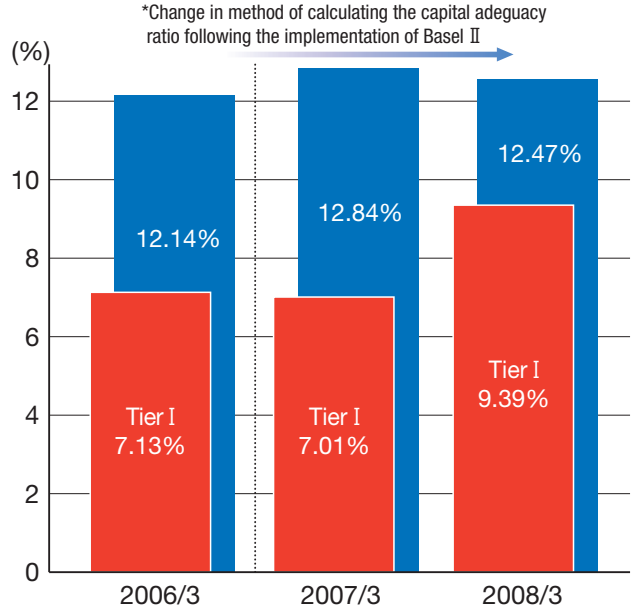
Capital Position

A Strong Capital Base Founded on the Strength of the Cooperative Membership

Capital Adequacy

The Bank deems the strengthening of its capital base to be a top management priority to meet the various needs of its cooperative organizations and other customers, as well as to increase the size and enhance stability of its profits by investing in diversified financial assets in global markets. As of March 31, 2008, the Bank's capital adequacy ratio was 12.47% on a consolidated basis (nine consolidated entities), and 12.55% on a non-consolidated basis.

• Capital Adequacy Ratio (consolidated)



Enhancing the Bank's Capital Adequacy and Financial Position

The management of the Norinchukin Bank believes that enhancing the capital adequacy of the Bank and its financial position are tasks that require unremitting efforts. Only in this way can the Bank ensure its ability to meet the needs of its members and customers, and gain the trust of financial markets globally. This is because a sufficient level of capital adequacy and strong financial position is essential to ensuring sound management and enabling the Bank to operate amid a business environment that contains certain inherent risks.

To achieve these aims, the Bank is examining various measures to strengthen its capital base, including increasing the size of its retained earnings and diversifying its funding sources for capital while gaining the understanding and support of its members. These measures will be implemented as and when deemed necessary.

In line with the aims stated above, the Bank is working to enhance the quality and quantity of its capital adequacy. In fiscal 2007, upon the Bank's merger with the Akita and Tochigi Shinnoren (Prefectural Banking Federations of Agricultural Cooperatives), the Bank raised ¥28.8 billion in lower dividend rate stocks thorough private placement. In March 2008, the Bank also enhanced its capital adequacy by raising ¥503.2 billion in lower dividend rate stocks and borrowing ¥383.8 billion worth of perpetual subordinated loans from its members, in return for prepayment of ¥521.6 billion in dated subordinated loans.

Capital Position

Strong Capital Base

The Bank is rated highly by the two leading credit rating agencies in the United States–Standard & Poor's and Moody's Investors Service–and has received top-tier ratings among Japanese financial institutions. One of the main factors behind these ratings is the strong capital base afforded by the membership of the cooperative system. While major commercial banks in Japan have received injections of public funds to turn around their financial positions and give them the capability for credit extension, the Bank has yet to apply for such injection of public funds, thanks to its healthy capital adequacy.

• Methods of Capital Raising

The Bank's paid-in capital is funded from the following sources.

