

Securities Investment

The Bank's Basic Stance for Securities Investment

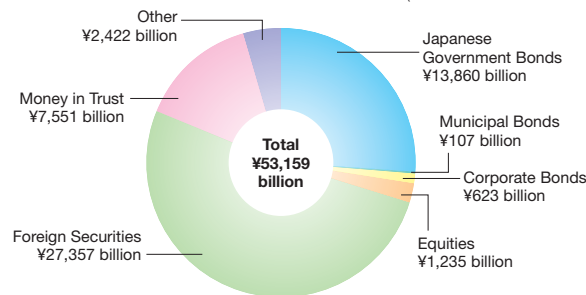
The Bank is one of the most prominent financial institutions in Japan and, at the same time, is one of Japan's leading institutional investors. The Bank's total balance of securities and money in trust has risen to approximately ¥53 trillion and accounts for a major portion of the Bank's total assets.

The most important basic concept in the Bank's management of securities is the "diversification of investments." The purpose of this investment approach is to build a diversified portfolio of various types of investments with a range of risk and return characteristics to minimize risks in any single year due to increasing interest rates, falling stock prices or other circumstances and realize a high return in the medium-to-long term. By geographical area, the Bank invests in Japan, the United States, Europe and certain other regions. According to the type of investment asset, the Bank divides assets generally into the categories of bonds, equities and credit assets, and conducts a sophisticated program of research. It maintains its stance of "diversification of investments" in all types of economic and financial environments while also reassessing and adjusting its asset allocation flexibly in response to changes in market conditions.

In pursuing returns on investments, the Bank does not exclusively manage all of its assets internally but takes a proactive stance toward having portions of its portfolio managed by other investment management companies. In selecting outside asset managers, the Bank carefully reviews the investment processes and the record of potential managers, and, after selection, closely monitors their performance from quantitative and qualitative perspectives. The Bank is constantly and systematically examining the performance of the investment management companies it employs, with an eye to decisions on whether or not to renew their mandates.

Breakdown of Securities by Type (As of March 31, 2006)

(On a Non-Consolidated Basis)



Note: The figures above, including the total, are subsequent to rounding of data on a confirmed basis. Accordingly, the sum of individual figures does not agree with the total, due to rounding.





Investment Stance by Type of Asset

Investment in bonds, a core management asset, accounts for a major portion of the assets of the Bank, due to their risk-return characteristics. When making investment decisions, the Bank addresses full attention not only to interest rate risk but also to credit and liquidity risks. The Bank has assembled an efficient bond portfolio, investing in a variety of bonds, including Japanese government bonds and those issued by other government entities, mortgage-backed bonds and bonds issued by foreign companies.

In equity investments, the Bank considers the characteristics of risk-return and correlations with other asset classes and manages its equity portfolio consistently with a long-term perspective. The Bank's strategy for equity investments focuses on passive investing linked to various stock indices. The Bank complements this strategy with active investing aimed at generating returns above those obtained from index-linked passive investing by making diversified investments in domestic and foreign stocks.

In recent years, the markets for asset-backed securities (ABS) and other marketable credit risk products have expanded. Based on the concept of internationally diversified investing, the Bank conducts an active program of investments in global credit instruments while implementing complete risk analysis. Moreover, the Bank invests in so-called alternative investments which have low correlations with conventional assets, such as stocks and bonds. Please note that in the management of foreign currency assets, the Bank takes measures to restrain foreign exchange risk of most of these investments by raising funds in foreign currencies.

System for Portfolio Management

Major decisions regarding the Bank's portfolios of market investments are reached systematically by the Market Risk Management Committee and the Credit Risk Management Committee, which are composed of members of top management and the heads of related departments. In addition, in the departments engaged in market transactions, the Bank has created a mutual checking system with systematically separated organizations, such as front sections (responsible for execution of transactions), middle sections (responsible for monitoring) and back sections (responsible for processing and settlements).

The front sections execute transactions based on the plans set by the Risk Management Committee. Their functions also include focusing on optimizing efficiency of transactions, close and constant monitoring of market trends and developing proposals for new transaction plans. The front sections are responsible for putting the Bank's concept of internationally diversified investment into practice, and, to this end, work to create a more efficient and effective management system where domestic and international investments are integrated within the categories of bonds, equities and other investment instruments.

The middle sections are responsible for monitoring the appropriateness of the activities of the front sections, as well as for quantitative measures of risk volumes, including stress testing.

Risk Management in Securities Investment

Together with growth of assets in the Bank's securities portfolio, risk management has become an increasingly important issue. To manage risk properly, related systems are constantly being reassessed and upgraded.


