



# Business Outline

## Globally Diversified Investments

### **Basic Concept**

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The Bank places emphasis on total portfolio management based on the concept of globally diversified investments. To accomplish this, the Bank utilizes its strengths, namely (1) a stable yen procurement base provided by cooperative credit businesses, (2) abundant liquidity, and (3) efficient business management underpinned by fewer personnel and branches. This third strength is made possible by the JA cooperatives' strong ties to its members as a provider of retail services.

### **Characteristics of the Balance Sheet**

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The Bank's policy of globally diversified investments has resulted in significant changes in its balance sheet, as indicated by the following figures for foreign securities balances. As of March 31, 2004, the Bank's total assets on a consolidated basis amounted to ¥61 trillion (US\$585 billion), with investment securities accounting for ¥33 trillion (US\$317 billion). Of the total amount of investment securities, foreign securities accounted for ¥16 trillion (US\$152 billion).

### **Financial Products**

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The Bank seeks to diversify its investments with an eye towards an overall asset balance, stability of earnings, and risk management. 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.

### **Portfolio Management**

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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., in financial products, countries, industries, and ratings). In doing so, optimal portfolio management in terms of strategic risk taking and risk control is made possible.

### **Risk Management**

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The Bank has constructed a portfolio comprising various assets based on the concept of globally diversified investments. The Bank considers the comprehensive management of differing risks, risk taking commensurate with corporate capacity, and the appropriate management of these risks essential to maintaining business soundness.

With this understanding, the Bank quantifies its exposure to various risks and constrains the aggregate amount to within its equity capital. To accomplish this, the Bank has adopted the concept of economic capital management and allocates economic capital to individual divisions.

The Bank categorizes “risk” as market risk, credit risk, and operational risk and allocates economic capital on an integrated basis in market-oriented divisions for the purpose of utilizing the globally diversified investments to the maximum extent possible. As such, this strategy enables the Bank to allocate and distribute assets in conformance with its business model. Furthermore, every six months, the Board of Directors decides on the allocation of economic capital in accordance with investment policy. The middle office, meanwhile, measures and monitors risk levels throughout the fiscal year.

### 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 the implementation of the Bank’s overall strategy of 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 repurchase agreements (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, relative to 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 Euro 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 Euro market while paying attention to the diversification of industries and carrying out selective investment. The branch also supports Japanese clients in developing their business operations in Europe.

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

In addition to these branches, the Bank established representative offices in Hong Kong and Beijing in 1998. These offices are engaged in gathering information on business activities in East Asia.

These overseas branches 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. In doing so, they are improving the Bank's globally diversified investments.

## Market Operations

### Systems for Market Operations

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#### *Top Level Strategic Portfolio Management—In Both Quality and Volume*

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.

The Bank's objective in managing its market portfolio is to establish a flexible and stable financial structure. In order to this, the Bank seeks to optimize asset allocation through long-term investment, taking macroeconomic and risk-return analyses into careful consideration. By doing so, the Bank is able to carry out optimal portfolio management from the standpoint of strategic risk taking and risk control thanks to globally diversified investments.



## **Securities Investment**

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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 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 businesses 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, commercial paper (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, 2004, the balance of loans and bills discounted in the consolidated statements of the Bank amounted to ¥17,789 billion (US\$168 billion), accounting for less than one-third (28.7%) of total assets. This figure reflects a high proportion 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 fishery industries. However, the balance of cooperative lending at the end of fiscal 2003 amounted to ¥966 billion (US\$9 billion), accounting for a relatively small 5.4% 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 fishery 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, such as suppliers of electric power and gas.

With the strong fund-raising capacities of the cooperative credit businesses and its know-how cultivated through its role 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: 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 CP.

## **Capital Markets Business**

The capital markets business provides services that contribute to the procurement of funds and to fund management for cooperatives and clients.

## **Responding to Securities Business**

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The Bank assists in raising funds from capital markets by acting as a commissioned bank for bond issues and by underwriting CP. In addition, the Bank helps to stabilize clients' fund procurement by structuring and acquiring private-placement bonds.



In addition, the Bank utilizes its survey capabilities as a financial institution and its expertise as an institutional investor to provide strong client support, including boosting credit capabilities and formulating financial and management strategies.

### Expansion as a Securities-Related Firm

As the needs of clients and cooperatives have become increasingly sophisticated and diverse along with deregulation, the Bank has responded to these needs by establishing Norinchukin International plc (NOIL), followed by Norinchukin Securities Co., Ltd., The Norinchukin Trust & Banking Co., Ltd., and Norinchukin-Zenkyoren Asset Management Co., Ltd.

Based on a management strategy of concentrating corporate assets in critical fields, aimed, in turn, at better exercising its functions and role in strengthening the cooperative credit business and enhancing its asset management and earnings capabilities, the Bank sold off the operations of Norinchukin Securities to Mizuho Securities Co., Ltd., in March 2004. Also, the Bank solidified its policy of withdrawing from the operation of Norinchukin International. As such, the Bank made preparations for the liquidation of both companies. Meanwhile, Norinchukin Trust & Banking and Norinchukin-Zenkyoren Asset Management continue to manage assets and support the cooperative retail business, providing services that better address the growing needs of cooperatives and other business partners.

