

The Cooperative System and the Cooperative Banking Business

The cooperative banking business, through its network covering all of Japan, contributes to the development of the agricultural, forestry, and fisheries industries in Japan, and provides financial support to the livelihood of the local citizens.

Cooperative System and the Cooperative Banking Business

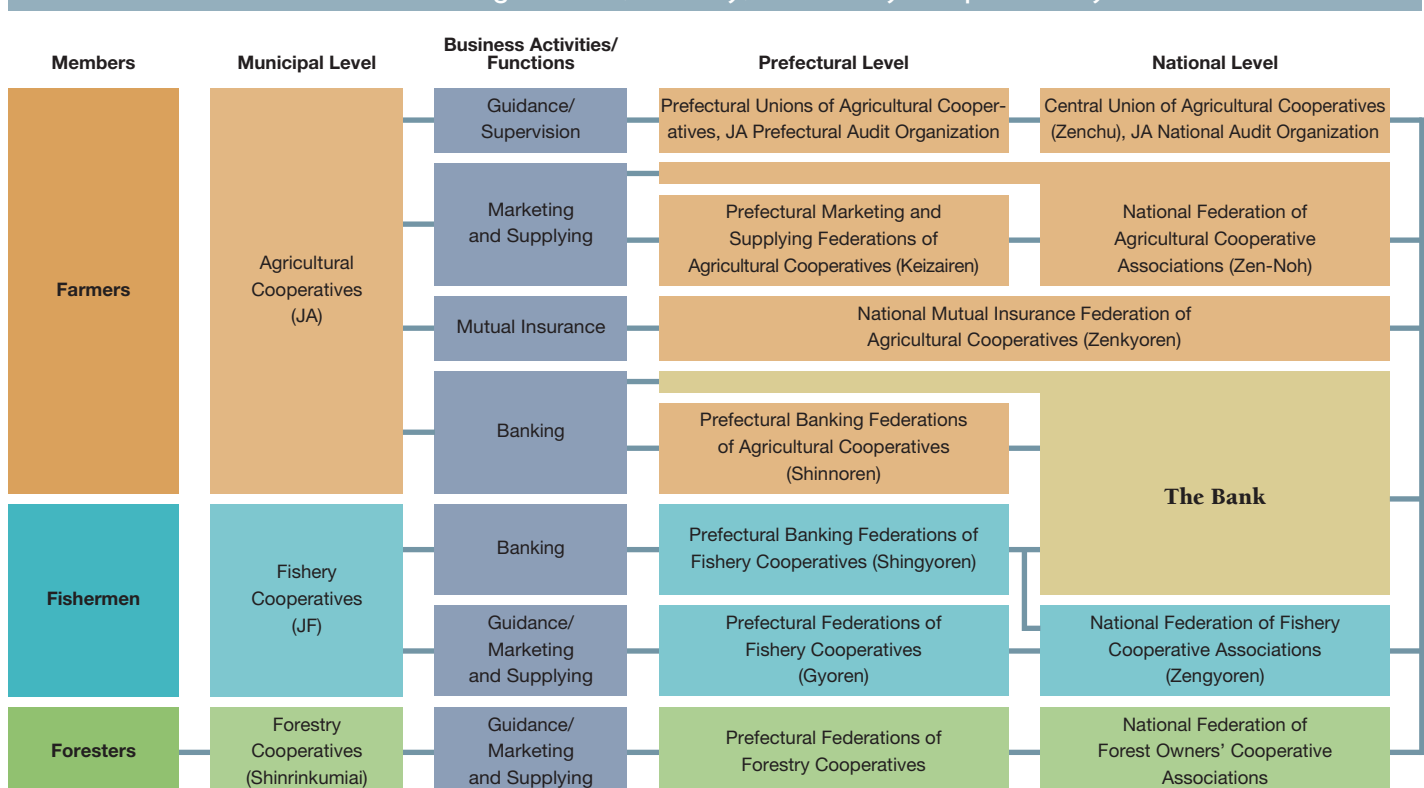
In addition to the cooperative banking business, which includes taking deposits and making loans, our cooperative organizations engage in a number of other activities. These include providing “guidance” on business and daily matters to farmers, fishermen, and foresters; performing a “trading function” through the selling of agricultural, forestry, and fisheries products and the procuring of production materials; and

engaging in “mutual insurance business” to provide insurance coverage for various unforeseen events.

The cooperative organization that performs this wide range of activities comprises the agricultural cooperatives (JA), fishery cooperatives (JF), and the forestry cooperatives (Shinrinkumiai) at the municipal level and the respective prefectural unions and federations as well as the national union and federations of the agricultural, forestry, and fishery cooperatives (as shown in the accompanying chart). As a whole, this nationwide structure from the municipal level to the national level is known as the “cooperative system.”

The framework and functions of (1) the banking businesses of JA and JF at the municipal level, (2) the Prefectural Banking Federations of Agricultural Cooperatives (Shinnoren) and Prefectural Banking Federations of Fishery Cooperatives (Shingyoren) at the prefectural level, and (3) the Bank at the national level are referred to collectively as the “cooperative banking business.”