The Risk Monitoring Division, which is the middle section, monitors market portfolio risk on a continuing basis and makes reports to the Risk Management Committee. Related activities include the management of risk from an array of perspectives, such as computing risk volume taking into account the current portfolio and scheduled transactions, as well as the effect of diversified investing; confirming that the Bank's capital is sufficient for the estimated level of risk volume; conducting analyses of sensitivity to market trends, including interest rates, stock prices and foreign currency rates; and analyzing simulations according to various stress conditions.

Short-Term Money Market Transactions

As the nationwide financial institution for Japan's agricultural, forestry and fishery cooperatives, the Bank manages the cash, mainly deposits from cooperative credit organizations, in domestic money markets. As a result, the Bank is a leading and active participant in short-term, money market transactions in Japan. In addition, as a leading institutional investor, the Bank makes diversified investments in international capital markets and makes active use of foreign currency markets to fund these investments.

The operating environment in domestic and overseas short-term money markets is changing as policy interest rates are being raised in Europe and the United States, and, in Japan, the policy of monetary easing adopted to end deflation and bring economic recovery has been suspended after being in effect for five years. In view of these developments, the Bank is appropriating due consideration to the risks of rising interest rates and liquidity risk in the management of its short-term funds. The proper management of liquidity risk is a precondition for the conduct of the Bank's operations and for the stable management of its portfolio. Accordingly, the Bank is conducting activities while maintaining close attention to the cash flow of the cooperative credit system as a whole and trends in short-term money markets and other domestic and overseas financial markets.





In Japan's domestic market, the Bank is an active participant not only in the interbank market but also in the repo and other money markets; it also assumes a leadership position in these markets and undertakes major tasks in working to expand the functions of these markets. Through its participation in the Research Committee for Revitalization of Short-Term Financial Markets (which has its secretariat in the Japanese Bankers Association), the Bank also contributes to improvements in market practices.

In foreign currency markets, backed by a well-founded credit standing, the Bank conducts stable and efficient transactions, including those necessary for globally diversified investments. The management of foreign currency funds is conducted using a range of procuring tools through teamwork among the Bank's three overseas branches in New York, London and Singapore.

Additionally, the Bank accurately controls liquidity risk and settlement risk while simultaneously providing settlement functions at the Bank of Japan on behalf of cooperative organizations. The Bank also takes part in the Continuous-Linked Settlement (CLS) System, a new system for foreign currency settlements, and thus contributes to the creation of a network needed for managing settlements in U.S. dollars, euros and other major currencies.

Foreign-Exchange Transactions

The Bank has formed an efficient and highly skilled dealing team in order to be able to accurately respond to the needs of its customers, including cooperative organizations and companies related to the agricultural, forestry and fisheries industries.

Trading Operations

The Bank trades in various financial products, including Japanese government bonds, commercial paper (CP) and financial derivatives, to meet the needs of its customers. The Bank also works to increase its dealing profits through various methods, such as arbitrage transactions and options that involve the traded financial products.



THE BANK OFFERS A BROAD RANGE OF FINANCIAL SERVICES, PRINCIPALLY TO ENTERPRISES WITH LINKS TO THE AGRICULTURAL, FORESTRY AND FISHERIES INDUSTRIES.

As a financial institution based on the agricultural, forestry and fisheries industries, the Bank provides various financial services to private enterprises that are linked with these sectors and public enterprises.

The Bank's customer base is highly diverse, encompassing companies in the food product and the pulp and paper industry that process agricultural, forestry and fisheries products; the chemical and machinery industries that provide production goods for the agricultural, forestry and fisheries industries; trading companies that offer distribution services; and the supermarket and restaurant industries that supply these products to final consumers. The Bank's customer base also includes other industries as well, including the leasing, credit and IT/telecommunications sectors and wind power companies. The Bank's corporate finance departments provide a range of assistance to customers in these industries under its basic policy of contributing to the growth of Japan's agricultural, forestry and fisheries industries as well as the economy as a whole by supporting the growth and development of customers in these industries.

Support for Fund-Raising

To respond effectively to the increasingly diverse fund-raising requirements of its customers, the Bank draws on its strong funding base, backed by the cooperative organization, and its expertise cultivated as one of Japan's leading institutional investors to provide stable sources of funds to meet the needs of its customers. In parallel with changes in corporate finance, the Bank provides not only a diverse range of loans—such as long- and short-term loans, non-recourse loans, syndicated loans and project finance—but also commitment lines, securitization of accounts receivable and real estate and support in raising funds from capital markets through the issuance of corporate bonds and other financial instruments. Also, in its capacity as an institutional investor, the Bank invests proactively in these and other financial products.

