

## THE BANK'S ROLE IN THE COOPERATIVE SYSTEM

### Milestones in the Bank's 79-Year History

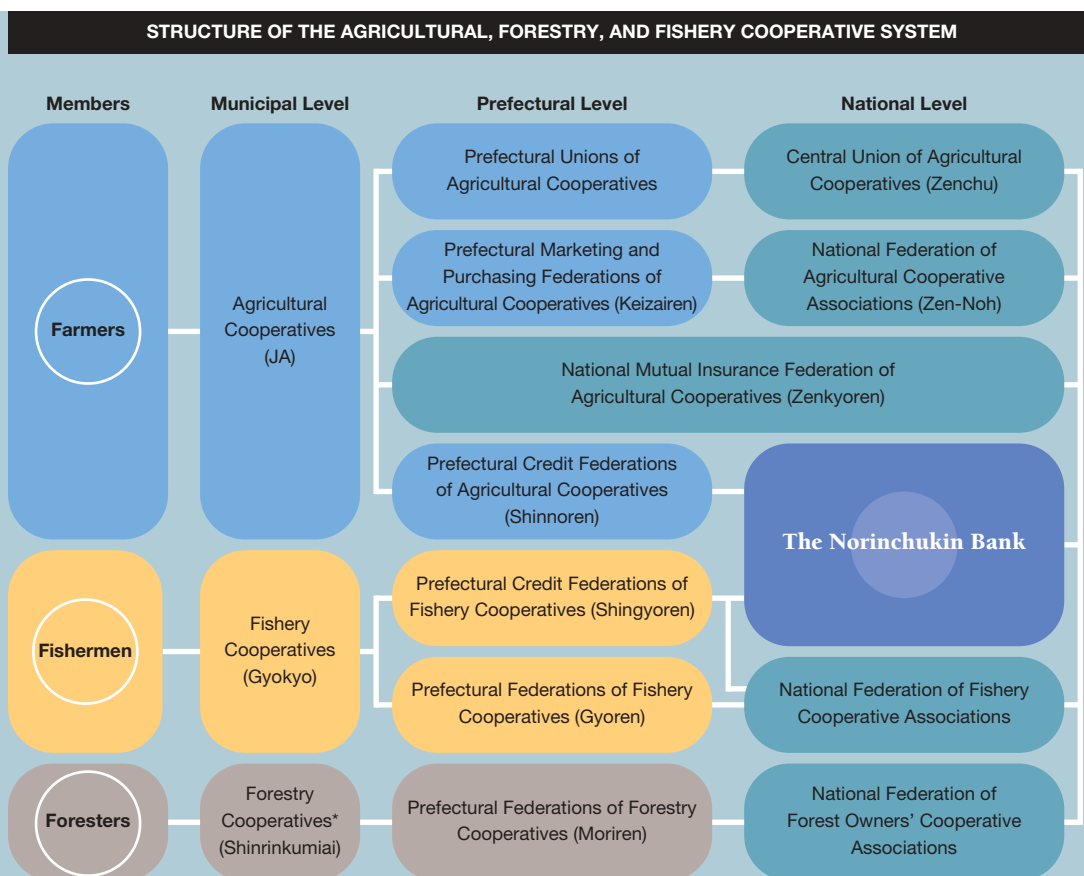
#### History of the Bank's Development

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|-------------|---|-------------|---|
| <b>1923</b> | • The Bank established with government funds under special legislation as the central bank for Industrial Cooperatives  | <b>1993</b> | • The Singapore Representative Office upgraded to branch status<br>• Norinchukin Securities Co., Ltd., established  |
| <b>1938</b> | • "Gyokyo" joins the Bank   |             | • Norinchukin Investment Trust Management Co., Ltd., established  |
| <b>1943</b> | • Forestry Cooperatives ("Shinrinkumiai") join the Bank<br>• The Bank's name officially changed to the Norinchukin Bank | <b>1995</b> | • Preferred stocks issued, opening the way for capital increases through the participation of ordinary investors<br>• The Norinchukin Trust & Banking Co., Ltd., established  |
| <b>1950</b> | • The first Norinchukin Bank debentures issued  | <b>1996</b> | • Operations of Norinchukin Asset Management Co., Ltd., begin   |
| <b>1959</b> | • Redemption of the government's equity stake completed, thereby becoming a private bank                                |             | • Laws concerning the integration of the Bank and Shinnoren enacted   |
| <b>1974</b> | • Foreign exchange operations begin   | <b>1998</b> | • Issuance of ¥1 trillion in lower dividend rate stock to Shinnoren and Shingyoren and ¥0.5 trillion in subordinated loan transaction completed<br>• Substantial reorganization of the market risk investment sections, updating them to match global asset management styles |
| <b>1977</b> | • Investment and trading in foreign currency denominated bonds begin  |             | • A representative office opens in Hong Kong  |
| <b>1982</b> | • A representative office opens in New York (the Bank's first overseas foothold)  |             | • A representative office opens in Beijing  |
| <b>1984</b> | • The New York Representative Office upgraded to branch status  | <b>2000</b> | • Norinchukin-Zenkyoren Asset Management Co., Ltd., formed through the reorganization of the former Norinchukin Asset Management Co., Ltd.  |
| <b>1985</b> | • A representative office opens in London   |             | • The Norinchukin Bank Law is revised   |
| <b>1986</b> | • Fiduciary services for corporate bonds begin<br>• Norinchukin International plc opens in London                       |             |   |
| <b>1989</b> | • The Bank's U.S. dollar denominated notes issued in the Euromarket   |             |   |
| <b>1990</b> | • A representative office opens in Singapore  |             |   |
| <b>1991</b> | • The London Representative Office upgraded to branch status  |             |   |

