,848,018	14,848,018	136,225,839	812,884,978

Appendix 1: Details of assets purchased and loans provided through the Asset Purchase Program¹

yen

Item	Balance at the beginning of fiscal 2012	Balance at the end of fiscal 2012	Changes during fiscal 2012
Total amount outstanding	48,877,755,891,952	72,076,908,717,426	23,199,152,825,474
Treasury discount bills	3,454,098,850,384	16,448,873,707,797	12,994,774,857,413
Japanese government bonds	6,314,247,481,494	28,133,754,017,050	21,819,506,535,556
2-year Japanese government bonds	5,478,998,224,479	16,596,219,998,924	11,117,221,774,445
5-year Japanese government bonds	368,335,952,423	8,704,570,341,256	8,336,234,388,833
10-year Japanese government bonds	466,913,304,592	2,818,721,911,092	2,351,808,606,500
20-year Japanese government bonds	0	14,241,765,778	14,241,765,778
Commercial paper	1,594,876,498,444	1,245,715,573,746	-349,160,924,698
Dematerialized commercial paper	1,594,876,498,444	1,245,715,573,746	-349,160,924,698
Corporate bonds	1,990,643,768,227	2,887,292,458,984	896,648,690,757
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	847,854,505,850	1,544,000,809,742	696,146,303,892
Pecuniary trusts (Japan real estate investment trusts held as trust property)	73,634,787,553	118,972,150,107	45,337,362,554
Loans by funds-supplying operations against pooled collateral	34,602,400,000,000	21,698,300,000,000	-12,904,100,000,000

Note: 1. For the details of this program, see note 2 on page 56.

Appendix 2: Details of loans provided through the Loan Support Program¹

yen

Item	Balance at the beginning of fiscal 2012	Balance at the end of fiscal 2012	Changes during fiscal 2012
Total amount outstanding	0	3,684,336,680,000	3,684,336,680,000
Loans made under the fund-provisioning measure to support strengthening the foundations for economic growth	0	3,684,336,680,000	3,684,336,680,000

Note: 1. For the details of this program, see note 3 on page 56.

2. Details of liabilities and net assets

yen

Item	Balance at the beginning of fiscal 2012	Balance at the end of fiscal 2012	Changes during fiscal 2012
1. Banknotes	80,842,816,101,358	83,378,274,888,019	2,535,458,786,661
10,000 yen notes	74,046,285,135,000	76,440,768,260,000	2,394,483,125,000
5,000 yen notes	2,722,972,037,500	2,818,242,075,000	95,270,037,500
2,000 yen notes	205,497,932,000	201,426,592,000	-4,071,340,000
1,000 yen notes	3,714,154,138,500	3,765,348,604,500	51,194,466,000
Other banknotes ¹	153,906,858,358	152,489,356,519	-1,417,501,839
2. Deposits (excluding those of the government)	35,896,359,874,131	58,320,053,288,847	22,423,693,414,716
Current deposits	34,432,345,287,416	58,128,929,684,391	23,696,584,396,975
Current deposits of financial institutions ²	32,381,102,346,600	55,480,785,778,780	23,099,683,432,180
Other current deposits of nonfinancial institutions ³	2,051,242,940,816	2,648,143,905,611	596,900,964,795
Other deposits ⁴	1,464,014,586,715	191,123,604,456	-1,272,890,982,259
3. Deposits of the government	1,832,410,092,242	1,494,128,994,225	-338,281,098,017
Treasury deposit	150,001,109,560	149,999,975,085	-1,134,475
Domestic designated deposit ⁵	1,264,751,940,556	958,134,134,169	-306,617,806,387
Other government deposits ⁶	417,657,042,126	385,994,884,971	-31,662,157,155
4. Payables under repurchase agreements⁷	14,397,136,807,129	14,505,493,650,544	108,356,843,415
Sales of Japanese government bonds under repurchase agreements to the government	12,552,159,163,630	12,469,768,660,557	-82,390,503,073
Sales of treasury discount bills under repurchase agreements to foreign central banks and other foreign entities	1,844,669,684,721	2,035,214,875,995	190,545,191,274
Other sales of Japanese government securities under repurchase agreements	307,958,778	510,113,992	202,155,214
Of which: Under the securities lending facility	307,958,778	510,113,992	202,155,214
5. Other liabilities	35,850,139,023	286,743,176,540	250,893,037,517
Remittances payable	5,808,606,169	7,926,965,793	2,118,359,624
Unearned interest and discounts	115,068	8,219	-106,849
Taxes payable	12,767,000,000	256,601,459,000	243,834,459,000
Lease liabilities	8,181,400,388	7,867,999,266	-313,401,122
Others	9,093,017,398	14,346,744,262	5,253,726,864