Structure of the Agricultural, Forestry, and Fishery Cooperative System



THE CURRENT STATE AND THE BANK'S ROLES IN THE COOPERATIVE BANKING BUSINESS

Activities of the Cooperatives

• JA (Agricultural Cooperatives)

The Japan agricultural cooperatives (JA) are organizations, established under the Agricultural Cooperative Law, that conduct a comprehensive range of businesses and activities in the spirit of mutual assistance. The principal businesses of the JA include offering guidance for improving the farm management of cooperative members and their standards of living; trading activities related to farming, including the gathering and selling crops, and supplying materials needed for production and daily living; provision of insurance, such as life insurance, automobile insurance, and other kinds of insurance; and provision of banking-related business activities, such as accepting deposits, making loans, remitting funds, and offering other financial services.

As of April 1, 2007, the 813 JA throughout Japan have been making contributions to the agricultural industry and the development of local communities through their various business and other activities.

• JF (Fishery Cooperatives)

The fishery cooperatives are organizations, established under the Fishery Cooperative Law, that have the objectives of protecting the operations of fisheries and the livelihood of fishermen, and contributing to members and local communities. The principal businesses of the JF include offering guidance for the management of marine resources; improving the operational businesses of cooperative members and the standards of living of members; trading activities, such as the storage, processing, and sale of fish catches and other marine products of cooperative members, and supply of materials necessary for the business activities and daily lives of members; banking business services, such as acceptance of deposits and lending of necessary funds; and provision of life insurance and property insurance.

As of April 1, 2007, there were 1,192 JF throughout Japan that contribute to the fisheries industry and to the development of fisheries communities through a wide range of activities.

There are 178 JF nationwide in Japan that conduct banking business services on their own initiative. In addition to these JF, there are JF which act as agents of the Shingyoren providing banking business services for coastal communities throughout their respective prefectures.

• Shinrinkumiai (Forestry Cooperatives)

The forestry cooperatives are cooperative organizations for the owners of forestland, which was established under the Forestry Cooperative Law. A high percentage of forestland owners in Japan possess small land parcels, and forestry cooperatives play an important role in organizing and representing the interests of these small forestland owners.

The principal businesses of forestry cooperatives are carrying out operations including planting, removal of undergrowth, and thinning of forests owned by cooperative members as well as the sale of forest products, such as logs and timber, etc.

As of March 31, 2007, there were 763 forestry cooperatives nationwide in Japan. As core participants in cultivating and improving forestlands, the forestry cooperatives make a major contribution in enabling forests to perform their wide range of natural functions, including the preservation of national land, the formation of watersheds, the maintenance of the living environment, the provision of places for health and rest as well as the supply of timber, and other forest resources.

Positioning of the Norinchukin Bank within the Cooperative Banking Business

The Bank was established in 1923 as the central bank for Japan's industrial cooperatives. It was renamed the Norinchukin Bank in 1943 and is now a private financial institution based on the Norinchukin Bank Law.

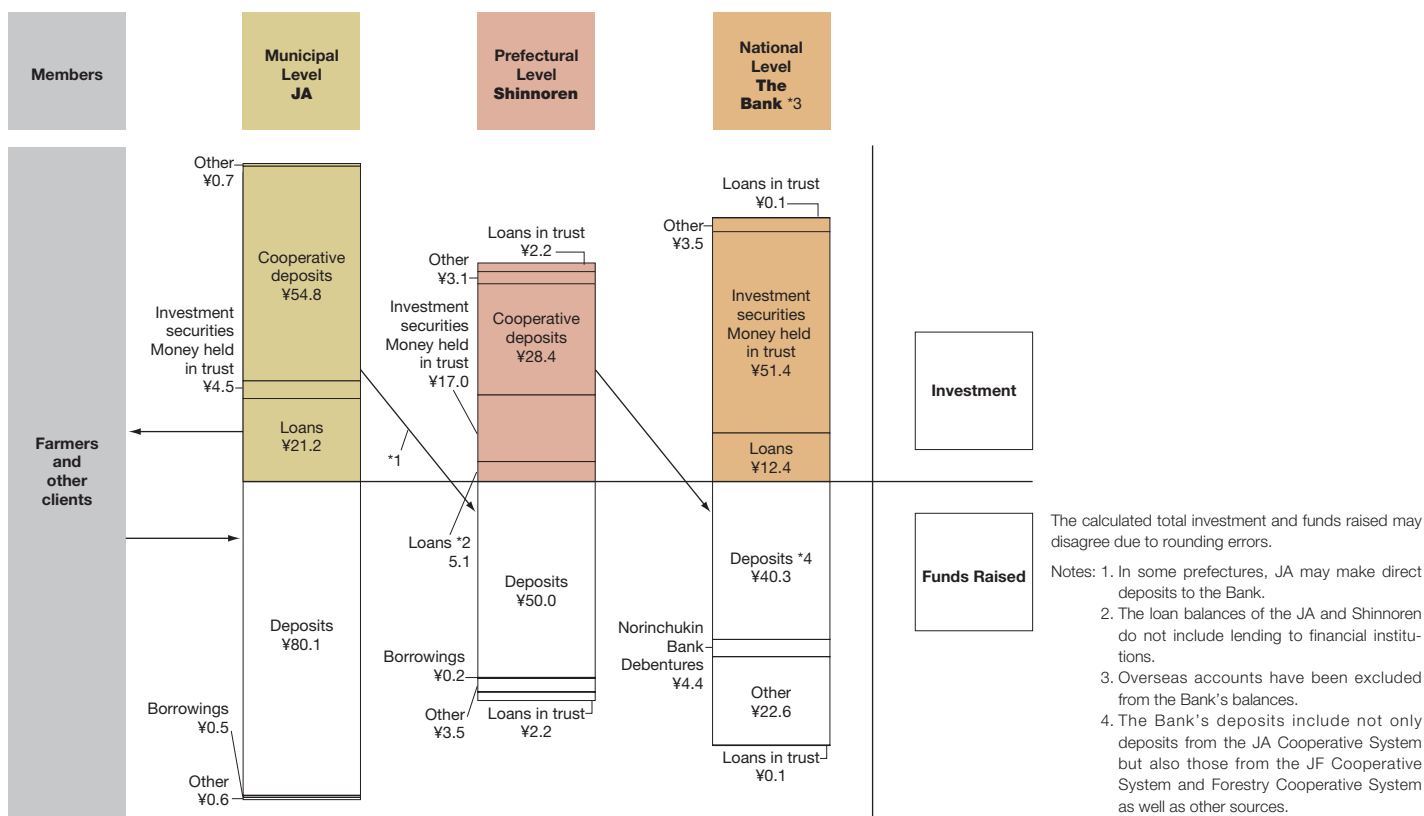
JA, fishery cooperatives (JF) and forestry cooperatives (Shinrinkumiai) were created with the aim to improve the economic and social positions of the agricultural, forestry, and fisheries industries through the cooperative efforts of the respective members under the slogan "one for all and all for one."