	Common Stocks		Preferred Stocks
Investors	Members, as stipulated by the Norinchukin Bank Law		No restrictions
Voting rights	Yes		No
Par value / Issue price	¥100 / Issued at par value		¥100 / Issued at market value
Dividends	Dividend rates are approved by the Council of Delegates. Dividends are paid after the payment of dividends on preferred stocks. When dividends are paid on common stocks, participatory dividends are paid to holders of preferred stocks. FY2006: 4% FY2007: 4%	For lower dividend rate stocks Dividend rates are approved by the Council of Delegates. The priority of dividends is the same as for common stocks. Under the Bank's Articles of Association, dividends on lower dividend rate stocks have a lower priority than common stocks. FY2006: 2% FY2007: 2%	Dividend rates are approved by the Council of Delegates. Dividends on preferred stocks are composed of preferred dividends and participatory dividends. The priority for participatory dividends is the same as for common stocks. FY2006: 11% FY2007: 11%

Risk Management

Approach to Risk Management

An essential component of the management of financial institutions is the generation of stable profits and the construction of an optimal portfolio. Managements must also address various types of risk arising from changes in the business environment as well as volatilities in economic conditions and financial markets. Financial institutions must also maintain a high level of public confidence by providing reliable services and maintaining financial soundness.

The Bank, as the central cooperative bank of Japan for agriculture, forestry, and fishery, has the mission of returning profits and offering services for the member cooperatives while maintaining a sound financial base. The Bank deems globally diversified investment to be a core investment strategy, and executes investments in diversified financial assets. Accordingly, the enhancement of its risk management framework is a crucial issue.

Specific initiatives by the Bank are stipulated in its Risk Management Policy. The policy specifies the types of risks to be managed by assessing the materiality of each risks at the operation and a basic framework for risk management, including organizational structure and methodology. In accordance with this policy, the Bank conducts risk management activities taking account of the inherent nature of each type of risk, measures the overall magnitude of these risks, making use of quantitative methods, and conducts integrated risk management by comparing the amount of risk with the Bank's financial strengths.

To implement integrated risk management, the Bank has created the Risk Management Committee. The Committee enables the Bank's top management to discuss important issues relating to its risk management framework and capital adequacy. The Committee also ensures that the total risk amount is kept within the Bank's maximum tolerable risk. The Bank has also established a number of committees according to the types of risk, i.e. the Market Portfolio Management Committee (market risk, liquidity risk), the Credit Committee, the Credit Portfolio Management Committee, the Cooperative Finance Committee (credit risk), and the Operational Risk Management Committee (operational risk), to enable the top management to discuss risk management policies, including actively planned risk taking. Together with flexible portfolio management that responds to changes in the financial markets, economic conditions, and the business environment within the economic capital management framework (please refer to P.29) decided by the Risk Management Committee, the Bank works toward optimizing the balance among risk, return, and capital, thereby enhancing the soundness and profitability of the Bank's activities.

The Bank has set up a number of divisions to manage individual types of risks, as well as a division responsible for integrated risk management. The roles and responsibilities of those divisions are clearly defined. The Bank also ensures the maintenance of appropriate internal control among those divisions.

Complying with Basel Ⅱ

Basel II (the new capital adequacy regulations), which went into effect in Japan in fiscal 2006, requires banks to comply with its three pillars. Pillar I is the introduction of a risk sensitive computational formula for capital adequacy. Pillar II is financial institution's internal capital adequacy assessment process, consistent with its risk profile, followed by supervisory review and an evaluation process. Pillar III is proactive disclosure to secure the proper evaluation of the effectiveness of Pillar I and Pillar II by the market. The Bank has taken initiatives in the past several years to resolve issues relating to these three pillars.

Especially as regards credit risk management, the Bank has worked to enhance its credit risk management infrastructure. The Bank has reinforced its existing

Risk Management

internal rating framework (system in which borrowers are rated both on the basis of a quantitative assessment of financial data making use of a statistical model, and on the basis of qualitative analysis). Other related initiatives aimed at enhancing credit risk management include the introduction of a method for computing risk based on estimates of the probability of defaults for obligors in each credit rank, based on historical data of actual defaults. For operational risk (risk arising from operating activities, such as clerical errors, system defects as well as lawsuits), the Bank has strengthened its comprehensive management systems through Risk and Control Self-Assessment (RCSA) exercises. These exercises identify risk inherent in various business processes and assess the effectiveness of internal controls. The Bank adopted the "Foundation Internal Ratings-Based Approach (F-IRB)" for credit risk and "The Standardized Approach (TSA)" for operational risk, pursuant to the Norinchukin Bank Law Notification regarding Basel II.