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

yen

Item	Balance at the beginning of fiscal 2012	Increase during fiscal 2012	Decrease during fiscal 2012	Balance at the end of fiscal 2012
6. Provisions⁸	3,237,012,172,962	311,825,119,276	9,556,895,458	3,539,280,396,780
Provision for retirement benefits	199,163,179,949	10,015,119,276	9,556,895,458	199,621,403,767
Provision for possible losses on bonds transactions	2,243,348,993,013	0	0	2,243,348,993,013
Provision for possible losses on foreign exchange transactions	794,500,000,000	301,810,000,000	0	1,096,310,000,000
7. Net assets	2,686,283,641,731	26,453,343,935	0	2,712,736,985,666
Capital	100,000,000	0	0	100,000,000
Legal reserve ⁹	2,686,170,445,279	26,453,343,935	0	2,712,623,789,214
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 2012

a. Operating income

Interest on loans and discounts	
Interest on loans	33,141,997,720 yen from electronic loans and 97,428,400 yen from loans on deeds.
Interest and discounts on Japanese government securities	622,542,416,372 yen from interest income on Japanese government securities after adjustment.
Interest on commercial paper	1,868,982,953 yen from interest income on commercial paper after adjustment.
Interest and discounts on corporate bonds	6,533,928,400 yen from interest income on corporate bonds after adjustment.
Gains on sale of Japanese government securities	367,224,800 yen from gains on sales of Japanese government bonds.
Gains on foreign currency assets	
Foreign exchange gains	603,620,696,124 yen from gains on foreign currency assets resulting from revaluation following fluctuations in foreign exchange rates.
Gains on foreign currency securities	Total of 75,902,441,459 yen from interest and discounts on foreign currency securities and 271,393,461 yen from lending fees on them; and 6,094,876,489 yen of losses arising from sale, redemption, and revaluation at end-March 2013 of foreign currency securities.
Gains on foreign currency mutual funds	4,589,007,722 yen
Gains on foreign currency pecuniary trusts	1,907,047,553 yen
Interest on foreign currency deposits and loans	673,029,805 yen
Other operating income	
Gains on pecuniary trusts (index-linked exchange-traded funds held as trust property)	21,471,587,757 yen mainly from distributions.
Gains on pecuniary trusts (Japan real estate investment trusts held as trust property)	5,166,926,884 yen mainly from distributions.
Dividends	633,286,793 yen for dividends from shares of the Bank for International Settlements held by the Bank.
Fees and commissions	11,174,198,775 yen for fees and commissions for operations regarding Japanese government securities, the BOJ-NET, foreign exchange transactions, and other operations.
Other income	14,393,564,083 yen from transfer from provision for retirement benefits and other miscellaneous income.