The Bank is a national level cooperative financial institution whose membership (shareholders) are composed of the previously mentioned municipal cooperatives, prefectural and national federations, and other organizations. Moreover, the Bank is playing a major role in society to contribute to the development of the nation's economy and support in the advancement of the agricultural, forestry, and fisheries industries for its members in accordance to the provision of Article 1 of the Norinchukin Bank Law.

The Bank's funds come from deposits placed by members (the majority of the funds held at the Bank are deposits placed originally by members of JA and JF), and the issuance of Norinchukin

Bank debentures. In addition, the Bank raises funds from financial markets. These financial resources are then lent to the agricultural, forestry, and fisheries industries; corporations connected to the agricultural, forestry, and fisheries industries; regional governments; and public entities. Other than the aforementioned activities, the Bank manages its funds efficiently through investments in securities and other financial instruments. The Bank then provides stable returns to members a part of earnings received from lending and investment activities, and other various financial services. Through these various services and activities, the Bank plays a major role as the national level financial institution for the cooperative organizations.

Flow of Funds within JA Cooperative Banking System (As of March 31, 2007) (Trillions of Yen)



Article 1 of the Norinchukin Bank Law

As a financial institution with its base in the agricultural, forestry, and fishery cooperatives as well as other members of the agriculture, forestry, and fishery cooperative system, the Bank strives to contribute to the development of the nation's economy by supporting the advancement of the agricultural, forestry, and fisheries industries through the provision of financial services for the member organizations of the cooperative system.

Safety Net for Cooperative Banking System

The JA Bank and the JF Marine Bank have created a safety net consisting of the Bankruptcy Prevention System and the Savings Insurance System to provide an increased sense of security for their cooperative members and customers.

Bankruptcy Prevention Systems

The JA Bank and JF Marine Bank have developed their own respective bankruptcy prevention systems.

Specific functions of these systems include (1) the monitoring of the management condition of individual JA and JF to identify any problems at an early stage, (2) implementing measures at the earliest possible time to prevent bankruptcy, and (3) infusing necessary funds drawn from the JA Bank Support Fund or the JF Marine Bank Support Fund* (which have been collected from all members of the JA Bank and the JF Marine Bank) to restore the management soundness of JA and JF.

** As of March 31, 2007, the balance of the JA Bank Support Fund was ¥143.4 billion and that of the JF Marine Bank Support Fund was ¥12.5 billion.*

The Savings Insurance System (Savings Insurance System for Agricultural and Fishery Cooperatives)

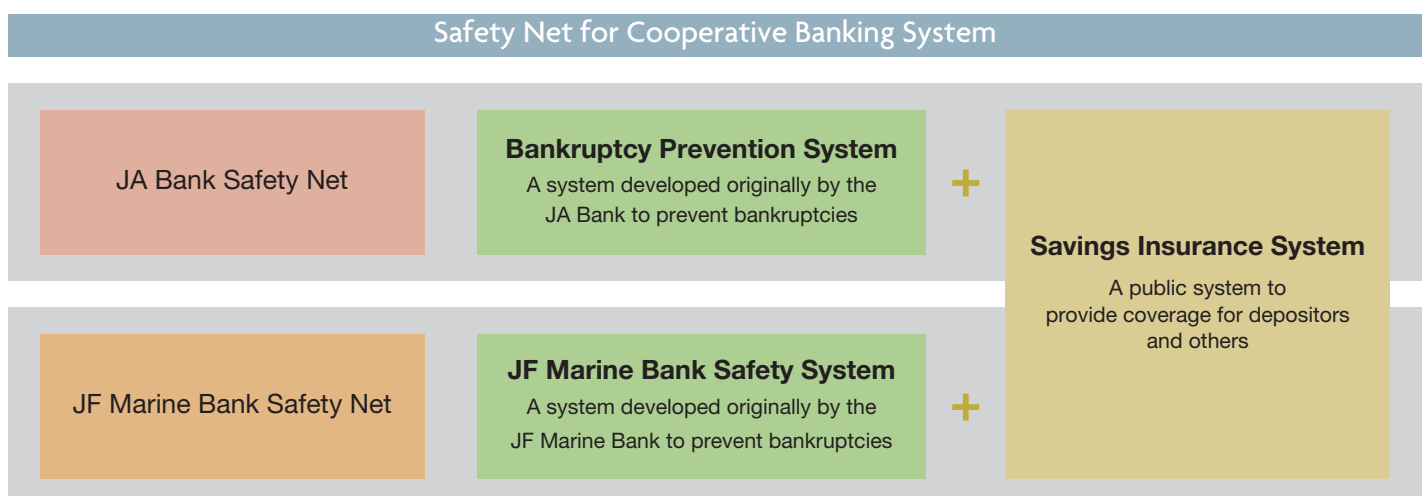
When a member organization of the cooperative banking system, such as a JA or JF, is unable to reimburse deposited funds to its members and other users, this system provides policy coverage for depositors and ensures the fulfillment of funds settlements, thereby contributing to the stability of the cooperative banking system.