Internal Capital Adequacy Assessment Process (ICAAP)

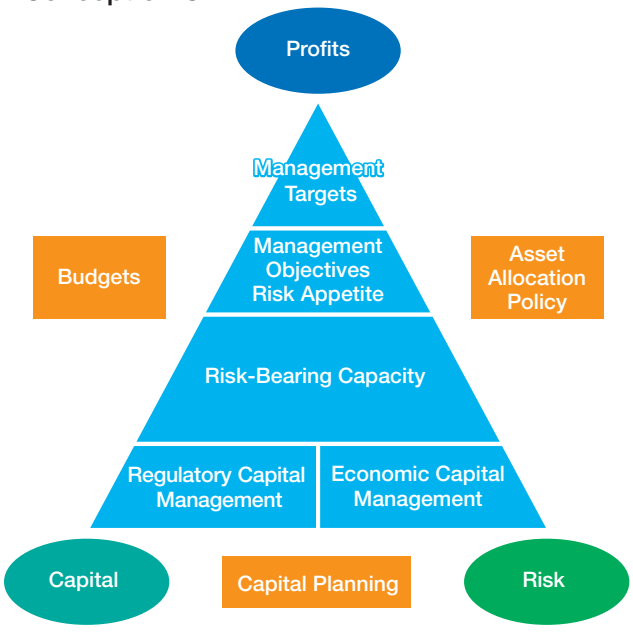
The Bank implements the Internal Capital Adequacy Assessment Process (ICAAP), an assessment process based on "International Convergence of Capital Measurement and Capital Standards: a Revised Framework" of the Basel Committee, to manage profits, risk, and capital in a consistent and efficient manner. Under the ICCAP, the Bank comprehensively manages its capital resources, taking into consideration both capital (the numerator of the capital adequacy ratio) and risk assets (the denominator of the capital adequacy ratio).

The ICAAP is a process for assessing the appropriateness of its risk management practice. By examining the risk arising from the business objectives, the Bank verifies that there is sufficient level of economic capital to cover the risks. The purpose of ICAAP is to provide strong confidence in the Bank's sound business management by its stakeholders.

The Bank's ICAAP is beyond the framework of controlling just capital and risk. It intends to meet simultaneously two distinct management goals: capital adequacy and profitability. The ICAAP recognizes capital adequacy as a "triangular" relationship among profit, capital and risk with consistency and good balance. This framework constitutes the core concept of the Bank's ICAAP.

Specifically, the ICAAP ascertains the consistency between "Risk Appetite" and "Risk-Bearing Capacity," both presented quantitatively as the amounts of risk and capital, respectively. This process is achieved through two different types of framework to maintain capital adequacy: regulatory capital management and economic capital management (to be discussed later).

• Concept of ICAAP



• Risk Appetite

In implementing the Bank's strategies for attaining its management goals, Risk Appetite reflects specific views on risk-taking, and defines what types of risk and what magnitude of such risk the Bank is willing to take. The level of risk to be controlled is determined by various related indicators and from both a qualitative and a quantitative perspective. In other words, the setting of Risk Appetite interrelates management objectives (management strategy), risk, and capital within a single framework.

• Setting Risk-Bearing Capacity

The Bank stipulates the scope of the material risks it comprehensively manages, such as market risk, credit risk, and operational risk. For such risks, the Bank defines the methods for evaluation (quantitative measurement). The Bank then defines Risk-Bearing Capacity as "maximum tolerable risk," and manages the level of risk within Risk-Bearing Capacity. When setting Risk-Bearing Capacity, the Bank connects each component of capital with types of risk to be covered.

• Confirmation of Consistency between Risk and Risk-Bearing Capacity

This confirmation process involves verifying that the volume of risk taken, based on Risk Appetite, does not exceed the Risk-Bearing Capacity, and that there is no concern that risk may exceed the Risk-Bearing Capacity. To ascertain such conditions through day-to-day operations, the Bank has set the checkpoint within the framework of the regulatory capital management (capital adequacy ratio) as well as economic capital management. In addition, by performing a set of stress tests, and through a capital planning process, the Bank aims to secure a strong financial position.

The checkpoint provides a framework for ensuring that capital adequacy is maintained above a predetermined level, regardless of volatilities due to various factors. Through this system, the Bank monitors factors causing fluctuations and takes necessary countermeasures at an early stage. A specific checkpoint is determined according to the Bank's risk profiles, which include the inherent nature of volatilities of unrealized gains and losses on securities. The checkpoint is an integral part of maintaining the Bank's capital adequacy ratio above a certain level by monitoring the level of unrealized gains and losses on securities on a daily basis.

