

A Message from the President



The Fundamental Role of the Norinchukin Bank in the Agricultural, Forestry, and Fishery Cooperative System

The Norinchukin Bank (“the Bank”) functions as the central bank for the agricultural, forestry, and fishery cooperatives in Japan, based on a steady supply of funds and capital, principally from the Japan agricultural cooperatives (JA) and the Japan fishery cooperatives (JF). The Bank manages these financial resources stably and effectively by extending loans and investing in securities and other financial instruments. Earnings generated from these business activities are returned to the agricultural, forestry, and fishery cooperatives as well as other shareholders. Along with these activities, the Bank supports JA and JF that provide banking services for their members by providing a range of services, including the operation of a unified nationwide computer system and the development of financial products. The Bank also responds to the funding needs of our clients and cooperative members. Moreover, the Bank supervises JA and JF on matters regarding their cooperative banking business activities, based on the relevant laws, and assists in strengthening and managing the financial safety net for the JA Bank (which comprises JA, the Prefectural Banking Federations of Agricultural Cooperatives (*Shinnoren*), and the Bank) and the JF Marine Bank (which comprises JF, the Prefectural Banking Federations of Fishery Cooperatives (*Shingyoren*), and the Bank). At the Bank, we believe it is our essential role to enhance the competitiveness and profitability of the cooperative banking businesses as well as to reinforce the reliability of the business.

Policy Directions of the Bank

Today, the Bank faces increasing competition in the retail financial market and changes in the requirement of our clients and cooperative members. In the midst of such environmental changes, the Bank, as an integral

institution of the JA Bank and the JF Marine Bank, contributes to achieving the group's whole objectives by fulfilling our basic mission.

Above all, the Bank, together with JA and Shinnoren, as a single financial group, actively executes the growth strategy of the JA Bank to ensure the trust of clients and cooperatives members and to secure our strong position in Japan's financial markets.

To accomplish this, the Bank takes initiatives not only in our business activities related to the agricultural, forestry, and fisheries industries, and the cooperative banking business, but also in the wider areas of total industry-, society-, and environment- conscious activities. To carry out activities for this purpose, we will take further steps to advance our business model, which has two mainstay management goals: namely, retail banking carried as the cooperatives banking business as well as investment and lending business.

In parallel with this, the Bank is endeavoring to nurture an organizational culture appropriate for a global financial institution that operates under the Financial Holding Company (FHC) status in the U.S. financial market (Referred on page 19). As a prerequisite for the Bank's business model, we rigorously adopt measures to upgrade our management and control systems which include strengthening the compliance system.

Initiatives in Fiscal 2007

Based on the JA Bank Medium-Term Management Strategy (covering fiscal 2007 through fiscal 2009), the JA Bank provided retail banking services, focusing on financial services for core farmers, loan services, credit card services, and pension management services, so as to meet the various financial needs of our clients and cooperative members. At the end of March 2008 the outstanding balance of deposits in the JA Bank amounted to ¥82.0756 trillion, for an increase of 2.4% over the previous term-end. With the aim of enjoying an even higher level of public trust, we are currently working to

advance our management system, and maintain and enhance the soundness of our business.

Regarding the Bank's performance results for fiscal 2007 on a consolidated basis, in common with the rest of the financial world, the Bank was affected by the turmoil on global capital markets caused by the U.S. sub-prime loan crisis. However, the Bank still secured adequate earnings by accumulating high quality assets on a global scale, controlling the risk within our management resources, and conducting appropriate risk management, under our core concept of globally diversified investment. As a result of these efforts, although ordinary profit declined from the previous year to ¥363.1 billion, net income reached a record high of ¥276.8 billion.

As of March 31, 2008 the Bank's capital adequacy ratio (in line with the Basel II standard) stood at 12.47% on a consolidated basis and 12.55% on a non-consolidated basis. These figures were the result of a capital increase and a good business performance for the reporting term.

Regarding measures to redesign the organizational structure of the JA Bank, the Bank took over all the operations of Tochigi, Yamagata, and Toyama Shinnoren. As a result, the number of integrated Shinnoren has become seven.

The JA Bank is taking voluntary initiatives to fulfill our social responsibilities by providing fuller support than ever before to the nation's farming communities. As a part of that initiatives, we have set up the JA Bank Agri-Eco Support Fund. This fund provides financial support for core farmers and aims at contributing to the further development of regional communities, as a means of contributing to the revitalization of Japan's agricultural industry and the preservation of the nation's natural environment.

A Message from the President

Measures Planned for Fiscal 2008

1. Cooperative Banking Business (Retail Banking Operations under the JA Bank and the JF Marine Bank)

(1) Implementation under the JA Bank Medium-Term Management Strategy

Based on the JA Bank Medium-Term Management Strategy, the Bank will put a retail banking strategy into practice through close collaboration with JA and Shinnoren. Efforts will be made to strengthen the JA Bank's ability to provide a financial service that precisely meets the needs of core farmers, and takes the particular characteristics of each regional economy and society into careful consideration.

(2) Further collaboration within the JA Bank

The Bank, together with JA and Shinnoren, is pressing ahead with steps to strengthen the JA Bank's corporate governance, operational and administrative processing, marketing channels, human resources development, and public relations activities, both nationwide and in each prefecture.