b. Operating expenses

Interest on payables under repurchase agreements	19,902,268,038 yen for interest payment on sale of Japanese government securities under repurchase agreements.
General and administrative expenses and costs	
Cost of production of banknotes	48,318,609,000 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	17,990,227,533 yen from fees and commissions paid to agents of the Bank for administration of treasury business and Japanese government securities.
Personnel expenses	339,713,100 yen for remuneration of the officers; 37,634,941,830 yen for remuneration of the employees; and 9,614,969,458 yen for retirement allowances.
Expenses for transportation and communications	1,668,419,542 yen for expenses for transportation and 2,638,407,186 yen for expenses for communications.
Expenses for maintenance and repairs	1,978,502,555 yen on offices and other premises.
Other general and administrative expenses and costs	1,063,074,596 yen for the cost of expendable supplies; 1,928,509,313 yen for expenses for electricity and water supply; 9,559,759,715 yen for leasing fees for buildings and equipment; 9,057,620,318 yen for expenses for maintenance of buildings and equipment; and 28,501,132,873 yen for miscellaneous expenses.
Taxes excluding corporate income tax, inhabitants taxes, and enterprise taxes	3,875,595,811 yen for taxes and public charges (including fixed-asset tax and urban development tax).
Depreciation and amortization	15,747,683,544 yen on buildings and lease assets.
Other general and administrative expenses	
Losses on pecuniary trusts (stocks held as trust property)	13,371,076,375 yen of losses arising from revaluation due to impairment losses.
Fees and commissions paid	129,678,562 yen
Other expenses	43,244,643,044 yen for interest on domestic designated deposit; interest on excess reserve balances under the complementary deposit facility; interest payment on currency swap transactions; transfers to provision for retirement benefits; and other expenses.

c. Special profits

Gains on disposal of fixed assets	5,194,011,066 yen for gains on sale of land for the Bank's premises.
Other special profits	1,759,101,825 yen for gains arising from adjustment to interest and discounts on corporate bonds.

d. Special losses

Losses on disposal of fixed assets	179,618,617 yen for losses on disposals of automatic banknote examination machines and other properties.
Transfer to provision for possible losses on foreign exchange transactions	301,810,000,000 yen

e. Net income

Net income before taxes	836,658,944,453 yen
Provision for corporate income tax, inhabitants taxes, and enterprise taxes	260,630,267,320 yen
Net income	576,028,677,133 yen

IV. EXPENSES

With regard to the Bank's statement of accounts for fiscal 2012 (the 128th fiscal year), the total amount of actual expenses increased by 1.4 percent (2.5 billion yen) to 180.8 billion yen compared to the previous fiscal year. This was mainly due to the following. While the "cost of production of banknotes" decreased due to a cost reduction and "personnel expenses" also decreased due to cuts to the remuneration of the Bank's officers and employees, these decreases were more than offset by increases in the "cost of fixed-asset purchases" reflecting large-scale improvements to the Bank's premises and increases in "other general and administrative expenses and costs," particularly expenses related to computerization.

1. Statement of accounts for fiscal 2012

yen

Item	Initial budget	Use of contingency funds	Diversion of funds	Adjusted budget ¹	Actual	Surpluses	Changes from the previous year (actual)
Cost of production of banknotes	49,744,700,000	0	0	49,744,700,000	48,318,609,000	1,426,091,000	-1,602,831,000
Administrative expenses for treasury business and Japanese government securities	18,883,466,000	0	0	18,883,466,000	17,990,227,533	893,238,467	-21,407,550
Personnel expenses	50,527,703,000	0	0	50,527,703,000	47,589,624,388	2,938,078,612	-1,584,849,704
Remuneration of the officers	352,302,000	0	0	352,302,000	339,713,100	12,588,900	-77,904,700
Remuneration of the employees	40,238,721,000	0	0	40,238,721,000	37,634,941,830	2,603,779,170	-1,790,219,420
Retirement allowances	9,936,680,000	0	0	9,936,680,000	9,614,969,458	321,710,542	283,274,416
Expenses for transportation and communications	4,929,556,000	0	0	4,929,556,000	4,306,826,728	622,729,272	-194,452,990
Expenses for transportation	1,994,695,000	0	0	1,994,695,000	1,668,419,542	326,275,458	-139,693,752
Expenses for communications	2,934,861,000	0	0	2,934,861,000	2,638,407,186	296,453,814	-54,759,238
Expenses for maintenance and repairs	1,997,675,000	0	0	1,997,675,000	1,978,502,555	19,172,445	276,280,255
Other general and administrative expenses and costs	56,378,377,000	0	0	56,378,377,000	50,110,096,815	6,268,280,185	2,240,491,603
Cost of expendable supplies	1,325,974,000	0	0	1,325,974,000	1,063,074,596	262,899,404	-71,551,097
Expenses for electricity and water supply	2,224,085,000	0	0	2,224,085,000	1,928,509,313	295,575,687	180,340,058
Leasing fees for buildings and equipment	11,048,024,000	0	0	11,048,024,000	9,559,759,715	1,488,264,285	331,300,233
Expenses for maintenance of buildings and equipment	9,824,164,000	0	0	9,824,164,000	9,057,620,318	766,543,682	219,863,542
Miscellaneous expenses	31,956,130,000	0	0	31,956,130,000	28,501,132,873	3,454,997,127	1,580,538,867
Subtotal	182,461,477,000	0	0	182,461,477,000	170,293,887,019	12,167,589,981	-886,769,386
Cost of fixed-asset purchases	11,211,125,000	0	0	11,211,125,000	10,521,220,425	689,904,575	3,431,622,589
Of which: Subject to the approval of the Minister of Finance ²	2,449,636,000	0	0	2,449,636,000	2,359,501,001	90,134,999	-263,455,893
Contingency funds	1,000,000,000	0	0	1,000,000,000	0	1,000,000,000	0
Total	194,672,602,000	0	0	194,672,602,000	180,815,107,444	13,857,494,556	2,544,853,203
Of which: Subject to the approval of the Minister of Finance ²	185,911,113,000	0	0	185,911,113,000	172,653,388,020	13,257,724,980	-1,150,225,279