Integrated Risk Management

The Bank has drawn up its Risk Management Policy, and stipulates a core risk management framework that quantifies and manages risk comprehensively in comparison with capital, which represents the Bank's financial strength. The Bank has further developed this framework in the ICAAP (Internal Capital Adequacy Assessment Process), focusing on capital adequacy, as described above. The Bank conducts integrated risk management. In addition to the risk covered by regulatory capital management.

The central function within the risk management process is economic capital management, under which all the risks to be covered by capital are quantified. The aggregate of these risks is managed through comparison with the aggregate of economic capital allocated to each category of risk as the maximum tolerable limit. The Bank manages economic capital both on a consolidated and non-consolidated basis.

Under economic capital management, volatilities of the risk volume (risk capital) that occur along with market fluctuations and additional risk taking are managed within the allocated economic capital. The resource of economic capital is Tier I capital, the same basis as the regulatory capital calculation. The Bank categorizes the types of risks managed by economic capital management framework as market risk, credit risk and operational risk. The Bank designs an economic capital management methodology suitable for the Bank's business model, which is characterized as its globally diversified investment strategy. The Bank allocates and manages the risk capital on an aggregate basis instead of asset classes or divisions in charge to fully take advantage of the globally diversified investment concept. Allocation of economic capital to each risk category is determined by the Board of Directors semiannually, in consideration of the allocation policy of the market portfolio and other investment assets. Middle sections are responsible for measuring and managing the risk volume by monitoring its trends,

Risk Management

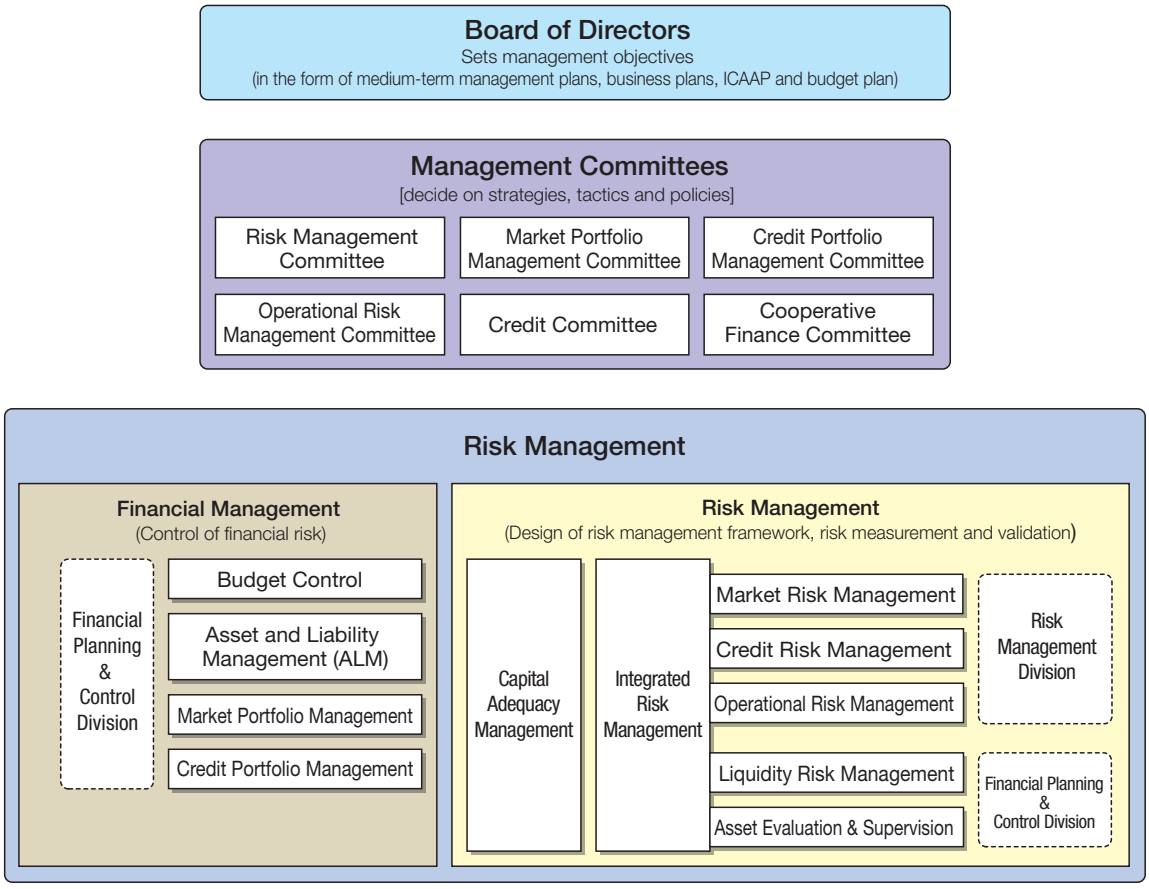
and they report to the management on a regular basis. The risk volume of the market portfolio is measured, monitored and managed on a daily basis.