Customer Service Network

The Bank offers these financing services to its customers through its corporate business divisions located in its Head Office and branches. The Head Office offers corporate finance services through a special division that is organized by industry to address customer needs most effectively. Branches work with the Head Office to arrange various corporate finance services and techniques and thereby address wide-ranging customer needs. Currently, the Bank has branches in Sapporo, Akita, Sendai, Utsunomiya, Kanazawa, Nagoya, Osaka, Hiroshima, Takamatsu, Fukuoka and Naha.

For customers with overseas operations, the Bank is positioned to meet customers' needs for foreign currency finance, backed by the top-tier ratings among Japanese banking institutions, through its offices in New York, London and Singapore.

Other Financial Services

The Bank provides a host of other financial services as well, including derivative-based interest rate risk hedging schemes, as well as the provision of information that leverages its business base among cooperative members and advice on initial public offerings (IPOs).

Cooperative Lending

THE BANK OFFERS FINANCIAL SUPPORT FOR THE DEVELOPMENT OF THE AGRICULTURAL, FORESTRY AND FISHERIES SECTORS.

Finance within the Cooperative Organizations: Basis of Lending Activities

As the principal financial institution for the agricultural, forestry and fisheries industries, the Bank has created a funding system unique to the cooperative framework, called Agricultural, Forestry and Fishery Support Funding. This system aims to nurture the participants in the agricultural, forestry and fisheries sectors while encouraging environmentally friendly agricultural practices, with the goal of promoting the development of Japan's agricultural, forestry and fisheries industry and their cooperative organizations.

Loans made within the cooperative framework are supplied mainly to the JA, fishery cooperatives and forestry cooperatives and enterprises that participate in the agricultural, forestry and fisheries industries. These loans are directly linked to the development of the agricultural, forestry and fisheries sectors and have been positioned as the base for the activities of the Bank since its establishment.

Loans to the Agricultural Sector

Japan's agricultural sector confronts a challenging operating environment, attributed to such trends as rising imports of agricultural products and instability in prices for its crops. In light of these developments, the Japanese government enacted the "Basic Plan for Food, Agriculture and Rural Areas" in March 2005. This plan focuses especially on developmental support for core farmers and promoting reforms in agriculture; it also places significantly greater emphasis on the importance of finance for the agricultural sector.

From its perspective, JA Bank plans to move forward with its ongoing initiatives and, as it comprises the JA, Shinnoren and the Norinchukin Bank, will work progressively to strengthen its efforts to meet the financial needs of core farmers.

Outline of Types of Loans (As of March 31, 2006)

	General Loan Funding	Funding under Institutional Arrangements
Agriculture	New Agriculture Promotion Fund (Agri-Mighty Fund) Agribusiness Loans Livestock, Fruit, Gardening and Related Agriculture Fund Agriculture and Livestock Processing Funds, Others	Agriculture Modernization Fund Agricultural Management Assistance Support Fund Agricultural Management Improvement Promotion Fund (Super-S Fund) Intermediate and Mountainous Region Revitalization Fund, Others
Fisheries	Fisheries Development Fund Fisheries Management Fund for Fishing Vessels, Nets, Tools and Landing Facilities Fisheries Processing and Distribution Fund for Processing, Refrigeration and Cold Storage, Others	Fisheries Modernization Fund Fisheries Management Improvement Promotion Fund Intermediate and Mountainous Region Revitalization Fund, Others
Forestry	Forestry Development Fund Forestry Management Fund for Afforestation, Tree Cultivation and Forest Product Cultivation Processing and Distribution Fund for Raw Materials, Lumber, Chips and Other Forest Products Mountain Village Environment Improvement Fund, Forestry Industry Participants Fund, Others	Forestry Development Promotion Fund Intermediate and Mountainous Region Revitalization Fund, Others

Cooperative Lending

The Norinchukin Bank has established the JA Bank Farm Leaders Finance Department to provide active support in developmental assurance for core farmers. The Bank also will provide support for the development of regional agriculture through participating in the planning and promotion of overall financing activities of JA Bank. In these activities, the Bank will make use of finance under institutional arrangements, including the Agriculture Modernization Fund, which receives funding from the cooperative system, and the New Agriculture Promotion Fund (also known as the Agri-Mighty Fund), which was established by the cooperative credit system.

Q&A

Q: What type of fund is the Agriculture Modernization Fund?

