

# Business Outline

## Global Asset Allocation

### Basic Concept

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The Bank places emphasis on total portfolio management based on the concept of globally diversified investment. To accomplish this, the Bank utilizes its strengths, namely (1) a stable yen procurement base provided by cooperative credit business, (2) abundant liquidity, and (3) efficient business management underpinned by fewer personnel and branches.

### Characteristics of the Balance Sheet

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The Bank's policy of globally diversified investment has resulted in significant changes in its balance sheet, as indicated by the following figures for foreign securities balances. As of March 31, 2003, on a consolidated basis, the Bank's total assets amounted to ¥61 trillion (US\$509 billion), with investment securities accounting for ¥28 trillion (US\$238 billion). Of the total amount of investment securities, foreign securities accounted for ¥16 trillion (US\$135 billion).

The balance of foreign securities as of March 31, 2003, increased four times from ¥4 trillion (US\$31 billion) at the end of March 1998.

### Portfolio Management

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The Bank seeks to diversify its investments to enable a total balance, stability of earnings, and risk diversification. To achieve this, investments in marketable credit risk related financial products, including asset-backed securities (ABS), are carried out. So-called alternative investments, which have a low correlation with bonds and stocks, are also being carried out.

The Bank's objective in managing its portfolio is to establish a flexible and stable financial structure. In order to realize this, the Bank seeks to optimize allocation through long-term investment by considering risk-return, yield differentials among financial products, correlations, and comprehensive diversification (e.g., financial products, countries, industries, and ratings). By doing so, optimal portfolio management in terms of strategic risk taking and risk control will be made possible.

### Risk Management

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The Bank carries out globally diversified investment while implementing appropriate risk management. To accomplish this, the Bank has established a risk management system that centers on three components. The first is accurate decision making utilizing committees, made up of management and general managers of divisions, that function across divisional boundaries. The Credit Risk Management Committee and the Market Risk Management Committee are the two main bodies. The second is fast and effective execution in accordance with policies decided by these committees. The third is to properly and independently monitor front-office execution and provide feedback on quantitative data for risk volumes so as to reflect these in decision making.

Regarding market transactions, the Market Risk Management Committee meets, in principle, once per month. Meetings are also held on an ad-hoc basis when necessary to formulate flexible measures to deal with market trends or other such factors, thereby enabling prompt decision making.

Front offices carry out the efficient execution of policies while continually monitoring market trends. These offices also propose new investment ideas to the Market Risk Management Committee.

The Risk Monitoring Division independently monitors whether the operations conducted by the front offices follow policies set by the Market Risk Management Committee and measures risk volume. The division reports its findings to this committee, which uses these results as the basis for ascertaining the current status and for considering future policies.

Regarding credit-related transactions, the Credit Committee is a venue for the deliberation of the basic framework of credit risk management. The framework entails the credit ceiling system by country, bank, and individual company, internal rating system, and self-assessment. The Credit Risk Management Committee debates specific policies for credit risk related transactions.

#### **Foreign-Currency Procurement**

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Regarding the foreign currency needed to carry out globally diversified investment, the Bank has set up branches in New York, London, and Singapore based on its policy of having footholds in the world's major financial centers. By developing bank relations, these branches engage in the stable procurement of foreign currencies.

#### **International Operations**

Overseas branches focus on money market operations and loans and are continuing to develop their activities based on the nature of their respective markets. Especially in their respective money market operations, these branches play an extremely important role in raising stable flows of foreign currencies, which are essential for implementation of the Bank's overall strategy, globally diversified investments.

The New York Branch has expanded its business operations since its inception in 1984. In its money market operations, based in the mother market for U.S. dollars, and with its status as a member of the Fixed Income Clearing Corporation (FICC), the branch constantly procures dollar funds on favorable terms through repos and other transactions. In its lending operations, the Bank regards the United States as the largest market for credit investment for non-Japanese clients and is continuing to expand these types of investments while enhancing risk management systems. The branch also works closely with the Head Office in providing financial services to the U.S. subsidiaries of Japanese companies. Taking advantage of the Bank's higher credit rating, compared with other Japanese banks, the branch has shown steady results to date.

The London Branch was opened in 1991 and is the Bank's largest base for procuring foreign currencies. The branch provides steady flows of foreign currencies by enhancing its strong relations with various other financial institutions. It has also benefited from London's strategic position as the center of the European market and has delivered results by utilizing the abundant yen funds of the Head Office. The branch is working to selectively expand its credit investments for non-Japanese clients, targeting mainly borrowers in the unified Euromarket, while paying attention to the diversification of industries and other criteria. The branch also supports Japanese clients in developing their business operations in Europe.

The Singapore Branch started operations in 1993. In funding operations, like other branches, the branch plays an important role in the procurement of foreign currencies for the Bank, using the infrastructure of the financial centers of Asia and Oceania. In credit investments for non-Japanese clients, the branch targets Southeast Asia and Oceania while paying due attention to risk management. The branch also provides loans to Japanese-affiliated companies operating in surrounding Asian countries.

The three branches introduced a new front-office system in fiscal 2001 to further enhance their risk management systems.

Besides these branches, the Bank established representative offices in Hong Kong and Beijing in 1998. These offices are engaged in gathering information on business activities.

To enhance globally diversified investments, these overseas offices are continuing to play important roles as leading-edge centers for the procurement of foreign currencies, as well as credit investment, and the gathering of banking-related information.



## Market Operations

### Systems for Market Operations

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The Bank is one of the largest financial institutions in Japan, while, at the same time, one of the leading global institutional investors. Financial assets that are managed in the financial markets, including securities and short-term money-market products, represent a large share of our total assets.

The market operations divisions are managed under a mutual checking system in which the front, middle, and back offices work independently. The front offices manage domestic and overseas assets as one portfolio and categorize these by asset type, such as bonds and equities, effectively.