Allocation of economic capital is at the sole discretion of the Board of Directors. However, technical details of relevant issues are discussed in advance by the Risk Management Committee from an integrated risk management perspective.

Market risk is measured by the Value-at-Risk (VaR) method, using a historical simulation model, with a 99.50% confidence interval and one-year holding period. Credit risk is measured through the Value-at-Risk (VaR) method, using a Monte Carlo simulation model (Mark-to-Market), with a 99.50% confidence interval and rating transition within a one-year holding period. Credit risk capital is defined as the credit risk amount measured by the method described above, deducting the expected losses. Operational risk is measured by the Standardized Approach(TSA), in line with the regulatory capital requirement. This amount is adopted as the operational risk capital.

Through these initiatives, the Bank manages risk via an integrated approach, and plans to increase the sophistication of its risk management framework going forward.

• Risk Management System



• Integrated Risk Management Consistent with Financial Management

The Bank's integrated risk management framework is conducted consistently with its financial management framework to maintain a balance between a sound financial position and adequate profitability. The Bank has specifically established the market risk management infrastructure to enable it to promptly respond to changes in the conditions of financial markets. The Bank conducts a wide range of analysis from various perspectives, including static and dynamic interest rate sensitivity analyses toward the profit/loss impact, and asset price sensitivity analysis for impact on the interest rate changes. In addition, as a part of asset and liability management (ALM), the Bank measures the risk volume, taking account of volatilities in prices of bonds and stocks as well as volatilities in foreign currency exchange rates, and conducts scenario simulations under various stress assumptions. Through the analysis described above, the Bank obtains an accurate grasp of the impact of market volatilities on the value of the assets, and endeavors to construct a resilient financial position.

