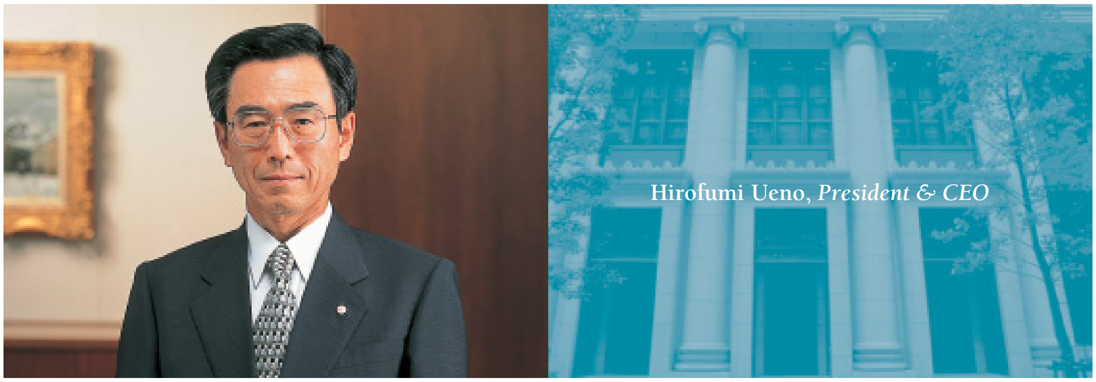
# A Message from the President



Hirofumi Ueno, *President & CEO*

## Introduction

The Norinchukin Bank (the “Bank”), as the central bank for the Japanese agricultural, forestry, and fishery cooperatives, carries out efficient global portfolio management by credit investment and flexible securities investment, reflecting these cooperative organizations’ stable funding bases.

In fiscal 2001, ended March 31, 2002, The Norinchukin Bank Law was revised in order to maintain the reliability of the overall Japan Agricultural Cooperatives (JA) credit business and strengthen the leadership of the Bank. This revision was implemented in January 2002.

## Operating Environment

During fiscal 2001, the operating environment was extremely challenging owing to the prolongation of near-zero interest rates against a background of stagnant economic conditions, declining stock prices, and deterioration in corporate performance in Japan.

Also, before introducing the cap on deposit insurance (payoff), disposal of nonperforming loans and the selection in the banking industry has proceeded.

With the introduction of the payoff, there has been increasing demand for the sound management of financial institutions, and we have been taking further positive steps to secure trust and confidence from our clients.

## Performance of the Group in Fiscal 2001

In fiscal 2001, based on strict self-assessments of loans and to improve the Bank's financial position, measures were implemented to dispose of nonperforming loans. In parallel with this, the Bank worked to globally diversify its investments in securities to secure higher earnings. As a result, net income on a consolidated basis amounted to ¥70 billion, equivalent to US$530 million.

The Bank's total assets at the fiscal year-end stood at ¥57 trillion, equivalent to US$432 billion. The consolidated capital adequacy ratio calculated according to BIS requirements was 10.02%, and the Tier I capital adequacy ratio, which is regarded as a measure of the quality of capital, was 6.88%.

Credit costs on a non-consolidated basis for the fiscal year amounted to ¥108 billion, reflecting the general deterioration in corporate performance. The Bank took initiatives to remove nonperforming exposure from its balance sheet and succeeded in eliminating ¥114 billion in fiscal 2001 through direct write-offs and recovery of a portion of its nonperforming assets. The total balance of risk-managed loans as of March 31, 2002, was ¥793 billion, which represented 3.2% of the Bank's total loan assets.

The Bank carries out strict write-offs of nonperforming loans and additions to its adequate reserve for possible loan losses. The Bank also continues to enhance its optimal risk management and further strengthen its mechanisms for securing a return according to credit risk in order to maintain the soundness of its assets and profitability.

## Medium-Term Business Strategy

The Bank formulated a medium-term business strategy covering the period from October 2001 to March 2005. Under this strategy, the goals of the Bank and the cooperative credit business as a whole are to continue to sustain their established positions within Japan's financial markets while increasing their presence. To achieve this, the Bank will address the following four issues:

## ● Realization of Unified Operations of the Cooperative Credit Business

To enhance the competitiveness of the JA credit business and its credibility, the Bank will create a framework (JA Banking System: refer to page 6) where JA, the Prefectural Credit Federations of Agricultural Cooperatives (Shinnoren), and the Bank efficiently and systematically divide their respective roles—with JA responsible for retail banking and Shinnoren and the Bank for providing support.

## ● Restructuring to Create a Stronger Cooperative Credit Business

The Bank will take a more active role than in the past to restructure the JA credit business and clarify future directions by holding discussions with several Shinnorens to consider the characteristics of each individual Shinnoren. As a result of discussions thus far, the acquisition of a part of the credit business of two Shinnorens during fiscal 2002 has been decided. Consolidation of operations with five other Shinnorens during fiscal 2003 is also on the agenda.

## ● Maintaining and Strengthening Earnings by Enhancement of Optimal Risk Management

Through optimal risk management, the Bank will efficiently and flexibly conduct the strategic global diversification of its investments. To support this, a business infrastructure related to the stable funding of foreign currencies and systems for foreign currency denominated financial products will be developed. Accordingly, the Bank's overseas branches will conduct business based on the characteristics of markets in the major international financial centers, placing an emphasis on the stable funding of foreign currencies and profits by credit risk management.

In view of the introduction of the New Basel Capital Accord and full-scale mark-to-market accounting, the Bank will develop a flexible financial position that can promptly deal with changes in the operating environment.

## ● Re-engineering Overall Operations

As well as streamlining its business by facilitating and systematizing its operations, the Bank, in order to enhance overall efficiency, will concentrate its administrative duties and outsource a part of its operations.

In addition, the strategic and flexible allocation of human resources by means of selection and concentration will be carried out. The Bank will strengthen the system of the Internal Audit Division, an independent division responsible for verifying and evaluating internal control systems, and will establish a framework to ensure unremitting improvement in the level of internal control.

## Strengthening the Bank's Capital

To achieve its medium-term business strategy, the Bank plans to implement a comprehensive package to strengthen its capital from this fiscal year. First, we will double the Bank's common stock, the most basic capital in Tier I, from the present ¥100 billion to ¥200 billion. Second, we will additionally introduce approximately ¥400 billion in perpetual subordinated loans and begin to raise additional capital for Upper Tier II, which is a high-quality capital among Tier II items. Finally, we will refinance the subordinated loans that were originally accepted in 1997. By implementing these measures, the Bank will comprehensively improve, as well as further strengthen, the quality and quantity of its capital.

## A Trusted Financial Institution (Credit Ratings)

As of June 30, 2002, 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 attributed to its stable funding bases, sound asset quality, ample liquidity, and solid capital base.

## In Conclusion

We remain totally committed to maintain and enhance our performance, and to work on the further implementation of compliance arrangements in order to continue services as a financial institution fully trusted by its clients. We look forward to your continued support in the years ahead.

August 2002

Hirofumi Ueno

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President and Chief Executive Officer