A: This is the most general form of funding made available through the cooperative organization to assist core farmers in enhancing the efficiency and stability of their business activities. The funds are lent by the cooperative organization, but public-sector organizations provide guarantees for payment of interest and principal.

Funding is made available for agricultural facilities, farming tools, long-term working capital, and certain other purposes. Beginning in fiscal 2006, agricultural organizations operated by agricultural settlements became eligible for financing.

Q: What kind of funding is made available by the New Agriculture Promotion Fund (Agri-Mighty Fund)?

A: Agri-Mighty funding is the name of a form of agricultural finance derived from “Agri” and “Mighty,” or “Almighty.” This funding system was developed by the cooperatives themselves and it responds to a broad range of financing needs in the food product, agricultural, and farm town areas, including finance for crop production; processing, distribution and marketing; as well as funding for revitalizing agricultural towns. Like funds for the modernization of agriculture, agricultural settlements have also become eligible for funding under this system.



The Bank's Agency Lending Activities

The Bank acts as agent for the following funding sources:

- Agriculture, Forestry and Fisheries Finance Corporation of Japan
- Okinawa Development Finance Corporation
- Employment and Human Resources Development Organization
- Small Business Finance Corporation
- National Life Finance Corporation (Educational Loans)
- Housing Loan Corporation



Loans to the Fisheries Sector

The fisheries industry is faced with a challenging operating environment, owing to a range of factors, including the tightening of international standards aimed at preserving natural resources and the environment, a decline in fisheries resources in the territorial waters surrounding coastal Japan, declining prices for marine products, rising fuel costs and the adverse impact of excessive growth in the population of large jellyfish in waters near Japan. Amid these circumstances, the fishery cooperative organizations are expected to implement initiatives for conducting proper resource management in fisheries operations, as provided for under Japan's Basic Fisheries Law, and work toward the revitalization of fisheries operations.

The Bank offers financial support for the development of the fisheries industry. This includes providing financing for the production of marine products, including catching, aquatic farming and other activities for the processing and distribution of these products, as well as finance facilities for the modernization of the fisheries industry.

Loans to the Forestry Sector

Japan's forestry industry confronts difficult operating conditions because of market instability and a soft market for lumber products. On the other hand, interest among Japanese citizens in preserving the nation's forests is increasing because of the many roles forests play in providing sources of water and preserving the natural environment. Forests are considered to have an environmentally significant role in absorbing greenhouse gases and thus forestalling global warming. For these various reasons, proper management of forestlands has become an important issue.

The Bank provides support for the development of Japan's forestry and lumber industries. This includes supplying funds to the forestry cooperative organization and forest owners, which represent key agents in improving the conditions of forests in Japan, to finance the cultivation of forestland. The Bank also offers financing for the producers, processors and distributors of lumber.

Services Offered through Securities Subsidiaries

The securities related subsidiaries of the Norinchukin Bank Group carry on the asset management business and provide support for the retail banking activities of cooperative credit organizations. These subsidiaries are working to significantly enhance their capabilities in responding to the increasingly diverse and sophisticated needs of cooperative organizations, their members and other customers.

The Norinchukin Trust & Banking Co., Ltd., provides trust services for cooperative organizations, industrial corporations and other customers. Assets managed and administered by it exceed ¥11 trillion. The Norinchukin Trust & Banking also focuses on asset management services to cooperative members, including inheritance trust services which it began to offer in October 2005.

Norinchukin-Zenkyoren Asset Management Co., Ltd., develops and offers funds that meet the investment needs for many financial institutions and institutional investors, in addition to the members of cooperative organizations. Norinchukin-Zenkyoren Asset Management is the principal supplier of investment trusts that are sold through the cooperative system and is working to enhance its investment performance as well as its financial disclosure.

In March 2004, the Bank transferred the operations of Norinchukin Securities Co., Ltd., to Mizuho Securities Co., Ltd. Subsequently, in view of the satisfactory results of business of Mizuho Securities with the cooperative organizations, the Bank invested in Mizuho Securities in September 2004. The Bank and its securities subsidiaries are working closely with Mizuho Securities, which the Bank has positioned as the “first call” securities company for the Norinchukin Bank Group. Mizuho Securities provides a wide range of products and services to meet the needs of the cooperative organizations, including training sessions and lectures for cooperative organizations.

Support for Securities Investment of Cooperative Credit Organizations

Within the framework of the JA Bank System, the Norinchukin Bank provides guidance for upgrading asset-liability management (ALM) and risk management as well as a system of settlement and risk management related to the securities investments of JA and Shinnoren. These include a Shinnoren training program and exchange of personnel.