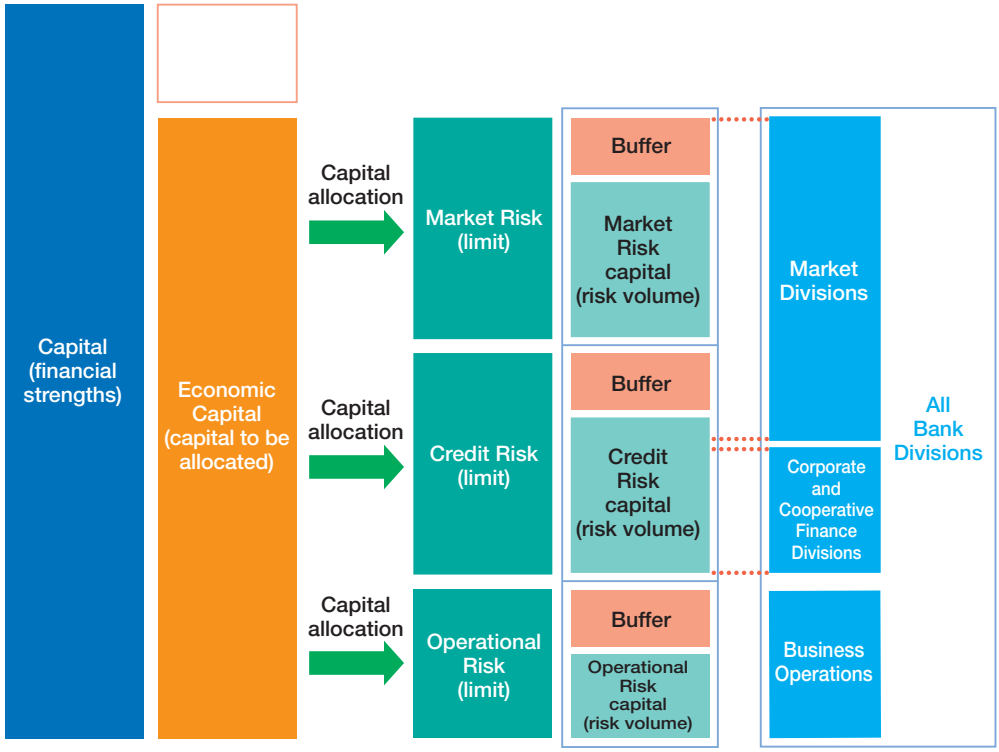
Credit Risk Management

Credit risk is the possibility of a loss arising from a credit event, such as deterioration in the financial condition of a borrower, that causes an asset (including off-balance sheet items) to lose value or become worthless. For the Bank, transactions involving credit risk are one of the most important sources of earnings from a strategic point of view. The Bank comprehensively manages credit risk on an entire credit portfolio basis as well as individual credit basis for whole credit risk assets. In this way, the Bank appropriately manages the amount of credit risk to secure a steady flow of earnings.

• Credit Risk Management Framework

The Bank's credit risk management framework comprises four committees that are managed by the directors and general managers involved in risk management. These committees decide the credit risk management framework as well as credit investment policy. Front sections execute loan transactions and credit investments in accordance with the credit policy and within the credit

• Illustration of Economic Capital Allocation



Risk Management

limits approved by the committees. Middle sections, which are segregated from the front sections, monitor changes in the credit risk portfolio and report them to the committees. Those feedbacks are used for upgrading the risk management framework and for future credit investment planning.

Each of the four committees has a specific role assigned by the management. The Risk Management Committee is responsible for the deliberation of the basic infrastructure for overall credit risk management, including the Bank's internal rating system, the self-assessment system, and the economic capital management system. The Credit Committee functions primarily to discuss a number of credit ceiling systems to manage concentration risk. The Credit Portfolio Management Committee and the Cooperative Finance Committee discuss basic strategies and policies regarding control of the credit risk infrastructure, and make decisions on business strategy for material transactions or transactions with large amounts.

The Risk Monitoring Division, a middle office division segregated from front sections, monitors the condition of the credit risk portfolio.

• Credit Risk Analysis Framework

As a result of the Bank's continuing efforts to further upgrade its credit risk analysis capabilities, the Bank performs highly specialized analysis for all outstanding credit according to borrower type, such as a cooperatives, private corporates, public entities, financial institutions, or overseas borrowers. Credit analyses on private corporates and public entities are assigned according to sectors to utilize accumulated institutional knowledge on analysis for each industry. That framework is designed to take benefit from a sector-specialized senior credit administrator system. A senior credit administrator specialized in a certain sector reviews each debtor and its business conditions individually and compares it with other companies in the same industry utilizing its credit and sector research function. In analyses of loans to overseas borrowers the Bank reviews country risk, an inherently different category of risk from domestic corporates, and effectively uses the country ceiling system. Together with the region-specialized senior credit administrator system for evaluation of credit applications, the Bank considers credit risk on overseas loans are appropriately managed. In addition, securitized products, such as asset-backed securities having accounts receivable from corporate or real estate as underlying assets are analyzed by a senior credit administrator specialized in structured products to properly assess the risk inherent in such investments. Credit monitoring reviews are also performed regularly for structured products.

Through this credit analysis system, the Bank maintains high-level credit risk management based on stringent analytical standards, proprietary financial and cash-flow analysis methods, and monitoring reviews after deals.

The Bank also takes initiatives to optimize credit risk portfolio by setting credit limits according to the internal rating and monitoring exposure of each corporate. The Bank also applies a minimum interest rate for a borrower according to its internal rating, and maintains appropriate return for credit risk of the borrower.