(3) Developing optimal financial service operating systems tailored to the needs of the JA Bank of each prefectural level

To strengthen the JA Bank's competitiveness, the Bank pursues to design optimal financial service operating policies and systems for each prefectural level, taking the unique characteristics of each local economy and society into consideration and discussing with JA and Shinnoren.

(4) JF Cooperative Banking Business

We are taking steps to expand and strengthen the financial safety net for the JF Marine Bank. We intend to take stronger measures to solve the bad debt problem within a limited time frame.

2. Investment Strategy

Based on the careful examination of returns on investments and the accompanying risks, we aim to secure stable earnings by implementing appropriate and

diversified asset allocation from a global perspective, ranging from investment to lending, while holding down risks to an acceptable level. We expect to maintain our medium-term numerical targets stably: ¥300 billion in ordinary profit and capital adequacy ratio of 12% (Tier I capital of 8%).

3. Management Strategy

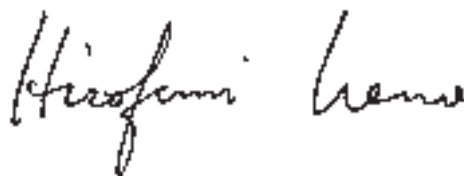
In full recognition of the Bank's basic mission and social responsibility as a major institutional investor operating on a global scale, we are working to reinforce our corporate governance and enhance our business operation systems. We will also strive for an integrated risk management which takes into account the appropriate balance among risk, return, and capital. In addition, we will develop a computer system and advance its operation, and pursue an even more secure and accurate administrative processing. We will implement hiring and training strategies aimed at securing highly qualified staff, and will strengthen our selected and concentrated strategy over the entire scope of our business.

In Closing

We are working to ensure that the JA Bank and the JF Marine Bank are trusted by the general public, that we adopt a proactive stance toward contributing to the local communities and environments, and that we maintain the support of all our stakeholders by fulfilling our responsibilities as a corporate citizen.

In conclusion, it is our hope that you will continue to favor us with your support.

August 2008



Hirofumi Ueno
President and Chief Executive Officer

Management Strategy Q&A

In this section, we, the management of the Norinchukin Bank, would like to explain the transformation that the Bank has gone through since the start of the JA Bank System in January 2002 and also about our future prospects.



The Norinchukin Bank Business Model

Q1 In what ways has the Bank changed over the past decade? What strategies will the Bank apply to deal with future changes?

A1 Over the past ten years, the Bank has gone through some major changes such as the establishment of the JA Bank System which is one integrated system formed together by the Japan agricultural cooperatives (JA), the Prefectural Banking Federations of Agricultural Cooperatives (Shinnoren), and the Bank, and the commencement of the global diversification of investments. The Bank will continue to make changes necessary to fulfill its role.

■ The Bank's corporate mission

Since its establishment, the Bank's constant mission has been, as stated in Article 1 of the Norinchukin Bank Law, to contribute to the growth of the nation's economy by supporting the advancement of the agricultural, forestry, and fisheries industries. To fulfill our mission, we have been engaging in fund managing business for returning profits to our cooperative members. With the start of the JA Bank System in 2002, the Bank decided to take one step forward and commit itself in operating the JA Bank System in one integrated form with JA and Shinnoren, and growing the JA Bank into a financial entity capable of competing with the megabanks. This will be mentioned again in the answer to Question 2. The reasons behind making this decision were due to changes in operating environments of cooperative banking business formed by JA, Shinnoren, and the Bank and, changes related to the role of the Bank.

■ The Bank's role

The role of the Bank has transformed largely through several eras; the reconstruction period after World War II, the age of high economic growth, and the "lost decade" which was the period after the collapse of Japan's late-eighties bubble economy.

In times of scarcity of goods and capital, not many deposits were made at JA. Conversely, there were many people, including our cooperative members and clients, in need of funds. In order to meet the fund needs of JA

Cooperative Banking Business on a nationwide scale, one of our important roles at that time was to utilize the money deposited with us efficiently by making loans to those JA in dire need of funds. Consequently, the Bank was left with very limited surplus funds with which to conduct investments.

Then, as a result of the decrease of funds need in JA and the increase of fund management need in JA accompanied by increasing member's income, surplus funds in JA had increased and were deposited to Shinnoren and the Bank. Under such an environment, return of profit from Shinnoren and the Bank was increasingly requested by JA which had maintained its management in the conventional deposit and loan business. Consequently, there was growing pressure on the Bank to invest those funds more efficiently.

Following the subsequent bursting of Japan's economic bubble, the financial system fell into crisis, and the tighter legislation and restrictions were imposed on financial institutions to ensure the soundness of their operations. In this new climate, some JA and even several Shinnoren found themselves in business difficulties. Since investment and lending business, which is our core business, needs to be backed by stable funds in the JA Bank System, it has been essential for us to maintain its financial soundness.

In this environment, as further elaborated in the answer to Question 2, we further strengthened our role to support and establish the JA Bank System with the

enactment of the Reorganization and Strengthening Law of 2001.

■ The commencement of globally diversified investment

We had thought that we had to change the former deposit-loan and investment business model even before the JA Bank System started in 2002, because Japanese interest rates were stuck at low levels amid sluggish domestic economic conditions. Our business model change was accelerated accompanied by the start-up of JA Bank System and our strong will to secure the mainstay of JA Bank’s total earnings. Consequently, we became one of the few Japanese financial institutions to fully engage in globally diversified investment.