The Savings Insurance System is provided for under the Agricultural and Fishery Cooperative Savings Insurance Law. Its functions are carried out by the Agricultural and Fishery Cooperative Savings Insurance Corporation, which was established through joint investments by the Japanese government, the Bank of Japan, the Bank, Shinnoren, Shingyoren, and other entities.

When depositors place funds in agricultural or fishery cooperatives that are covered by the Savings Insurance System, their savings are automatically guaranteed by this insurance system.

Following the full removal of the blanket deposit insurance on April 1, 2005, checkable, payment, and settlement deposits are still fully protected by the system. However, all other types of deposits are only covered up to ¥10 million in principal (per depositor of each cooperative organization) plus interest accrued.

As of March 31, 2007, the balance of the reserve fund of the Savings Insurance System was ¥241.1 billion.



Operations of the JA Bank

The members of the JA Bank: namely, JA, Shinnoren, and the Bank are working under the framework for integrated and systematic cooperation in each business activity. We call this the “JA Bank System,” and our aim is to be a financial institution that is trusted and chosen even more by its members and customers.

What is “JA Bank?”

■ “JA Bank” Comprises a Group of Financial Institutions

The JA Bank System consists of JA, Shinnoren, and the Bank, known as the “JA Bank members.” It functions as one institution, having one of the largest networks of private financial groups in Japan.

As of July 1, 2007, the JA Bank System is comprised of 815 JA, 41 Shinnoren, and the Bank, for a total of 857 entities.

The JA Bank System

■ Framework for Integrated and Systematic Cooperation among JA Bank Members

To ensure that cooperative members and other customers place even stronger confidence in the cooperative banking system, and make increased use of its services, we have made our JA Bank Basic Policy. It is based on the Reorganization and Strengthening Law (the law related to the reorganization and strengthening of the cooperative banking business by the Bank and specified agricultural and fishery cooperative organizations) and in consent with JA Bank members. The framework for integrated and systematic cooperation among JA, Shinnoren, and the Bank is based on the JA Bank Basic Policy and is known as the JA Bank System.

The JA Bank System is founded on two basic pillars. The first is “the bankruptcy prevention system,” which ensures the reliability of the JA Bank. The second is the “promotion of unified operations,” which aims to improve and strengthen the financial services by taking advantage of economical scale and finely tuned interfaces with our customers.

■ Initiatives Aimed at Enhancing the Reliability of the JA Bank

Under the “bankruptcy prevention system,” the JA Bank System Headquarters receives management-related information from all JA Bank members and reviews them to confirm that they meet certain standards. This system makes it possible to foresee potential issues well in advance and provide early guidance prior to the prompt corrective action by the government.

In addition, the JA Bank Support Association has established the JA Bank Support Fund with financial resources contributed by the JA Bank members. This fund can provide capital injections and other support to the JA Bank members in the case of necessity.

Through these initiatives, we are working to ensure that the JA Bank enjoys even greater credibility and confidence among cooperative members and other customers. Please also note that JA, Shinnoren, and the Bank participate in the Savings Insurance System, which is a public system mandated by law.

■ Activities for Enhancing and Strengthening Financial Services

In accordance with the “JA Bank Medium-Term Management Strategy (fiscal 2007 through fiscal 2009),” the JA Bank is working to promote stronger unified operations among JA, Shinnoren, and the Bank, with the aims of further expanding the customer base, which is already one of the largest in Japan, and offering financial services that are carefully tailored to customer needs.