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 2012¹

mil. yen

Area of business operation	Expenses	Changes from a year earlier	Share of total (percent)
Issuance of banknotes	78,124	-2,623	41.1
Monetary policy	24,194	+1,819	12.7
Financial system policy	16,106	-1,354	8.5
Payment and settlement systems	31,927	+1,464	16.8
Services relating to the government ²	39,565	-1,020	20.8
Total	189,917	-1,714	100.0

Notes: 1. Calculated based on "general and administrative expenses and costs" (189.9 billion yen) in the statement of income for fiscal 2012 (the 128th 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 2013–2015**

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 2012 and at the beginning of fiscal 2013.

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

A. Financial Statements and Other Documents for Fiscal 2011

From April through to early May 2012, the Auditors audited the Bank's financial statements and other documents, specifically, the inventory of property, the balance sheet, the statement of income, the statement of accounts, the appropriation of net income, and the schedule for the financial statements for fiscal 2011 (the 127th fiscal year) as well as the statement of income for the second half of fiscal 2011.

The Auditors submitted to the Governor their written opinions indicating that the financial statements and other documents presented fairly the state of property, the results of operations, and the expenses for fiscal 2011 as well as the results of operations for the second half of fiscal 2011.

B. Financial Statements and Other Documents for the First Half of Fiscal 2012

From October through to early November 2012, 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 2012 (the 128th 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 2012.

C. Financial Statements and Other Documents for Fiscal 2012

From April through to early May 2013, 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 2012 as well as the statement of income for the second half of fiscal 2012.

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 2012 as well as the results of operations for the second half of fiscal 2012.

II. Audits of Cash, Securities, and Books

In fiscal 2012, the Auditors conducted a total of 57 on-site audits on 7 Head Office departments and 32 branches of the Bank, examining cash and securities in their custody as well as their books.

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

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

In fiscal 2012, the Auditors conducted on-site audits on 32 branches and 12 of the Bank's local offices in Japan to assess business operations and expenses, as well as on 2 Head Office departments to assess operations relating to expenses and contracts. They also conducted

a total of 204 meetings with Head Office departments to review the execution of business operations, receiving explanatory overviews of business operations at each department as well as reports concerning high-priority issues from relevant departments. In addition, they conducted 385 examinations of key documents and a special on-site visit to the Bank's premises.

APPENDIX 2: THE BANK OF JAPAN'S STRATEGIC PRIORITIES FOR FISCAL 2013–2015¹**I. Introduction**

"The Bank of Japan's Strategic Priorities for Fiscal 2013-2015" describes the basic principles for the Bank's business operations and organizational management during the three-year period.