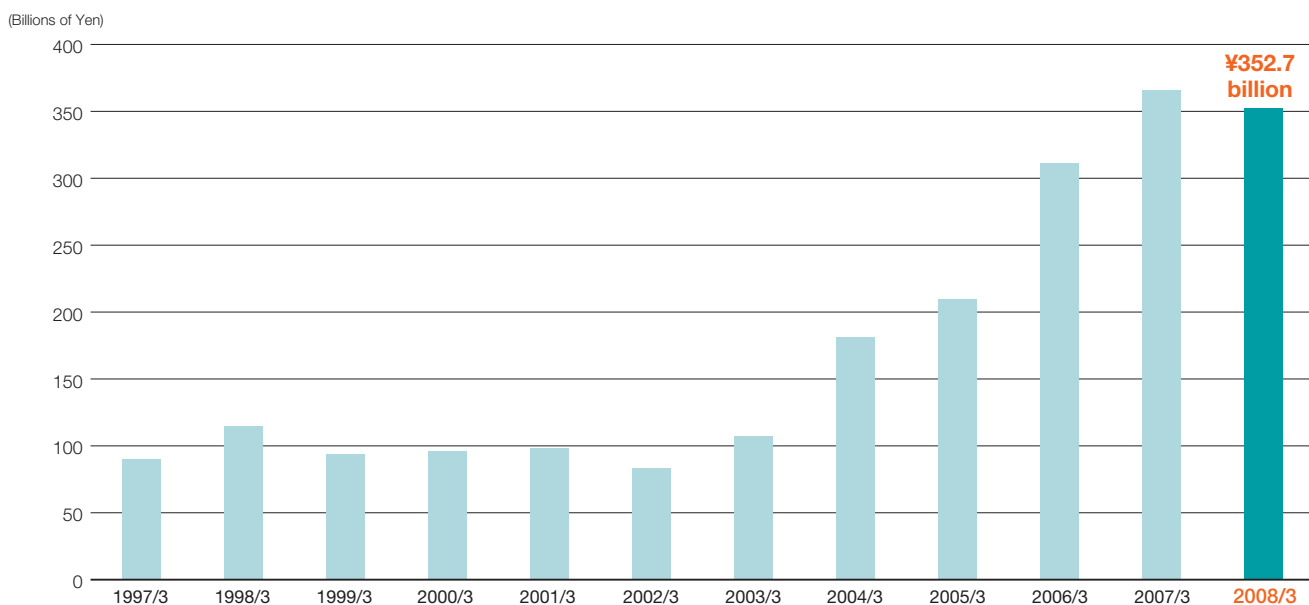
With the Japan’s economic stagnation in the early nineties after the collapse of the bubble economy and the consequent application of a de facto zero-interest policy by the Japan’s financial authorities, the operating environment of financial institutions changed dramatically. The Norinchukin Bank was no exception: it was no longer possible to secure sufficient earnings needed by the JA Bank System through the conventional

deposit-and-loan business and investing surplus funds in the domestic capital market, such as in Japanese government bonds. We, therefore, decided to invest our management resources in securities, both in Japan and overseas, under the concept of globally diversified investment.

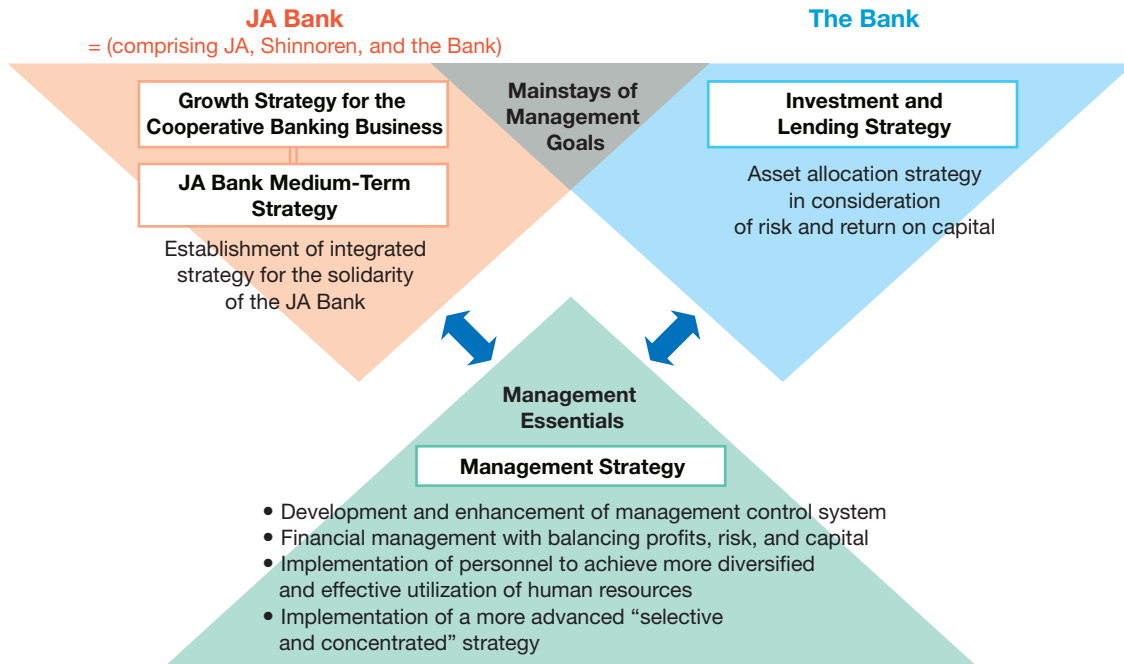
That means that we had decided to switch our business model from that of a conventional investor in the Japanese domestic market to a major investor on the international stage and raise our earning ability by carefully controlling our risk exposure.