## Outline of the Cooperative System

The cooperative system, as shown in the chart below, is a multi-tiered structure with a base comprising farmers, fishermen, and foresters organized into JA, Gyokyo, and the Forestry Cooperatives (Shinrinkumiai) at the municipal level. These cooperatives, in turn, organize prefectural organizations, and the entire structure is capped by national-level organizations, including the Bank. Organizations at the prefectural and national levels perform specialized business functions, including consulting, sales and purchasing, financing, and mutual insurance services. (However, Shinrinkumiai and the Prefectural Federations of Forestry Cooperatives (Moriren) do not provide such financing functions.) The three levels of the cooperative system are closely linked through capital subscriptions, management, and business ties and occupy a major position within the Japanese economy.

The Bank serves as the central bank for the cooperatives, extending loans throughout the cooperative system, and receives the majority of its funding from the cooperatives as well as prefectural federations. The Bank acts as an intermediary, making adjustments in the supply and demand for funds within the cooperative system, returning profits to the system, and providing funds to other national-level federations in the system.



\*Forestry Cooperatives do not take deposits.

## Enhancement of the JA Organization

To deal with changes in the environment for agriculture, cooperative members and the JA Group (JA, Shinnoren, the Bank, and other related cooperatives) have proceeded with the consolidation of individual JA organizations while also taking steps to streamline overall business management and develop functions and systems within the JA structure. As a result, the number of JAs, which exceeded 3,000 as of March 31, 1991, declined to 1,056 as of April 1, 2002.

In June 1998, a report entitled *Basic Approach to the Reorganization of the Cooperative Credit Business Organization* was compiled. In this report, the following four schemes were assumed as directions for the reorganization of the cooperative credit business, including graduated action plans:

- (1) To realize two levels of organization through the integration of the Bank and Shinnoren,
- (2) To realize one JA per prefecture by combining Shinnoren and JA in the same prefecture,
- (3) To realize a more efficient and focused Shinnoren, and
- (4) To realize interregional Shinnoren where Shinnoren of several different prefectures are integrated.

In response to this report, the specific implementations of this reorganization have been debated in each prefecture.

As a result of discussions held to date, the acquisition of a part of the credit business of Miyagi Prefectural Shinnoren and Tochigi Prefectural Shinnoren during fiscal 2002 has been decided upon. This was approved at the general meeting of delegates of the Bank in June 2002. At present, preparations for the acquisition are progressing for Miyagi Prefectural Shinnoren, due to be carried out on October 15, 2002, and for Tochigi Prefectural Shinnoren, on May 6, 2003. In addition, consideration is under way for consolidating operations with five additional Shinnorens during fiscal 2003.