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

II. Background

Various structural changes have been taking place in Japan's economic and financial environment, including globalization, the growing significance of emerging and commodity-exporting economies to the world economy, and technological innovations in fields such as information and communications technology. The accompanying economic and financial developments have been marked by complexity and volatility. This may cause imbalances to accumulate in the economy, triggering large-scale economic adjustments. The ongoing global economic adjustment reflecting, for example, the worldwide accumulation of financial imbalances can be considered a case in point.

Japan's economy is faced with the challenge of strengthening its medium- to long-term growth potential at a time when a shrinking population, a low birth rate, and population aging have been causing its growth rate

to trend downward. The country also has some more immediate tasks to deal with, such as rebuilding after the Great East Japan Earthquake. In this situation, in order for Japan's economy to overcome deflation as early as possible and achieve sustainable growth path with price stability, efforts by a wide range of entities to strengthen the economy's growth potential and support from the financial side are essential. Other critical challenges are the implementation of bold regulatory and institutional reforms and the establishment of a sustainable fiscal structure. Attention should continue to be paid to the disparities in economic conditions among regions as well as in profitability and financial strength among regional financial institutions, reflecting factors such as regional differences in economic structure.

With international discussion on maintaining financial system stability deepening, it is important for Japan to involve itself appropriately in establishing new international rules regarding financial regulation and supervision in view of their impact on, for example, the financial intermediation function. In addition, it is essential for individual countries and regions around the world to achieve steady progress in their respective efforts to attain financial system stability.

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

The Bank must maintain the stability and efficiency of its central banking operations, while ensuring that working arrangements offer sufficient diversity for

1. This document was released on March 15, 2013.

employees to improve their work-life balance² in response to changes in Japan's social structure. As a public organization, the Bank is also required by the public to constantly maintain the fairness and efficiency with which it runs its business.

III. Management Principles

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

A. Stability and Efficiency in All Business Operations

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

B. Learning in Action

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

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

C. Enhancement of Communication Channels

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

The above three management principles have been in place without modification since they were formulated in fiscal 2009 to show the basic thinking behind the Bank's Strategic Priorities, and they are now in their fifth year. The Bank has taken this opportunity to assess, in light of the three principles, the major efforts it has made to date based on the Strategic Priorities.

IV. Issues and Action Plans

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

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

with a number of action plans.³

Given the Bank's performance review as well as the recent developments in Japan's economic and financial environment described in Section II, the Bank will address new issues and implement new action plans during fiscal 2013–2015. In the process, it will focus on strengthening the growth potential of Japan's economy. The new issues and action plans relate to not only its conduct of monetary policy but also its business operations across a wide range of areas including the financial system, payment and settlement systems, and market infrastructure. The following provides an overview of these new issues and action plans.

A. Matters Relating to the Conduct of Monetary Policy

The Bank will pursue aggressive monetary easing, aiming to achieve at the earliest possible time the "price stability target" introduced in January 2013. More specifically, the Bank will continue with its virtually zero interest rate policy and purchases of financial assets, as long as it judges it appropriate to do so. In addition, the Bank will provide support for financial institutions' efforts to strengthen the foundations for economic growth and to increase their lending. Taking into consideration that it will take considerable time before the effects of monetary policy permeate the economy, the Bank will ascertain whether there is any significant risk to the sustainability of economic growth, including from the accumulation of financial imbalances.

In support of these policy operations, the Bank will continue to enhance the quality of its research and analysis regarding developments in economic activity, prices, and the financial environment both at home and abroad. To this end, the Bank will further strengthen its analysis of the effects of monetary policy and their transmission through the economy. Taking a macroprudential perspective, the Bank will do the same

for its analysis of the effects of developments in global financial markets on Japan's financial and economic activity, as well as its analysis of movements in other risk factors such as the accumulation of financial imbalances.

At the same time, the Bank will communicate its thinking on the conduct of monetary policy to the public effectively and disseminate the findings of the research and analysis underpinning its policy decisions.