For these reasons, in 1998 we divided up our investment operations into separate organizational units, each responsible for one type of investment vehicle (bonds, equities, credit derivatives, and alternative investments). Within each of these categories, however, the same unit handles both the Japanese and overseas markets. Making optimal use of our rapid decision-making, which has always been one of our strengths, we drew up asset allocation strategies and specific investment project decisions following the discussion in weekly meetings among all investment divisions. Through these means—in addition to far-reaching management reforms, including the introduction of cutting-edge

• Ordinary Profit since Fiscal 1996 (non-consolidated basis)



• The Bank's Strategies



integrated risk management systems—we expanded our investments in global markets in a full scale with a sharp rise in the proportion of investments in the U.S. and Europe. As a result, we succeeded in increasing profitability to several times the level of the 1990s.

We will be improving the capability in our investment and lending business. We continue to implement concrete measures to develop human resources and improve fund management skills to the level where we may act as an asset manager to operate a part of private equity, bonds, and securities whose management is being outsourced at the moment.

Against this background, the Norinchukin Bank—whose two mainstay management goals are the smooth operation of the JA Bank System and the pursuit of the investment and lending business—is currently following the Medium-Term Management Plan covering the three-year period from 2007 to 2009 that comprises three sub-strategies: the JA Bank Medium-Term Management Strategy, the Investments & Lending Strategy, and the Management Strategy.



About the JA Bank System -1

Q2 Could you explain the reasons behind the creation of the JA Bank System?

A2 The JA Bank System, in which JA, Shinnoren, and the Bank work together as a one integrated whole, was created to achieve goals of securing public trust, ensuring financial soundness, and improving the quality of financial services.

■ Bankruptcy Prevention System, an important theme in an early stage

The JA Bank System was inaugurated in 2002, with the twin aims of realizing an effective bankruptcy prevention system and promoting unified operations among JA, Shinnoren, and the Bank. It was when Japan was expecting the end of unlimited insurance coverage on bank deposits in April 2002. To reestablish trust in JA was our urgent issue.

In January 2002, the JA Bank Basic Policy, which voluntarily set its minimum capital adequacy ratio at 8% instead of 4% (a standard required for financial institutions involved solely in Japanese financial market), became effective as sort of a constitutional law of the JA Bank. This policy was created based on the consensus of the JA Bank that public trust in the JA Bank as a whole must be protected against financial deterioration at any individual JA or Shinnoren.

What became the premise of establishing the policy was the enactment of the Reorganization and Strengthening Law of 2001. With the enforcement of the law, the Bank was assigned the additional role of supervising JA and Shinnoren. Acting as a headquarter of the JA Bank to directly monitor business conditions of all JA, the Bank has become capable of leading JA to improve their management promptly in cooperation with Shinnoren and the Prefectural Unions of Agricultural Cooperatives. This resulted in rapidly strengthening the soundness of the JA Bank.

In addition, the establishment of the JA Bank Support Fund made it possible to easily allocate funds where they were most needed, resulting in the provision

of a unique bankruptcy prevention system that underpins the effectiveness of the JA Bank System.

■ Promotion of unified operations for superior competitiveness of the JA Bank in the retail banking sector

Another aim of the JA Bank is promoting unified operations, which entails close liaison and collaboration among the independently managed entities that comprise the JA Bank—JA, Shinnoren, and the Bank—. Through the implementation of these core concepts, we aim to build the JA Bank into one of the leading financial brands in the Japanese retail banking sector, utilizing its unrivalled domestic retail banking network to offer high-quality financial services.

Regarding the division of roles among JA, Shinnoren, and the Bank within the overall concept of the promotion of unified operations, the Bank is responsible for the planning and overall supervision of the system. Specifically, the Bank draws up business strategies based on an analysis of the operating environment, designs and creates attractive financial products and services, and develops the necessary financial infrastructure such as online systems.

To enable the Bank to perform this role within the JA Bank, retail banking operations are being steadily assumed by JA and Shinnoren. Meanwhile, the Bank is devoted to revise its business system such as elimination and consolidation of its offices, discontinuation of financial products for individuals, and removal of ATMs.

Shinnoren (or the Bank's branches in those prefectures

where Shinnoren are merged by the Bank) function as the prefectural JA Bank Headquarter, reflecting unique characteristics of their local region in addition to taking into consideration opinions of JA. Thus, we aim to promote the unified operations to provide services that are carefully tailored to the needs of customers in each local community. The prefectural JA Bank Headquarter is also expected to concentrate the administrative procedures for efficiency and to collect and deliver significant information for raising the competitiveness of the JA Bank.

Thanks to the promotion of the unified operations in the JA Bank System, JA can utilize the information and the financial products provided by the Bank. This enables each JA to provide the financial support for core farmers and the financial services that are best suited to the particular characteristics of its local economy for the cooperative members and clients.