### Securities Investment

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At the end of fiscal 2002, outstanding securities under the management of the Bank were ¥28,623 billion (US\$238 billion), up 23.2%, or ¥5,398 billion, from the previous fiscal year-end.

Investment in bonds, a core management asset, accounts for a significant portion of the assets of the Bank due to the risk-return characteristics. When making investment decisions, the Bank gives full attention not only to interest rate risk but also to credit and liquidity risks. Global investments in various types of bonds, including government bonds and corporate bonds, are carried out.

In equity investments, the Bank takes correlation with other asset classes into consideration and manages its equity portfolio from a long-term perspective. The Bank also diversifies its portfolio by investing in global markets.

In recent years, the markets for asset-backed securities (ABS) and other marketable credit risk financial products have expanded. By implementing complete risk analyses, the Bank has been active in global credit investment. The Bank is also proceeding with so-called alternative investments that have a low correlation with stocks and bonds.

### Short-Term Money Market Operations

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As a major player, the Bank actively participates in global short-term money markets.

Under an environment of ultralow interest rates in Japan, the Bank works to efficiently control its available funds, principally obtained from the cooperative credit business, while at the same time giving full consideration to various types of risks. Domestically, the Bank is active in such interbank markets as the call market and in the repurchase agreement (repo) market. The Bank continually maintains a leading role in these markets and plays an important part in expanding their market functions.

Backed by its strong credit standing in foreign currency markets, the Bank conducts stable and effective transactions, including those necessary for globally diversified investment.

Meanwhile, the Bank accurately controls liquidity risk and settlement risk by assessing funding gaps through daily, weekly, monthly, and quarterly maturity ladders. In addition, the Bank takes part in Continuous Linked Settlement (CLS), a new system for foreign currency settlements. Starting in September 2002, the Head Office and all overseas branches participated as part of the first group to use this system, thereby contributing to a network necessary for managing settlements in U.S. dollars, Euros, and other major currencies.

### **Foreign-Exchange Transactions**

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As a market participant representing the cooperative credit business in foreign-exchange transactions, the Bank has organized an efficient and highly skilled dealing team able to accurately meet the needs of cooperatives and companies related to primary industries.

### **Trading Operations**

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In the trading of financial products, the Bank meets the needs of its clients through transactions in Japanese government bonds, CP, and derivatives. The Bank works to increase its dealing profits through various methods, such as arbitrage transactions and options, for each financial product.

## **Loans**

As of March 31, 2003, the balance of loans and bills discounted in the consolidated statements of the Bank amounted to ¥19,179 billion (US\$159 billion), accounting for less than one-third (31.3%) of total assets. This figure reflects a high weight of securities investment.

The cooperative credit business, which includes the Bank, plays a key role as the main bank for the primary sector. As a financial institution based in this sector, the Bank provides cooperative lending mainly to cooperative organizations and companies in the agriculture, forestry, and fisheries industries. However, the balance of cooperative lending at the end of fiscal 2002 amounted to ¥1,342 billion (US\$11 billion), accounting for a relatively small 7.0% of the Bank's total loans. This is because cooperative lending is carried out mostly at the JA and Shinnoren levels and is only supplemented by the Bank.

The Bank's clients cover a wide range of industries, including companies that are directly associated with the primary sector, such as those involved in the processing of agricultural, forestry, and fisheries products, the manufacturing of materials required by the primary sector, and the distribution of these products. These also include companies that are engaged in public activities, such as local governments and other entities, including electric power and gas.

With the strong fund-raising capacities of the cooperative credit business and know-how cultivated as a world-class institutional investor, the Bank has been consistently responding to the financial needs of its clients. The Bank provides a variety of financial products: i.e., securitization of accounts receivables and real estate, non-recourse loans, syndicated loans, commitment line contracts, and fund-raising in domestic and international capital markets with corporate bonds and commercial paper (CP).

The Bank also provides the following financial services: proposals for measures to hedge interest rate risk using derivatives and the provision of information based on its position as the core entity of the cooperative credit business.

### **Capital Markets Business**

In response to the increasingly diversified and global nature of the fund-raising needs of its clients, the Bank's group assists in raising funds from capital markets by acting as a commissioned bank for bond issues and provides strong support for clients through diversified business operations. These include assistance for IPOs and advice on bond floatation.

The Bank's group supports stable fund management by offering investment products from both domestic and overseas markets, primarily to members of the cooperative system.

In the domestic capital market, Norinchukin Securities Co., Ltd., assists clients in raising funds by offering, underwriting, and selling public and corporate bonds. The company also responds to the investment needs of the cooperative members and industrial corporations with a wide range of financial products in the secondary market.

In overseas capital markets, Norinchukin International plc (NOIL), based in London, is primarily responsible for helping clients meet their fund-raising needs, while at the same time offering high-quality overseas investment products to cooperative members and clients. Norinchukin Securities and NOIL work closely together to expand their business activities.

Asset management support for cooperative members and clients is provided by Norinchukin-Zenkyoren Asset Management Co., Ltd. The company is responsible for managing the assets of the cooperative members and responds to a broad range of clients' asset-management needs through securities investment trusts and investment advisory business.

The Norinchukin Trust & Banking Co., Ltd., offers both administrative and management services for the members of the cooperative business and other clients, ranging from monetary assets to real estate. Specific services include fund trusts, securities trusts, securities investment trusts, monetary claims trusts, and land trusts.

By utilizing the management know-how and networks acquired from its experience as a leading institutional investor in the domestic and international markets, the Bank group provides sound capital market services to the members of the cooperative business as well as to other clients.

OUTLINE OF CAPITAL MARKETS BUSINESS OF THE BANK'S GROUP