In the future, the Bank aims at creating a cooperative credit business that lives up to the expectations and proves worthy of the trust it receives from its clients. The Bank will continue to support the development of the functions and systems of JA and realize streamlined and more efficient management of its own business.

## Flow of Funds Through the Cooperative System

### Funding

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The Bank's primary sources of funds are deposits, the majority of which are obtained from the cooperative system and the issuance of Norinchukin Bank debentures. Deposits of JA and Gyokyo are obtained from members of these cooperatives in primary-sector industries and from other residents of local communities. These deposits are entrusted to the Bank via Shinnoren and Shingyoren.

Deposits placed with JA and Gyokyo are lent to cooperative members for financing their business operations or as general-purpose loans. Of the remainder, in principle, two-thirds or more are entrusted to Shinnoren and Shingyoren at the prefectural level. These organizations extend loans to agricultural and fishery cooperative organizations, corporations related to the primary

sector, and local governments within their own prefectures. One-half or more of the remaining funds are deposited with the Bank. This structure is supported by strong ties with the members of Shinnoren, JA, and other related partners.

The Bank is also one of the few financial institutions in Japan that can float bank debentures and raise funds from individual and institutional investors.

### Use of Funds

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The Bank's abundant funds, procured from the above-mentioned sources, are used intensively for loans and investment in securities. A portion of earnings is also distributed to the members of the cooperative credit system.

The Bank's clients for loans are classified mainly into three categories:

- *Cooperative organizations of the agricultural, forestry, and fishery cooperative system and entities engaged in agriculture, forestry, and fishing,*
- *Companies and organizations contributing to the development of the primary sector, and*
- *Public institutions contributing to welfare.*

In particular, the Bank, since its establishment, has positioned loans to member organizations of the cooperative system, related corporations of those members, and entities in the primary sector as the basis of its activities. The Bank has provided an original cooperative low-interest rate fund, named the Agriculture, Forestry, and Fishery Promotion Fund. The Bank has financially supported the development of primary-sector industries and cooperative organizations, with the aim of training the next generation of personnel who will participate in the agriculture, forestry, and fishery industries, and promoted the development of ecological agriculture. The Bank also provides financial resources to regional public-sector organizations and public corporations in order to build a stronger industrial base in local communities and raise the standard of living and well-being of local residents.

In addition, drawing on its ample financial resources and accumulated know-how, the Bank, as Japan's largest institutional investor, is an active participant in the securities and money markets, and particularly plays a leading role in short-term money markets. Besides these activities, the Bank has been expanding its overseas investments and loans as well as supporting the development of the overseas operations of member organizations and primary-sector-related industries.