■ The JASTEM System—a unified infrastructure for all members of the JA Bank

The JASTEM System is a computer system that links all members of the JA Bank in Japan. JASTEM processes data of various financial products and services which are provided by JA (765 JA as of July 1, 2008) for around 47 million accounts via ATMs (about 12,000 units) throughout Japan. JASTEM is one of the leading mass-retail systems in Japan.

This system was developed to jointly manage the separate online systems which had been operated at each prefectural or regional level since October 1999. As the system which is an important infrastructural element that allows the provision of the same service throughout the country, the Bank in 2002 assumed responsibility for the system's operation and further development with the objectives of achieving greater efficiency and more effective risk management. As a result of encouraging JA in each prefecture to participate in the system, it is currently used by all JA.

The next-generation version of JASTEM is now under development, and is scheduled to replace the present system throughout Japan over a four phased program from January 2010 to May 2011.



The successful operation of a retail banking service requires that customers anywhere in Japan must be able to access the same superior level of financial products and services with the same degree of convenience and the same assurance of security. It is vital to develop a system that not only fulfills these requirements, but also helps to cut costs by performing the administrative procedures of JA more efficiently and to solve a wide range of the JA Bank's management issues.

From a strategic view, we are working to expand our lineup of financial products and to standardize our administrative procedures in the hope of encouraging new customers to make the JA Bank their main correspondent financial institution, and expanding transactions with existing customers. At the same time, we are promoting steady development and operation of the JASTEM System that is well-balanced between costs and services.

TOPICS

The JF Marine Bank activities

The JF Marine Bank comprises the Japan fishery cooperatives (JF, limited to those engaging in banking services), Shingyoren (Prefectural Banking Federations of Fishery Cooperatives), and the Bank. In order to provide financial services for people engaged in the fisheries business and ensuring the security of financial services, the JF Marine Bank is currently developing the Stable and Responsible JF Cooperative Banking Business System (JF Marine Bank Safety System), disposing bad debts, and introducing measures for strengthening risk management and low-cost management.

Against this background, the Bank has decided to provide a special financial support for the JF Marine Bank Support Association to strengthen its funding base. Specifically, it was agreed to provide special funds in the total amount of ¥15 billion, of which ¥10 billion was provided in fiscal 2007 (of this sum, ¥9.5 billion was provided in one lump sum by the Bank, and the remaining ¥0.5 billion is being provided by the other members of the JF cooperative banking business on an installment basis).

The Bank's policy is to assist the steady implementation of measures for reforming business methods, organizational structures, and management in the JF Marine Bank through the injection of funds as deemed necessary. We are making steady progress in solving the core problems afflicting the JF Marine Bank through the provision of support and guidance to JF and related organizations in each prefecture in collaboration with the government and other organizations concerned.

About the JA Bank System -2

Q3 Could you explain the JA Bank Medium-Term Management Strategy, the JA Bank “Step-Up” Plan?

A3 To fulfill the mission of the JA Bank, all JA set their fixed numerical management targets.

■ Fixing of numerical management targets

Following the inauguration of the JA Bank System in 2002, a JA Bank Medium-term Management Strategy has been formulated every three years starting from fiscal 2004. Under the previous medium-term management strategy (covering fiscal 2004 through fiscal 2006), the JA Bank implemented various initiatives based upon the selective and concentrated strategies, which included improving the earning, expanding the customer base, and improving organizational efficiency by streamlining JA branches through closures and consolidations.

Under the current JA Bank Medium-Term Management Strategy, the JA Bank “Step-Up” Plan, which covers fiscal 2007 through fiscal 2009, JA throughout Japan are setting their own numerical management target. Furthermore, against the backdrop of intensifying competition in the retail financial market, the JA Bank is pursuing measures to get customers and encourage them to utilize JA as their “main bank” for all their household finances.

To attain their numerical management targets, all JA are working on the following strategies: (1) increasing core customer base by enhancing financial services for core farmers, (2) developing competitive strategies for the retail financial market such as expanding JA Bank loan, JA card, and pension accounts to become the main bank for household finance, and (3) upgrading management control systems to meet the requirements of a financial institution by establishing an ALM management system to support business promotion.

■ Enhancing the responsiveness of financial services for core farmers

The primary policy objective of the JA Bank Medium-Term Management Strategy is to enhance the responsiveness of the JA Bank’s financial services for the needs of core farmers. Fostering core farmers is becoming increasingly important for Japan’s farming industry and agricultural administration. Even for the JA Bank, as a main bank for the core farmers, it is fulfilling the objective of the strategy through active promotion and development of agriculture in each region.

To provide core farmers with comprehensive business services that cover not only finance but also business consulting, the JA Bank has assigned just over 1,600 JA Bank Finance Leaders for Core Farmers to JA, Shinnoren, and the Bank. They will provide effective consultation services regarding financing and other matters for core farmers.

To support them, we introduced an information exchange tool that makes use of a social networking service framework, and produced the Core Farmer Finance Pocketbook, summarizing the knowledge and information necessary to support core farmers, and the relevant laws and regulations that should be observed.

The JA Bank Medium-Term Management Strategy (Fiscal 2007 through Fiscal 2009)

The JA Bank "Step-Up" Plan

1. Policies to Increase the Core Customer Base

- (1) Enhancing the Responsiveness of Financial Services for Core Farmers
- (2) Providing Consultations to Major Clients

2. Implementing Competitive Strategies in the Retail Financial Market

- (1) Expanding JA Bank loans
- (2) Implementing JA Bank card strategy
- (3) Promoting individual deposits and pensions
- (4) Expanding sales of Japanese government bonds and investment trusts
- (5) Establishing a more efficient retail business system

3. Upgrading Management Control Systems as a Financial Institution

The JA Bank will adopt measures appropriate to a financial institution to enhance the sophistication of its management control systems, to respond properly to new regulatory requirements, including the Basel II regulations, and to conduct appropriate risk management activities.