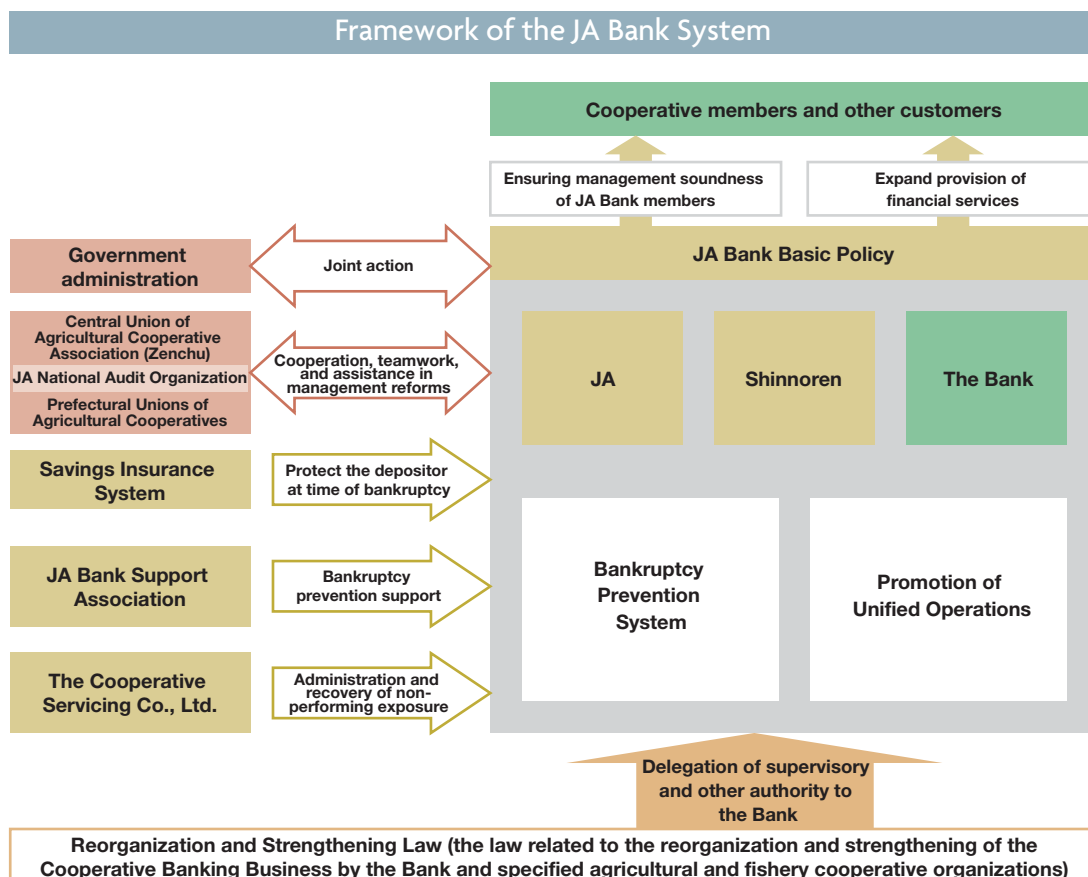
THE CURRENT STATE AND THE BANK'S ROLES IN THE COOPERATIVE BANKING BUSINESS

To respond appropriately to the needs of cooperative members and other customers, the JA Bank is emphasizing specific measures to provide support for core farmers, expand JA Bank loans, and widen the scope of services for senior citizens and pension recipients while promoting management and operational efficiency. Moreover, the JA Bank has concluded a strategic alliance with Mitsubishi UFJ Financial Group, Inc. in retail banking. Activities under this tie-up include new card-related business activities, such as the issuance of IC cash cards, new JA cards, and the commencement of biometric identification. Other new services contain the offering of inheritance-related services to provide for the succession of assets, including farmland, to the next generation.

In May 2006, the JASTEM System, which is the uniform IT infrastructure platform for the JA cooperative banking business, linked nationwide JA Bank offices, after linkages with the final 4 prefectures were completed, thus finishing a gradual switch

over to this new system that began in October 1999. This system not only links nationwide JA Bank operations to one system but also provides an infrastructure for providing common service throughout Japan. The JASTEM System features a backup center to add support during times of disasters and various information security capabilities. Accordingly, the system enables the JA Bank to perform its functions as part of the social infrastructure while also making it possible to offer greater convenience to members and other customers than in the past.

In addition to these activities, the JA Bank is working diligently to prevent criminal activities, such as theft and forgery of cash cards, as well as expand its disclosure of information. Through these initiatives, the JA Bank will continue to strive to ensure that it is a financial institution offering more convenient and reliable products and services, and is chosen proactively by cooperative members and other customers.



Trends in the Agricultural Industry and Cooperative Finance

■ Agricultural Industry

The discussions held by the WTO, which are aimed at establishing new rules for trade liberalization in the fields of agriculture, non-agriculture, services, and other areas during 2007, are currently in progress, focusing on modality (i.e., criteria for reducing protective measures that will apply to all nations), including figures for tariff reductions. Also, to supplement the WTO negotiations, specific countries and regions are conducting Economic Partnership Agreement (EPA) and Free Trade Agreement (FTA) discussions on the elimination of tariffs and other measures under the basic policy of “creating an international economic environment that is more favorable to Japan through political and diplomatic strategy, including the creation of an economic community in Southeast Asia”. Thus far, three countries have concluded such agreements, five countries have signed or reached general agreement, and seven countries and regions are at government-level discussions about such agreements.

The Japanese government enacted the “Basic Plan for Food, Agriculture, and Rural Areas” in March 2005 to move forward with structural reforms in agriculture. The objectives set under in this plan include to (a) attain greater concentration and focus on assistance to core farmers, (b) establish new targets for food self-sufficiency ratios, (c) secure the safety of food supplies and the confidence of consumers, and (d) maintain stable food supplies. To put this plan into action, the “New Law for Stabilizing Management of Core Farmers” was passed in June 2006, and in fiscal 2007, an income stabilization policy was introduced.

The JA Group, to fulfill the mandate from cooperative members, is working to respond to the rapid changes in the operating environment surrounding the agricultural industry, rural areas, and JA by devoting its fullest efforts to nurturing and supporting core farmers, based on the JA Group’s “Basic Policies Regarding the Cooperative Organization, Business Activities, and Guidance for Management.”

