

A Message from the President



Hirofumi Ueno, *President & CEO*

The Norinchukin Bank's ultimate objective is to enhance its social value while sustaining a stable position for the cooperative credit business within the overall framework of Japan's financial systems.

The Norinchukin Bank plays a fundamental role in the agricultural, forestry and fishery cooperative systems.

The Norinchukin Bank (“the Bank”) is a nationwide financial institution based on Japan agricultural, forestry and fishery cooperatives. Supported by stable funds procurement from these cooperatives, the Bank carries out stable and efficient investment management by making loans and investing in marketable securities. The gains acquired through these activities are returned to its shareholders and clients, namely cooperatives. Additionally, the Bank supports the cooperative credit businesses operated by Japan agricultural cooperatives (JA) and fishery cooperatives (JF) by providing the cooperative members with a variety of financial services, which include a common national system infrastructure and financial product development. The Bank also addresses the funding needs of respective cooperatives.

In addition, the Bank advises JA and JF on their cooperative credit businesses within the context of relevant laws and assists in the construction and management of a safety net for the JA Bank and the JF Marine Bank. The Bank remains steadfastly committed to heightening trust in the cooperative credit system and is highly aware of the vital role that it plays in efforts to enhance its competitiveness and profitability.

Business Challenges and Directions

Every three years, the Bank formulates a “medium-term business strategy” to clarify management objectives, the challenges that must be addressed to achieve these objectives, and the direction the Bank plans to take in addressing these challenges. The “current three-year business strategy” runs from fiscal 2004 to fiscal 2006.

The goal of the strategy is to further unify the “JA Banking System” by providing concrete support for business evolution in accordance with the “JA Bank medium-term strategy”—the first comprehensive JA Group strategy formulated since the introduction of the JA Banking System. The forward-looking plan positions these three years as a significant turning point in terms of unifying the JA Banking System, with the Bank playing a key role through the provision of operational support.

The Bank is also committed to improving operational efficiency while stabilizing and expanding earning scales as part of a drive to further enhance the functions of the cooperative credit businesses.

JA Bank medium-term strategy

The “JA Bank medium-term strategy (from fiscal 2004 to fiscal 2006)” was formulated based on the “JA Bank basic policy” and is a comprehensive strategy for JA Bank’s business and operations. More than simply a medium-term plan for a single financial institution, the JA Bank medium-term strategy calls for the establishment of a basic action plan aimed at (1) increasing profits and building a stronger customer base, (2) creating a more cohesive JA Bank, (3) achieving greater selectivity and concentration on the business portfolio and (4) delivering tangible results in line with clear management indicators.

Operating Environment

Here, we discuss the major premises of the plan. First, the agricultural, forestry and fisheries industries continue to be lauded for their role in helping preserve the environment. On the other hand, they are being forced to restructure because of several factors. Among these are the aging workforce in these industries and the impact of economic globalization, including free trade agreements (FTA) and economic partnership agreements (EPA) forged within the framework of the World Trade Organization (WTO). Second, looking at the economic and financial environments, corporate profits remain firm underpinned by external demand, while expectations for the domestic economy are for the continuation of a rebound centered on private demand.

Internationally, the global economy remains on a medium- to long-term growth trend based on the ongoing assumption of disinflation. However, even under such favorable conditions, the global economy remains vulnerable to such factors as exchange rates and crude oil prices, necessitating constant monitoring.

In the financial markets, the global capital surplus is making it difficult to generate adequate investment yields.

Also, with the Bank of Japan's "keeping of the zero interest rate policy" apparently nearing to be lifted, it is now time to formulate appropriate responses to moves by the financial authorities based on the Financial Services Agency (FSA)'s Program for Financial Revival.

The cooperative credit business continues to emphasize policies to realize operations that uniformly provide users with highly "reliable" services. In light of strong competition from other areas of the financial sector, we believe that it is even more crucial than before to broaden the customer base of the cooperative credit business. This is done by upgrading infrastructure and services on the retail side, with a view toward generating higher and more stable profits.

Under these conditions, we remain committed to sustaining a stable position for the cooperative credit business in Japan's financial system and continually enhancing its social value.

Four Major Components of the Medium-Term Business Strategy

Four Key Tasks Necessary to Achieve the Objectives of the Medium-Term Business Strategy

Ensuring the Soundness and Reliability of the Cooperative Credit Business

Strengthening Business Development in the "Integrated Business Areas"

Expanding and Stabilizing Earning Scales

Streamlining and Increasing Operational Efficiency

* The term "Integrated Business Areas" refers to areas where the operations of Shinnoren are assumed by the Bank, namely agricultural cooperative businesses in these prefectures are conducted by JA and the Bank instead of JA, Shinnoren and the Bank.

1. Ensuring the Soundness and Reliability of the Cooperative Credit Business

The accomplishment of the first key task requires supporting and guiding JA and prefectural credit federations of agricultural cooperatives (Shinnoren) and ensuring the soundness and reliability of the cooperative credit business. The Bank has stepped up its activities aimed at ensuring the soundness of JA and Shinnoren. Specifically, the Bank periodically monitors the financial conditions of JA Bank members to detect problems at an early stage and implement the necessary corrective measures. Additionally, the Bank provides support to bolster administrative operations, the foundation of the business. On top of this, the Bank promotes the establishment of policies and objectives for respective prefectures and JA based on the "JA Bank medium-term strategy." In conjunction, the Bank provides effective support, including the enhancement of the common national framework, aimed at helping achieve its objectives.

In the JF cooperative credit business, the Bank has stepped up its efforts to ensure the soundness of JF and prefectural credit federations of fishery cooperatives (Shingyoren), and it is focusing on the construction of a "one credit business in one prefecture system."



2. Strengthening Business Development in the “Integrated Business Areas”

The second key task is strengthening business development in the “integrated business areas.” The Bank has already integrated Shinnoren in Miyagi, Akita, Yamagata, Fukushima, Tochigi, Toyama, Okayama, Nagasaki and Kumamoto prefectures. Efforts to ensure the soundness of JA in these “integrated business areas” involve the enhancement of the administrative capabilities, the foundation of the business. The Bank also conducts effective follow-up on the implementation of the “JA Bank medium-term strategy.”

3. Expanding and Stabilizing Earning Scales

The third key task is expanding and stabilizing earning scales. Toward this end, the Bank has upgraded its system for checking and monitoring risks to facilitate more accurate risk management. One of the Bank’s missions is returning profits to cooperative organizations. Pursuant to this, the Bank is managing its overall portfolio to expand earnings in accordance with market conditions and thus generate stable returns. Also, to strengthen its earning scales, the Bank has bolstered its own equity capital and is continually building up retained earnings. In fiscal 2005, the Bank plans to boost its capital to around ¥440 billion (US\$4,087 million).

4. Streamlining and Increasing Operational Efficiency

The fourth key task is streamlining and increasing operational efficiency and leveraging the resulting benefits to enable the cooperative credit business to demonstrate its full potential. Additionally, to ensure that its business affairs are appropriately conducted, the Bank reviews its corporate governance system and other internal controls on an ongoing basis. The Bank is also taking steps to further enhance its compliance system, the backbone of proper operations, and its framework for managing the security of information.

In Closing

Although achieving these business tasks will be a tough challenge, we recognize that resolving such issues is critical to the further growth of the cooperative organizations and the cooperative credit businesses. We are also confident that these measures will increase the value of the use of the cooperative credit businesses and enable us to support the development of the agricultural, forestry and fisheries industries, and contribute to society as a whole.

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Hirofumi Ueno
President and Chief Executive Officer