4. Establishing a New Business Model for the JA Bank as a Whole

The JA Bank will seek out a new business model through promoting integration of "face-to-face consultation services for cooperative members and clients" provided by JA and "advantage of scale economies and backup support function" brought by Shinnoren and the Bank.

• Numerical targets of the JA Bank

	FY2007 (results*)	FY2009 (projected)
Profits ratio from the cooperative banking business (%)	0.27	0.29
Outstanding JA Bank loan amounts (¥)	7.4 trillion	8.6 trillion
Number of JA card holders	360,000	990,000
Outstanding retail deposit amounts (¥)	74.4 trillion	76.6 trillion
Numbers of newly obtained pension accounts	440,000	1,110,000 3 years accumulated total

*Actual results on a preliminary basis.

TOPICS

Initiatives to Supply Financial Services for Core Farmers

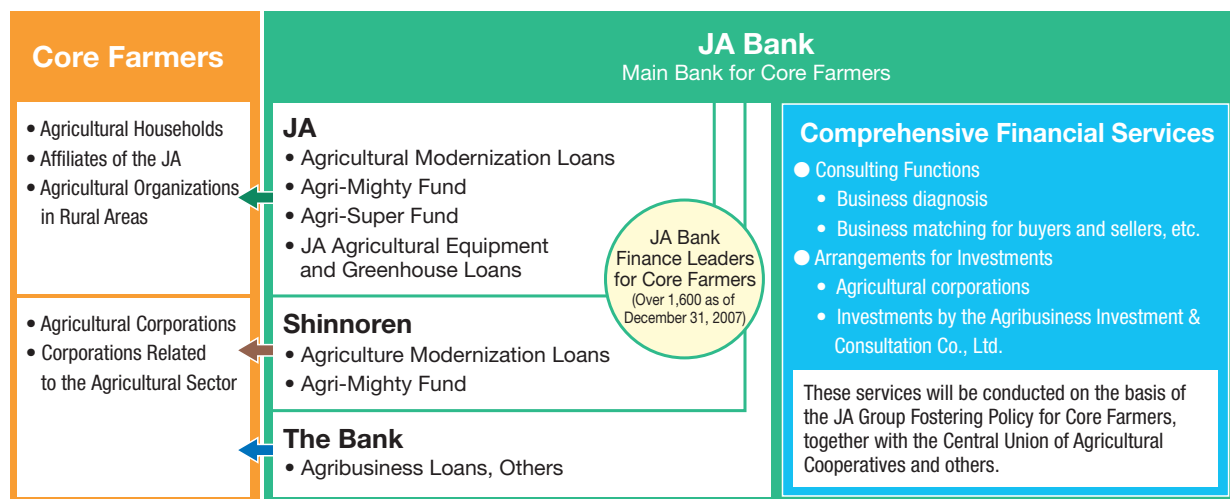
■ The JA Bank's wide range of core farmer funds

The JA Bank has established a wide range of core farmer funds with different purposes and for various customers. Examples of funds made available in recent years are the Agri-Super Fund, established in response to the Rice Farming and Upland Field Farming Income Stabilization Program (multiproduct management income stabilization program) and the JA Agricultural Equipment and Greenhouse Loan which provides quick-response financing for agricultural equipment, greenhouses and other funding needs, both of which were introduced in January 2007. In April 2008, the Bank introduced the Core Farmer Assistance Loan (products offered may differ depending on prefectures and JA).

■ Initiatives in the Bank

The Bank began offering Agribusiness Loans in April 2005. These loans are made available to agricultural corporations engaging in various activities including the production, processing and sale of rice, the production and processing of vegetables, livestock, and gardening. In addition, the Bank supports the financial stabilization of agricultural corporations through investments made by the Agribusiness Investment & Consultation Co., Ltd., an affiliate company of the Bank. In November 2006, the National Federation of Agricultural Cooperative Associations, Kyoei Mutual Fire & Marine Insurance Co., and the Bank worked together to introduce a new finance system for effectively using livestock (cattle and pigs) as collateral.

● Initiatives to Strengthen JA Bank Financial Services for Core Farmers



Investment & Lending Strategy

Q4 Could you explain the Norinchukin Bank's basic investment and lending business strategy?

A4 Our basic strategy in investment and lending business is based on global diversification investment. We are aiming to further advance our future investment and lending business.

■ A leading institutional investor in Japan

Following the Bank's reorganization in 1998 as explained in Q1, we adopted a concept of globally diversified investment as our basic policy with the aim of expanding earning opportunities not only in Japan but also overseas. Since then, the Bank has achieved high and stable growth in earnings through strategies designed to create the optimum portfolio, such as expansion of credit and alternative investment products, and utilization of asset management outsourcing.

The aims of globally diversified investment are twofold: 1) to minimize annual risk during periods of fluctuation in interest rates, share prices, and so on; 2) to ensure a high level of earnings in the medium-term by analyzing the risk and return for different regions (Japan, the United States, Europe, and the other regions) and products (forex products, bonds, shares, and credit investment) and by investing in a diversity of regions and products in consideration of their different characteristics.