■ Flow of Funds in JA Cooperative Banking Business

In fiscal 2006, JA deposits rose 1.7% over the previous fiscal year-end, to ¥80,189 billion. This increase was achieved through a steady increase of principal deposits from individuals as a result of providing financial services that met customer needs.

Due to increased individual loans, especially housing loans, owing to effective events such as offering advice on housing loans, total JA loans rose by 2.3%, to ¥21,216.5 billion, on a fiscal year to fiscal year basis. Securities at the fiscal year-end held at the JA level posted a decline of 4.3% from the previous year-end, to ¥4,553.5 billion.

Deposits with Shinnoren rose along with steady trends in deposits at the JA level and showed an increase of 2.1% over the previous fiscal year-end, to ¥50,038.8 billion.

The balance of loans made by the Shinnoren increased 3.0% compared to the previous fiscal year-end, to ¥5,152.9 billion, as a result of increased lending to companies and local government entities. Securities (including money trusts) held at the Shinnoren level at fiscal year-end were down 1.6%, to ¥17,069.6 billion, mainly due in part to a decline in interest rates after the latter half of August 2006.

THE CURRENT STATE AND THE BANK'S ROLES IN THE COOPERATIVE BANKING BUSINESS

Reorganization of the JA Cooperative Banking Business

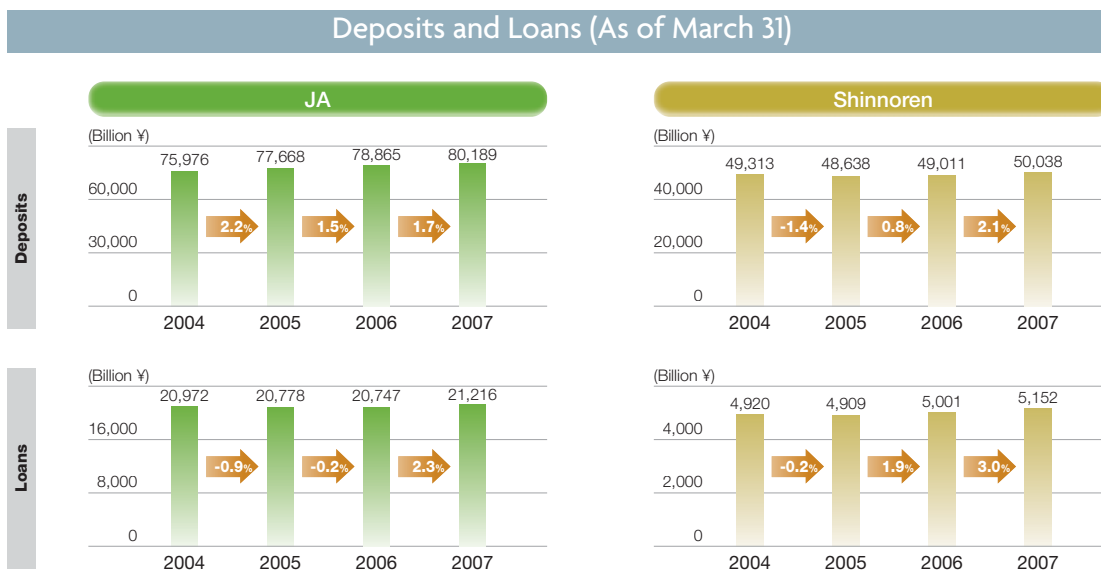
To deal effectively with change in the environments for the agricultural industry, cooperative members, and JA, the JA Group has made progress in streamlining management and improving efficiency.

In fiscal 2005, three Shinnoren (in Miyagi, Okayama, and Nagasaki prefectures) and in fiscal 2006, Akita Shinnoren were fully integrated into the Bank. This resulted in a transition in four prefectures from the previous three-layered organization, comprising JA, Shinnoren, and the Bank, to a two-layered organization, comprising JA and the Bank.

Moreover, in fiscal 2005, all JA in Okinawa Prefecture were unified into one JA and it took over all rights and duties of Okinawa Shinnoren and Okinawa Keizairen, the second of its kind after Nara Prefecture, thus realizing the goal of “one JA in each prefecture”.

In pursuing the reorganization of the JA Group, plans are carried out in accordance with the conditions in each prefecture, with the intent of working toward increasing efficiency in the cooperative banking business.

The Bank will implement initiatives to support the functions and systems of JA and to streamline and improve the efficiency of its internal management aiming at creating the cooperative banking business structure that meets the expectation and trust of the JA Bank members and customers.



Operations of the JF Marine Bank

Financial Support for Coastal Communities and Providing Financial Functions for Fisheries

What is the “JF Marine Bank”?

■ The JF Marine Bank Comprises a Group of Financial Institutions

The JF Marine Bank consists of the fishery cooperatives (JF, limited to those engaging in credit services), Shingyoren (Prefectural Banking Federations of Fishery Cooperatives), and the Bank as well as the computer system company operated by Zengyoren.

As of July 1, 2007, there were 178 JF offering financial services, 31 Shingyoren, for a total of 210 members, including the Bank.