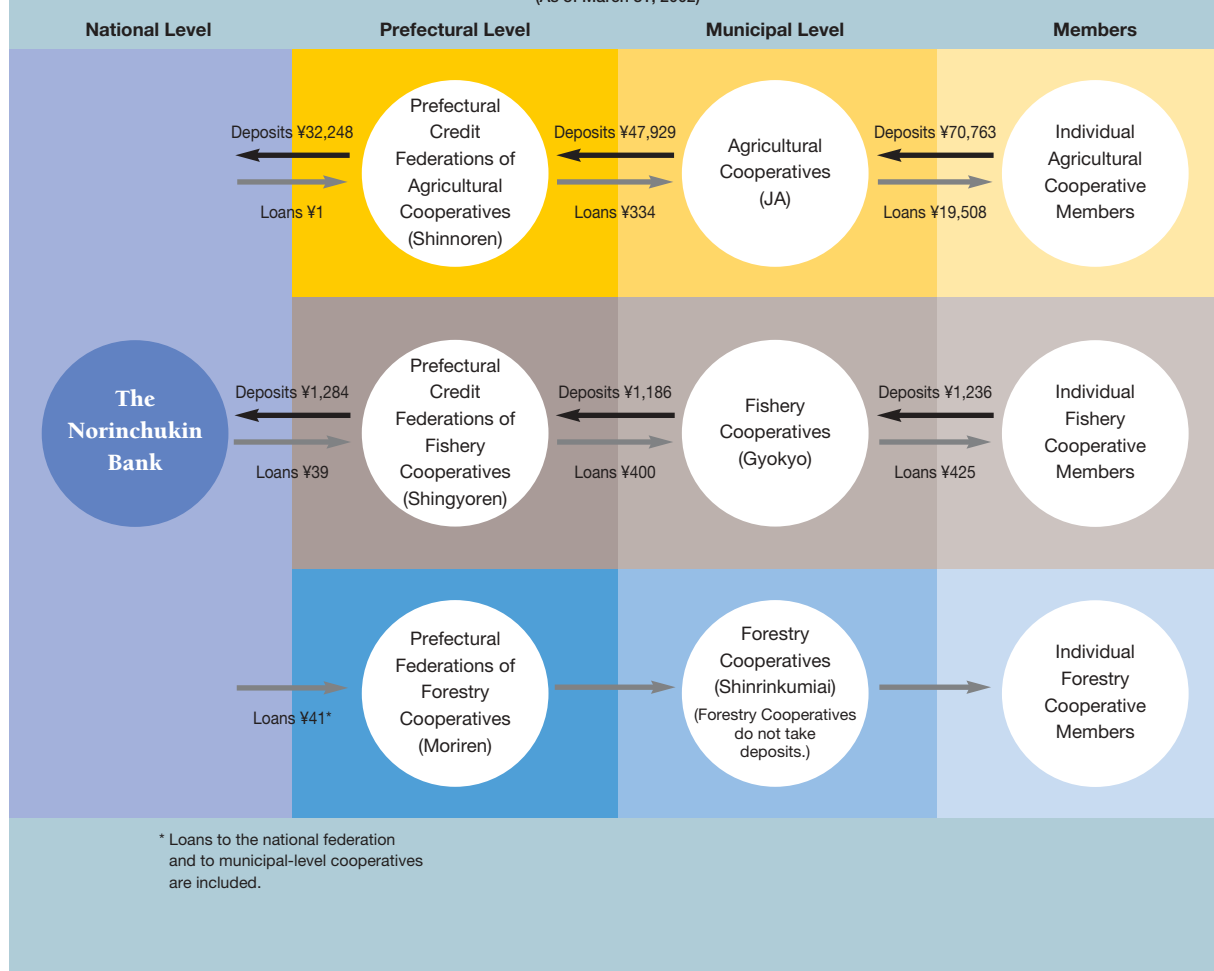
### Flow of Funds within the Cooperative System in Fiscal 2001

JA deposits rose 2.0% over the previous year and stood at ¥73,537 billion at the fiscal year-end. This increase was attributed to encouraged saving despite the decline in agricultural income caused by the weakness in agricultural crop prices and lower income from non-agricultural sources, reflecting deterioration in employment conditions.

Total JA loans decreased 3.4% from a year earlier, to ¥21,256 billion, as a result of weak demand for funds due to sluggish consumer spending. The fiscal year-end outstanding securities held at the JA level rose 6.2% on a year-on-year basis, to ¥4,067 billion.

## LOANS AND DEPOSITS IN THE COOPERATIVE CREDIT SYSTEM (Billions of Yen)

(As of March 31, 2002)



## FINANCIAL POSITION OF THE COOPERATIVE CREDIT SYSTEM (Billions of Yen)

(As of March 31, 2002)

	Deposits	Debentures	Borrowings	Cash and Due from Banks	Securities	Loans	Assets
JA	¥73,537	¥ —	¥635	¥49,422	¥ 4,067*	¥21,256	¥75,524
Gyokyo	1,301	—	282	1,179	19	449	1,662
Shinnoren	50,472	—	27	32,685	13,471*	5,353	55,194
Shingyoren	2,380	—	40	1,451	212*	803	2,631
The Norinchukin Bank	38,357	5,946	493	3,842	23,276	24,233	56,527

\*Money held in trust is included.

In response to these trends at the JA level, the balance of deposits with Shinnoren rose 2.3%, to ¥50,472 billion. Loans from Shinnoren, however, dropped 0.3% from a year earlier, to ¥5,353 billion, owing to weakness in loan demand. On the other hand, securities held at the Shinnoren level at the fiscal year-end were ¥13,471 billion, representing an increase of 8.7% over the previous year-end.

As a result, remaining funds ultimately deposited with the Bank through the cooperative credit system amounted to substantially more than ¥30 trillion.