

A Message from the President

Hirofumi Ueno, *President & CEO*



Introduction

The Norinchukin Bank (the “Bank”) is a nationwide financial institution based on the Japanese agricultural, forestry, and fishery cooperatives. Supported by constant funds procurement from members and other users through these organizations, the Bank carries out profitable, efficient, and flexible asset management by investing in financial products on a global scale. The Bank, in accordance with the commitment of the cooperative members, has continuously passed on the profits from these activities.

In addition, the Bank also provides the cooperative members with a variety of financial services, which include a common national system infrastructure and the development of financial products in the field of retail business.

In fiscal 2003, the year ending March 31, 2004, the Bank will celebrate the 80th anniversary since its establishment in 1923. I would like to take this opportunity to express my appreciation to all our cooperative members and business partners for their unyielding support over the years.

Performance of the Bank in Fiscal 2002

In fiscal 2002, financial institutions faced a difficult business environment. In Japan, long- and short-term interest rates fell further amid the deterioration of asset prices as a result of continuous sluggish economic conditions. Sharp declines in stock prices, both at home and abroad, resulted from economic uncertainty due to geopolitical risk factors, such as the outbreak of war in Iraq.


Under this environment, the Bank made efforts to ensure asset quality, while writing off and making provisions for non-performing loans based on strict self-assessment, and also worked to secure higher earnings by globally diversifying its investments. As a result, recurring profit was ¥98,463 million (US\$819 million), an increase of ¥8,335 million on a year-on-year basis, while net income totaled ¥65,447 million (US\$544 million).

The Bank's total assets at the fiscal year-end stood at ¥61,265 billion (US\$509 billion). As a result of global diversification, foreign securities made up ¥16,271 billion (US\$135 billion) of total investment securities, which amounted to ¥28,623 billion (US\$238 billion).

Credit costs on a non-consolidated basis declined ¥53,130 million, to ¥55,071 million (US\$458 million), from the previous fiscal year. Although ongoing write-offs, provisions, and the bulk sale of loans were carried out, a reversal of the general reserve for possible loan losses was seen as a result of a decline in non-performing loans, such as those under requirement of control.

The Bank took active measures to remove non-performing exposure from its balance sheet and was successful in eliminating ¥196,191 million (US\$1,632 million) through direct write-offs and the recovery of a portion of its non-performing loans. As a result, the total balance of risk-managed loans as of March 31, 2003, was ¥655,503 million (US\$5,453 million), which represented 3.4% of the Bank's total loan assets.

The consolidated capital adequacy ratio calculated according to BIS requirements declined 0.15 percentage point compared with the previous fiscal year-end, to 9.87%. This decline reflected a rise in risk-adjusted assets in conjunction with an increase in invested assets aimed at securing stable earnings over the medium term. The Bank's Tier I capital adequacy ratio, which is regarded as a measure of the quality of capital for financial institutions, was 6.47%.



Strengthening of the Bank's Capital

In fiscal 2002, the Bank carried out three measures to increase capital from qualitative and quantitative aspects, detailed as follows:

1. The Bank doubled common stock, the core component of Tier I capital, to ¥200 billion, from ¥100 billion.
2. The Bank established a ¥367 billion borrowing framework comprised of perpetual subordinated loans, which are classified as Upper Tier II capital, a higher quality of capital within Tier II. The Bank has already procured ¥183 billion, or half the amount available under the framework. The remaining amount can be withdrawn at any time, and there are plans to acquire this in due course.
3. The Bank refinanced ¥490 billion in subordinated loans with maturity taken out in fiscal 1997, classified as Tier II capital. The Bank added ¥31 billion to the refinanced amount, bringing the total to ¥521 billion.

Medium-Term Business Strategy

The Bank formulated a medium-term business strategy covering the period from October 2001 to March 2005. The goal of the strategy is to create mechanisms for securing stable profitability through the concept of selection and concentration on business activities and promoting unified business operations of the cooperative credit business. At the same time, the Bank will specifically address the following four issues as key concepts to further improve organizational and business efficiency as well as enhance profitability.

1. Realization of unified operations of the cooperative credit business
2. Restructuring to create a stronger cooperative credit business
3. Strengthening earnings by the enhancement of optimal risk management
4. Re-engineering overall operations



The following section details the Bank's progress in addressing these issues as of the end of fiscal 2002.

● Realization of Unified Operations of the Cooperative Credit Business
Sound Operation of the JA Banking System (refer to page 7)

The Bank has worked to provide high-quality, sophisticated financial services to members and other users and implement bankruptcy prevention measures within the JA Banking System. The Bank has addressed the former through the provision of a variety of financial services, including a common national system infrastructure for JA Bank members and the development of financial products tailored to meet the needs of members and other users in the field of retail banking. As for the latter, certain criteria to prevent the failure of operations by cooperative members were established by a consensus of cooperative members themselves led by the Bank. The Bank also monitors JA through the JA Bank System Headquarters, established within the Bank. In this way, the Bank is able to detect problems at an early stage, formulate a safety net in cooperation with the authorities, and implement necessary corrective measures.

● Restructuring to Create a Stronger Cooperative Credit Business
Realization of Consolidation of Shinnoren with the Bank

In fiscal 2002, two of the 46 Prefectural Credit Federations of Agricultural Cooperatives (Shinnoren) were consolidated with the Bank, and, in May 2003, the consolidation of another with the Bank was realized through acquisition of a part of its credit business. We have also reached agreement whereby the Bank and three other Shinnoren will consolidate during this fiscal year.

● Strengthening Earnings by the Enhancement of Optimal Risk Management
Realization of Stable Earnings through Globally Diversified Investment

The Bank carries out total asset allocation based on the concepts of optimal risk management and global diversification, thereby gaining profits from taking market and credit risk. At the same time, the Bank is progressing with the sophistication of management methods and infrastructure development in light of the new BIS regulations scheduled to go into effect in fiscal 2006.

● Re-engineering Overall Operations

Achieving Greater Selectivity and Focus

The Bank is moving forward with efforts to streamline and increase the efficiency of its operations by achieving greater selectivity and focus in its business portfolio. In line with this, the Bank is outsourcing some of its operations, re-examining the distribution of personnel, and consolidating branches.

A Trusted Financial Institution (Credit Ratings)

As of June 30, 2003, the Bank's long-term debt was rated A1 by Moody's Investors Service and A+ by Standard & Poor's. These are among the highest credit ratings for Japanese financial institutions and are a reflection of the Bank's stable cooperative funding bases, sound asset quality represented by its low ratio of non-performing loans, ample liquidity through cash positions and short-term market transactions, and solid capital base.

Conclusion

With the realization of the goals laid out in our medium-term business strategy, there will be a bright future for the Bank and its cooperative credit business. Therefore, I am committed to resolving such issues in the shortest possible time frame, actions that will also allow heightened emphasis on compliance. I am also confident that these efforts will not only enhance the corporate value of the Bank and its cooperative credit business but will also enable us to support the development of the agricultural, forestry, and fishery industries in Japan and contribute to society as a whole.

I am looking forward to your continued support in the years ahead.

August 2003



Hirofumi Ueno
President and Chief Executive Officer