B. Matters Relating to the Financial System

With international discussion on maintaining financial system stability deepening, it is important for Japan to involve itself appropriately in establishing new international rules regarding financial regulation and supervision in view of their impact on, for example, the financial intermediation function. In addition, it is essential for individual countries and regions around the world to achieve steady progress in their respective efforts to attain financial system stability. Meanwhile, the scope of discussion at international forums has widened to include the international monetary system and the resolution frameworks for financial institutions. Given these developments, the Bank will conduct research and planning related to the financial system, giving due consideration to institutional factors unique to each country as well as Japan's experience. The Bank will make use of the findings to actively contribute to policy formulation both at home and abroad.

The business environment surrounding financial institutions has continued to change, and disparities remain among institutions in terms of their profitability and financial strength. In this situation, some financial institutions, mainly major banks, have actively expanded their global business and have been susceptible to developments in overseas economies and global financial markets. Furthermore, the new capital requirements are being phased in from 2013. Under

3. For the Bank's evaluation of the progress made during fiscal 2012 toward achieving its Strategic Priorities for fiscal 2012–2014, see "Progress in Addressing Issues and Implementing Action Plans" on pages 33–50.

these circumstances, the Bank will ensure that it accurately grasps the business conditions at financial institutions by continuing to conduct its on-site examinations and off-site monitoring efficiently and effectively, while strengthening the feedback between them. The Bank will also encourage financial institutions to step up efforts to improve their management of risks through activities organized by the Bank's Center for Advanced Financial Technology (CAFT).

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

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

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

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

As part of these measures, the Bank, together with relevant parties, will proceed steadily with the

establishment of the new Bank of Japan Financial Network System (BOJ-NET).

At the same time, the Bank will firmly monitor the safety and efficiency of payment and settlement systems both at home and abroad as well as encourage relevant parties to make improvements, in accordance with the oversight policy adopted by the Bank in keeping with the "Principles for Financial Market Infrastructures," the international standards issued by the Committee on Payment and Settlement Systems (CPSS) and the Technical Committee of the International Organization of Securities Commissions (IOSCO).

With a view to further enhancing the stability and efficiency of financial markets and in consideration of international developments, the Bank will carry out research and planning related to improving financial market structures and adjusting market infrastructure. It will work toward securing improvements in these areas, in discussion and cooperation with relevant parties at home and abroad and by making use of the new BOJ-NET, scheduled to be phased in during fiscal 2013–2015.

Based on its experience following the Great East Japan Earthquake and the government's reappraisal of potential damage scenarios such as those for Tokyo Inland Earthquakes, the Bank will assess the current business continuity framework and improve contingency arrangements as necessary. It will also step up efforts to ensure the effective and efficient implementation of such arrangements, in cooperation with relevant parties, including ministries and government agencies as well as financial institutions.

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

personnel exchange and technical assistance.

D. Matters Relating to the Regional Economic and Financial Environment

The Bank will maintain a sound grasp of regional economic and financial conditions, including the progress of rebuilding following the disaster caused by the Great East Japan Earthquake, through close and frequent communication with local businesses and financial institutions. The Bank will make use of its findings in its conduct of monetary policy and other actions. In addition, the Bank will take advantage of such occasions to communicate with local business communities and to provide a clear and accessible explanation of its view of economic and financial conditions both at home and abroad, as well as its thinking on the conduct of monetary policy.

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

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

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

With regard to banknote examination and services relating to treasury funds and JGSs, the Bank will examine the likely impact on the workload at its Head

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

F. Matters Relating to Communication with the Public

In the course of implementing measures in a number of areas, the Bank will work to improve the effectiveness of its communication with the public—taking into account the latest trends in technology—so as to gain broad public understanding both at home and abroad of its policies and overall business operations. As part of this effort, the Bank will continue to enhance its dissemination of English-language materials as well as reports and research papers it releases.

V. Organizational Management

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

A. Stable and Efficient Business Operations

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

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

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

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

B. Human Resources

From fiscal 2013 to 2015, the Bank will apply itself to further increasing the overall efficiency of its business operations, while securing the staff needed to enhance its capabilities in both policy formulation and the system development necessary for successful policy implementation. In addition, the Bank will continue to promote working arrangements that take into account employees' work-life balance, while holding down total personnel expenses.

With these precepts guiding its human resource management, the Bank has set the ceiling on the number of full-time employees for fiscal 2013 at 4,900.