Under the current medium-term management plan, our goal is to achieve an annual ordinary profit of ¥300 billion. In fiscal 2007, notwithstanding the financial market disruption triggered by the subprime loan problem, we managed to record ordinary profit of ¥363.1 billion on a consolidated basis, thanks to our basic policy of globally diversified investment.

The Bank's asset management divisions strive for the overall optimum profit by managing assets based upon the overall asset allocation. No separate division pursues its profit target in isolation.

Also, asset management and risk management divisions share expertise knowledge on each other's operations

through personnel rotations in a practical effort to achieve maximum earnings while controlling risk.

Furthermore, in 2002 we began to e-mail information on investment-related matters such as the level of risk and profit or loss to all board members and key general managers on a daily basis, thereby increasing the effectiveness of bankwide supervision through the sharing and transparency of information.

■ Expansion of business opportunities through partnerships

As of the end of March 2008, the combined balance of securities and money held in trust managed by the Bank reached ¥44 trillion. Unlike other commercial banks or investment banks, the Bank is one of the very few financial institutions in the world to specialize in investment business while having an extremely stable funding base.

Given that the Bank aims for extremely stable yield in the medium-to-long term (three to five years), as opposed to aiming for short-term earnings like an investment bank or aiming for ultra-long term earnings like a pension fund or insurance company, there are few rival financial institutions with the same risk appetite, and accordingly, the Bank has successful co-owned partnerships and benefits from expanding business opportunities.

In December 2006, the Bank obtained Financial Holding Company (FHC) status under the Bank Holding Company Act of 1956 from the U.S. Federal Reserve Board, to enable the Bank to conduct investment activities in the United States more flexibly. This status is also extremely helpful when it comes to joint investment strategy.

Risk Management

Q5 How is the Bank's risk management different from that of other commercial banks?
How has the Bank met the Basel II requirements (Pillar II)?

A5 We implement an integrated risk management that enables us to manage not only risk on traditional lending business but also the total risk of market and credit risks of globally diversified assets. Total risk is maintained within Risk-Bearing Capacity and optimally allocated.

■ **The Bank has implemented the ICAAP for evaluating its own capital adequacy in relation to its specific business model**

Basel II, the new capital adequacy regulations set by the Bank for International Settlements (BIS), requires a rational explanation concerning capital adequacy. However, the Basel Capital Adequacy Ratio is designed to measure risk at a commercial bank whose business model mainly consists of the lending business. We consider that the Capital Adequacy Ratio alone may not capture the true picture of the dynamic risk management of the Bank which has a relatively large exposure in the market investments. Therefore, the Bank has implemented the ICAAP (Internal Capital Adequacy Assessment Process) to visualize its framework, organizational structure and decision-making process of integrated risk management designed for the Bank.

Under the ICAAP, the Bank has established a framework that enables it to rationally explain to various stakeholders that the profits (= return from investment and lending business) necessary to fulfill the Bank's mission that is consistent with the Bank's business model, the risk (integrated risk = market risk + credit risk + operational risk) anticipated to achieve the profits, and the capital which covers the risk, are always consistent, and that the Bank maintains sufficient capital above the risk the Bank bears as a whole.

■ **Timely adjusted asset allocation**

The asset allocation that forms the foundation of the Bank's investment business is designed to construct the portfolio of the Bank to generate stable profits for deposits from its members in medium to long term. The Bank intends to have the risk management structure consistent with the risk characteristics of the Bank. The Bank reviews asset allocation regularly and whenever necessary depending on market conditions, focusing on Economic Capital management (in principle, managing total risk within the Bank's Tier I Capital). Decisions on asset allocation are made by several specialized management committees always in cooperation with the Board of Directors. When market factors, such as interest rates or stock prices, are volatile, the Bank has systems to analyze the risk by conducting stress tests or monitoring the checkpoints and timely asset allocation adjustments as and when necessary.

Capital Strategy

Q6 Could you explain the Bank's basic policy on capital expansion?

A6 The Bank's basic capital raising method is investment from cooperative members but it also employs a variety of other capital raising methods.

■ Tier I capital (core capital) based on the investment from cooperative members.

The background underlying the Bank's capital expansion is the new capital adequacy regulations (Basel II) set by the BIS and the shift to an investment and lending business model. In March 1998, in response to the incorporation of the Market Risk Rule into Basel I, the Bank increased its capital through the issuance of ¥1 trillion in lower dividend rate stock to cooperative members, mainly Shinnoren.

Since then, the Bank has continued in its efforts to expand capital mainly through investment from cooperative members, and in March 2008, the Bank received a capital boost of ¥503.2 billion through the issuance of lower dividend rate stock to cooperative members and borrowed ¥383.8 billion in permanently subordinated loans. As of the end of March 2008, the Bank's paid-in capital stood at ¥2.016 trillion.

It is the Bank's mission to manage the funds from cooperative members and return profit to them. Therefore, it adopted the basic policy of covering the Bank's core Tier I capital, which forms the basis for calculation of the capital adequacy requirements, with investment from cooperative members.

The ICAAP, the Bank's original management method, shows necessary capital in relation to return and risk, and this capital, in principle, should also be covered with Tier I capital.