Basic Policy Direction for the JF Marine Bank

■ JF Marine Bank Basic Policy

The JF Marine Bank formulated its Basic Policy in January 2003, based on the provisions of the Reorganization and Strengthening Law. The objectives of this basic policy are, first, to protect depositors by ensuring the soundness of the activities of the JF Marine Bank and conducting its business operations properly. The second objective is to appropriately respond to the financial needs of the cooperative members and other customers by reforming the business activities, organization, and management of the JF Marine Bank.

■ Framework for Preventing Bankruptcy

In consideration of various changes in the financial environment, such as the full removal of the blanket deposit insurance, from the view of ensuring proper and sound operations, all members of the JF Marine Bank are required to provide management information to the JF Marine Bank Headquarters. Based on their examination of this information, the Headquarters can prevent organizations, such as JF that has problems in its operations, from bankruptcy by quickly identifying them and taking anticipatory actions, thus creating a system that is reassuring to the customers. These activities are undertaken with the guidance of the Bank and Shingyoren.

■ Stable and Responsible Fishery Cooperative Banking Business System (JF Marine Bank Safety System)

The JF Marine Bank provides financial services for participants in the fisheries industry in their local communities and assumes an essential role in coastal communities. To make improvements that will ensure the JF Marine Bank has management systems appropriate for a member of Japan’s financial system, measures have been implemented to establish a “one fishery cooperative banking business at each prefecture.” As a result, this objective has been achieved in 34 of 37 prefectures.

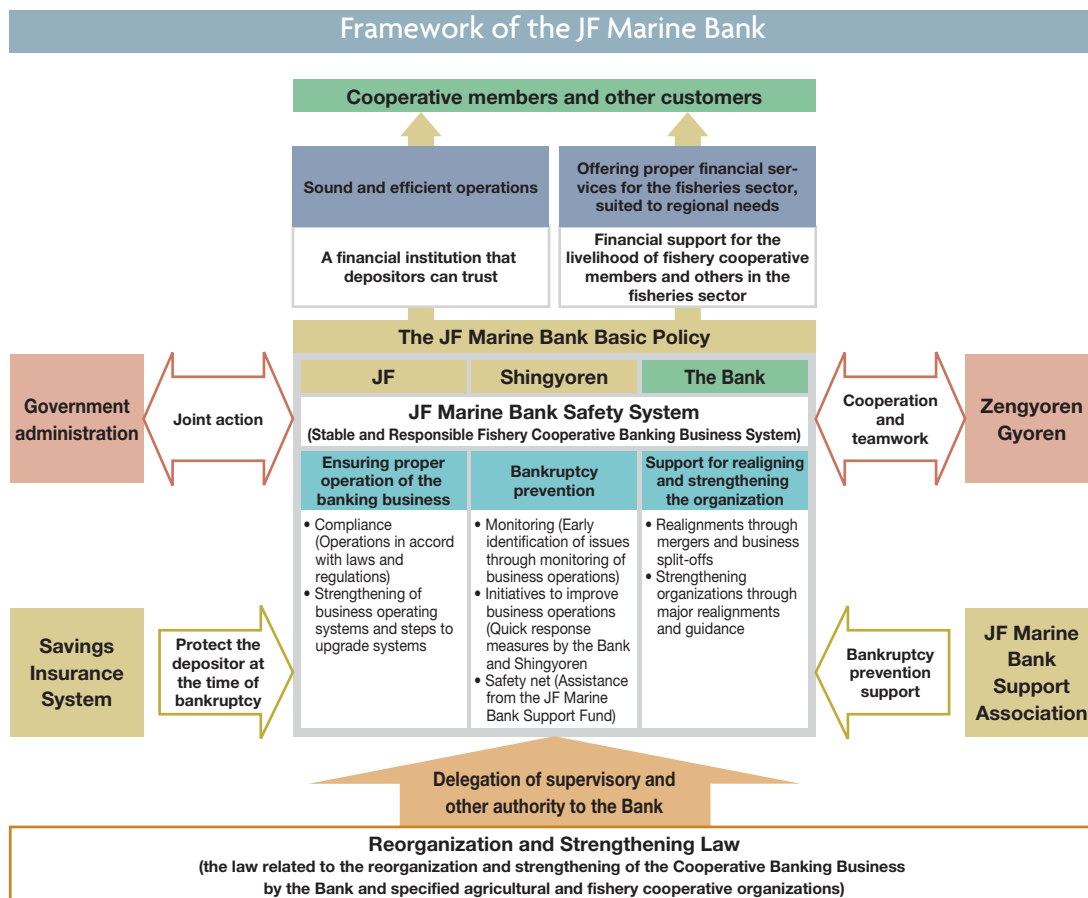
A new “JF Marine Bank Medium-Term Business Promotion Policy” covering a three-year period has also been prepared as part of initiatives related to banking business within the JF Marine Bank. Under this policy, the JF Marine Bank promotes stable operation of the banking business as the financial providers for coastal communities. Other activities include the strengthening of risk tolerance and review of cost structures based on the preparation of medium-term management and action plans.

THE CURRENT STATE AND THE BANK'S ROLES IN THE COOPERATIVE BANKING BUSINESS

These initiatives are expected to address issues arising from small-scale business in the fishery industry, and respond to their needs by offering financial services that take into consideration of the characteristics of each region.

In addition to the activities mentioned thus far, JF, Shingyoren, and the Bank have contributed jointly to create the “JF Marine Bank Support Fund,” that also provides a framework to encourage autonomous activity by cooperative members aimed at organizational and business reforms.