With a view to enhancing communication channels and strengthening its capacity to respond smoothly to changes in circumstances both at home and abroad, it has become

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

C. Budget for Expenses

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

In keeping with these principles, the Bank has set its budget for expenses for fiscal 2013 (the 129th fiscal year) as shown in the Attachment. As a provisional and exceptional measure for fiscal 2012 and 2013, the Bank has made cuts to its officers' and employees' remuneration in support of rebuilding efforts following the earthquake disaster.

D. Performance Reviews

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

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

BUDGET FOR EXPENSES FOR FISCAL 2013

The Bank of Japan's budget for expenses for fiscal 2013 (the 129th fiscal year) is as follows (Table 1).¹ While appropriating a significant portion of the budget to deal with the issues and implement the action plans outlined in the Strategic Priorities, the Bank has also thoroughly examined each item of expenditure to achieve a more streamlined overall budget.

Specifically, the budget for expenses for fiscal 2013 marked a decrease of 2.7 percent from the previous year, of which the amount subject to the approval of the Minister of Finance decreased by 2.5 percent. The overall decrease in the budget was due to reductions in the following range of items: 4.8 percent in personnel expenses mainly reflecting a provisional and exceptional measure that reduced the Bank's employees' remuneration in support of rebuilding efforts following the earthquake disaster; 4.2 percent in administrative expenses for treasury business and Japanese government securities; 3.2 percent in the cost of production of banknotes; and 1.7 percent in other general and administrative expenses and costs. On the other hand, cost of fixed-asset purchases increased by 5.1 percent, mainly due to an increase in expenses incurred in updating automatic banknote examination machines.

7. The Bank prepares a budget for expenses every fiscal year. Its budget for core operations, excluding the cost of purchasing fixed assets used for the Bank's business operations, is subject to the approval of the Minister of Finance under Article 51, paragraph 1 of the Bank of Japan Act before the beginning of each fiscal year. For fiscal 2013, the Bank sought approval on March 15, 2013 and will implement the budget upon authorization from the Minister of Finance. All figures, including those in Table 1, are rounded off to the nearest whole number.

Table 1

Budget for Expenses for Fiscal 2013 (The 129th Fiscal Year)

Item	Initial budget (thous. yen)	Change from the previous year (percent)
Cost of production of banknotes	48,161,301	-3.2
Administrative expenses for treasury business and Japanese government securities	18,086,881	-4.2
Personnel expenses	48,121,955	-4.8
Remuneration of the officers	343,394	-2.5
Remuneration of the employees	38,017,274	-5.5
Retirement allowances	9,761,287	-1.8
Expenses for transportation and communications	4,902,413	-0.6
Expenses for transportation	1,978,093	-0.8
Expenses for communications	2,924,320	-0.4
Expenses for maintenance and repairs	1,997,344	-0.0
Other general and administrative expenses and costs	55,421,175	-1.7
Cost of expendable supplies	1,280,513	-3.4
Expenses for electricity and water supply	2,162,266	-2.8
Leasing fees for buildings and equipment	9,831,632	-11.0
Expenses for maintenance of buildings and equipment	11,039,253	12.4
Miscellaneous expenses	31,107,511	-2.7
Subtotal	176,691,069	-3.2
Cost of fixed-asset purchases	11,781,868	5.1
Of which: Subject to the approval of the Minister of Finance ¹	3,523,322	43.8
Contingency funds	1,000,000	0.0
Total²	189,472,937	-2.7
Of which: Subject to the approval of the Minister of Finance ¹	181,214,391	-2.5

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

2. Of the budget for expenses, those related to computerization amounted to 35,054,067 thousand yen, a 0.5 percent decrease from the previous year, and are included in expenses for communications, leasing fees for buildings and equipment, expenses for maintenance of buildings and equipment, and miscellaneous expenses.

Budget estimates of computerization expenses assume required outsourcing man-hours of approximately 10,508 person-months (one person-month describes the workload equivalent to one person working for one month in system development), and total man-hours of approximately 13,541 person-months if the workload of the Bank's employees is included.

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