On the other hand, in addition to capital investment from cooperative members, the Bank receives a large amount of funds from cooperative members in the form of deposits. Our cooperative members fully understand our business model and the importance of retained

earnings (the expansion of investment and lending business based on capital leads to the return of profits to cooperative members) and cooperate with capital investment.

■ Flexible capital raising from the market

In September 2006, the Bank sourced ¥342.7 billion in funds from the market through the issuance of subordinated bonds. This was aimed at elevating its presence in the market and establishing a funding structure that allows the Bank to flexibly raise capital at all times. We are constantly researching different capital raising methods and seeking to collect information on capital markets.

Information System Strategy and Personnel Strategy

Q7 Could you describe the Norinchukin Bank's information system strategy and personnel strategy?

A7 The Bank is promoting both strategies under the catchword "Expertise."

■ Information systems section demonstrates strength in two areas of expertise

As explained previously, the JASTEM System is a mass retail system. Besides this, the Bank also has its own information system which covers the Bank's core investment and lending business and a wide range of other financial businesses. This system's important challenge is speedy "extendability" –which includes the adaptation of asset and risk management responding to market changes and the fulfillment of security requirements which grow more stringent year by year.

In April 2008, we merged JA Bank Computer System Co., Ltd., which was in charge of the JASTEM System, and Nochu Information System Co., Ltd., which was in charge of the Bank's own system, to form the new Nochu Information System Co., Ltd. This marks the start of activities by a unique information systems group that possesses expertise in system development, operation, and management across a wide range of highly specialized areas ranging from retail business to globally diversified investment business. Moving forward, we will further enhance the multiplier effect of the merger to create an even stronger operating structure of information system at the Bank, JA, and Shinnoren.

■ Training generalists with expert skills

We are putting effort into personnel recruitment, assignment, promotion, and training with the aim of developing staff who are highly skilled in all areas (the investment and lending section, the JA Bank section, and information systems and administration section).

Also, in the medium term, we hope to increase the investment expertise of the Norinchukin Group as a whole through investment activities by group companies. On the other hand, in the JA Bank section, we are stepping up personnel exchanges between the Bank and JA. Moreover, at branches in which the Bank took over the operations of Shinnoren, it is our policy to recruit and develop necessary human resources at each region, in order to continue providing services with close ties to the local community.

CSR Initiatives

Q8 Could you describe the corporate social responsibility (CSR) initiatives of the Norinchukin Bank?

A8 We believe the Bank has the duty to contribute to the agricultural, forestry, and fisheries industries through a broad range of activities.

■ Giving back to society through contributions to the agricultural, forestry, and fisheries industries

The Bank has long pursued CSR activities and set up a charitable trust called the Norinchukin 80th Anniversary Forest Rejuvenation Fund in March 2005.

Under the current medium-term management plan, we position the fulfillment of CSR as a priority theme for the Bank. With strengthening internal control systems and establishing the CSR Committee, we will

keep in mind the Bank's raison d'être of contribution to the development of the agricultural, forestry, and fisheries industries, and will carry out CSR activities from a nonbusiness perspective. In fiscal 2007, we launched the JA Bank Agri-Support Business which is described the next page.

We also established the CSR Promotion Department within the General Affairs Division in July 2008.

Policy for CSR Initiatives

The Norinchukin Bank is a financial institution with its base in the agricultural, forestry, and fishery cooperatives and an active participant in the global market. To win trusts from our wide range of stakeholders and to contribute to the sustainable development of the Japanese economy and society, we have determined that public trust in the Bank depends on its strong internal management system, including thoroughgoing compliance with laws and regulations as well as human resources policies that enable a diversity of staff to play active roles. In all aspects of the Bank's activities, we continue to actively participate in:

1. Contribution to the Bank's shareholders and members
2. Contribution to the promotion of the agricultural, forestry and fisheries industries
3. Contribution to society

We proactively conduct CSR activities to contribute in these three pillars.

TOPICS

JA Bank Agri-Support Business

In line with its policy of deploying more extensive measures for Japan's agriculture and farming villages which are facing major agricultural system reform and fulfilling its duty to society, the JA Bank initiated JA Bank Agri-Support Business.

- **Summary of activities**

- A three-pronged approach

- Providing support for core farmers

- Offering assistance for activities that contribute to agriculture and regional communities

- Promoting activities that improve the understanding of and increase interest in agriculture

- **Business entity:** Limited liability intermediary corporation JA Bank Agri Eco Support Fund

- **Total project cost:** Approx. ¥10 billion over three-year period (provided by the Bank)

- **Implementation term:** Three years from fiscal 2007 to fiscal 2009

	FY2007	FY2008	FY2009
Providing support for core farmers	Interest Subsidy Business: Provision of interest subsidies of up to 1% on agricultural loans provided by JA (interest subsidies provided for around 13,000 loans in fiscal 2007)		
		Investment Business: Provision of support through investment in managerial bodies in agricultural and environmental fields	
Offering assistance for activities that contribute to agriculture and regional communities		JA Bank Food & Farming Education Support Business: Provision of subsidies for activities such as food and farming education provided by JA	
Promoting activities that improve the understanding of and increase interest in agriculture	Food and Regional Culture Information Distribution Business: Formation of Forum Committee to talk about Japanese Food and Regions with <i>NHK</i> (a Japanese TV station), and <i>Yomiuri Shimbun</i> (a Japanese newspaper), and Distribution of information on activities in producing and growing areas		

Based on results over the three years of the activities, necessary business will be continued or added