Please also note that JF, Shingyoren, and the Bank participate in the Savings Insurance System, which is a public system mandated by law.



Trends in the Fisheries Industry and Cooperative Finance

■ Fisheries Industry

The management in the fisheries industry continues to be challenging, owing to falling catch volumes, declining prices of marine products, and diminishing workforce figures as well as rising fuel prices due to crude oil price surges. Other issues, including the burden created by capital investments in previous years, are making it difficult to reinvest in alternative fishing vessels.

In response, the Japanese government has provided subsidies of approximately ¥5 billion in its fiscal 2007 budget, under its Comprehensive Measures for Structural Reform of the Vessel Fishing Industry, to assist participants in the fisheries industry through the intensive implementation of structural reform measures.

The use of some of these funds in the downstream marine product sector is expected to contribute to the development of industry participants and to the stability of the marine product sector in the years ahead.

■ Flow of Funds in JF Cooperatives Banking Business

Deposits held with JF decreased 0.6% from the previous fiscal year-end, to ¥2,290.2 billion, at the end of fiscal 2006, reflecting a decline in catch volumes, weakness in prices of marine products, and other factors.

The balance of loans at JF fell 3.8% year on year, to ¥779.7 billion, due to such factors as the slackening of demand for new financing.

Reorganization of the JF Cooperative Banking Business

The JF cooperative banking business is being reorganized to create a more sound and efficient management system through two methods: one of these is through mergers among JF and the other is through the transfer of credit business from JF to Shingyoren. These efforts have reduced the number of JF engaged in the banking business from 875 as of March 31, 1999, to 178 as of April 1, 2007.

The total number of JF, including those that are not engaged in banking business, was reduced by 118 in fiscal 2006, and, as of April 1, 2007, the number stood at 1,192, reflecting the progress toward merger and consolidation.

In the future, greater focus will be placed on policies to strengthen and reorganize the fishery cooperative banking business under the JF Marine Bank Safety System.

The Bank supports these initiatives of the JF cooperative banking business.

Initiatives of the Forestry Cooperative

Current State of Forests in Japan and Cooperative Activities

Forests cover about two-thirds of Japan's land mass, which cover 25 million hectares of the country. About 70% of forestland in Japan is owned by the private forest owners. Along with the aging of population and the depopulation in rural mountain villages, which have caused a decline in forestry development, Japanese forestland is not properly sustained and has become unproductive wilderness. This explains why, although the cedar and cypress trees that were planted after World War II are reaching maturity, they are unable to fully exercise their roles and tasks they should.

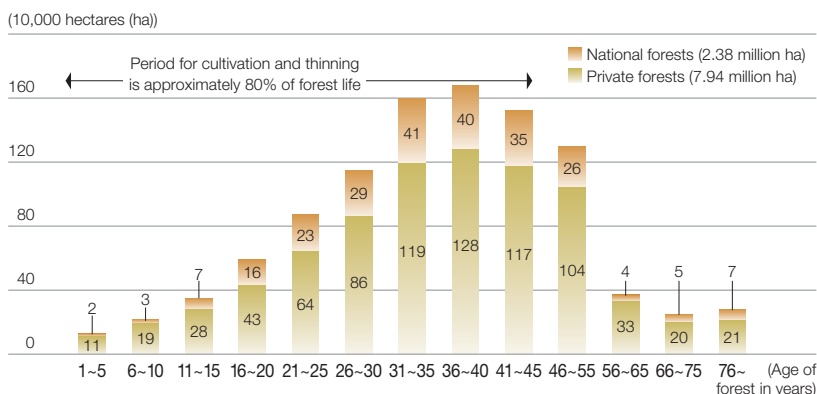
Operating conditions for participants in the Japanese forestry industry continue to be severe as a result of prolonged softness in prices of timber. However, a trend has emerged toward the return to the use of domestic timber accompanying the accumulation of forest resources in Japan and the growing shortage of supply in international markets. In addition, in the area of the government administration of forest resources, policies are being implemented not only with the aim of expanding the

capabilities of forests to absorb carbon dioxide but also with the goal of developing the Japanese forestry industry through projects aimed at concentrating on forest management and establishing systems to provide a stable supply of domestic timber.

Under these circumstances, the forestry cooperatives have been promoting a cooperative campaign which constitutes three pillars of concepts based on a movement to revitalize forestlands, the forestry industry, and rural mountain villages in order to support the environment and our livelihood." The three parts of this approach are: (1) the "project for joint administration" of forestlands through the grouping of forest areas with the goal of lowering operating costs, (2) the "project for stable supply of domestic lumber," which aims to provide a stable supply of high-quality lumber, and (3) the "project for management reform," which has the objective of nurturing forestry cooperative organizations that can be relied on by its members and customers.

Also, since fiscal 2007, the Forestry Agency has adopted, along with the forestry cooperatives, to implement measures in promoting the stable supply of domestic lumber. The Bank's policies include helping to strengthen the autonomous management foundation of the forestry cooperatives and to substantially increase its support for their initiatives.

Age of Japan's Forestlands (Time since planting)



Source: The Forestry Agency

Notes: 1. As of March 31, 2002

2. National forests do not include government forestlands (30,000 hectares of planted forestland and 130,000 hectares of natural forestland) that are not under the administration of the Forestry Agency.



Untended forestland becomes backwoods



A forest that has been maintained by tree trimming