• The Bank's Internal Rating Framework

Outline of the Internal Rating Framework and Special Features

In addition to the Bank's traditional lending activities as a financial institution specialized in the agricultural, forestry, and fisheries industries, the Bank adopts a management strategy of globally diversified investment and pursuit of an optimized investment portfolio by diversifying investment assets according to regions or industries. Accordingly, the Bank considers that it is crucial to manage credit risk exposure from an integrated perspective, to maintain capital to cover the amount of credit risk, ensure management soundness, and strengthen profitability.

The Bank's internal rating framework is designed to evaluate and measure the Bank's credit risk portfolio consistently, and is considered to be a crucial tool for the

integrated management of credit risk. It plays an important role in daily credit risk management and portfolio management, such as economic capital management.

Structure and Application of the Internal Rating Framework

The Bank's internal rating framework comprises three components: the Borrower Rating System, the Loan Recovery Rating System, and the Retail Exposure Internal Rating System.

The Borrower Rating System is designed to evaluate the exposure grades of corporate borrowers. The Bank has 15 borrower grades: 10 borrower grades for non-defaulted borrowers and 5 for defaulted borrowers. Each borrower grade defines the level of credit risk for a borrower.

In principle, ratings are evaluated and assigned using a combination of quantitative and qualitative factors. For certain assets subject to risk-weighted asset calculation for the investment fund, the Bank assigns its internal ratings by using external ratings as the primary factor, those of Standard & Poor's (S&P) and Moody's Investors Service (Moody's). The Bank maps clearly its internal grades to the scale used by credit rating agencies (e.g., internal grade "1-1" corresponds to the external grade "AAA" and "Aaa"). This mapping is based on comparisons of grades and default probabilities on the same borrowers between internal ratings and credit rating agencies' ratings.

In the measurement of credit risk for economic capital management, the Bank uses the identical probability of default (PD) used in the regulatory capital calculation, and applies a method consistent with the IRB Approach.

The Loan Recovery Rating System is used to rate the recovery of collateral for corporate exposure. Ratings are assigned according to the expected recovery ratios, and are determined from the assessment of factors that may have an impact on the recoverability, such as loan security (collateral or guarantees), seniority (senior or subordinate), and other factors affecting recovery for defaulted exposures.

The Retail Exposure Internal Rating System estimates Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD) on an exposure pool basis, and allocates exposure according to type of pool.

Management of the Internal Rating Framework and Validation Procedures

The internal rating system is managed in accordance with the objectives of the internal rating, criteria of grades, allotments of evaluation methods, approval authority, rating review, and rating validation stipulated in relevant policies and procedures.

Moreover, the Risk Management Division is established as an independent credit risk control unit responsible for management of the internal rating framework, and conducts validation and monitoring of the internal rating framework.

In addition, the Internal Audit Division periodically performs audits on credit risk management, the appropriateness of estimated parameters such as Probability of Default (PD), compliance with the minimum requirements for the IRB Approach and other matters, and reports to the Board of Directors.

- **Self-Assessments, Write-Offs, and Provisions to Reserves Based on Internal Ratings Framework** ——

The Bank conducts self-assessments exercises on a quarterly basis as of the end of March, June, September, and December.

The self-assessment process initially classifies debtors according to the Bank's internal ratings. There are five such categories: standard, substandard, doubtful, debtors in default, and debtors in bankruptcy.

Subsequently, within each of these categories, individual credit customer obligations are classified into four categories (I, II, III, and IV) according to recoverability.

Risk Management

• Relationship among Internal Rating, Self-Assessment, and Exposure Requiring Mandatory Disclosure under the Financial Revitalization Law

Internal rating	Self-Assessments			Exposure requiring mandatory disclosure under the Financial Revitalization Law
	Debtor classification	Asset category	Definition of asset category	
1-1 4 1-2 5 2 6 3 7	Standard	Category I	Debtors who are experiencing favorable operating conditions and having no particular financial difficulties. Internal ratings 1-1 to 4 are equivalent to investment grade of credit rating agencies.	Standard Loans
8-1 8-2 8-3 8-4	Substandard Other substandard debtors Debtors under requirement of control	Ⅱ	Debtors requiring close monitoring going forward	Special attention
9	Doubtful	Ⅲ	Debtors who are highly likely to fall into bankruptcy	Doubtful
10-1	Debtors in default	Ⅳ	Debtor who have effectively fallen into bankruptcy, although no facts have emerged to indicate legal or formal bankruptcy	Bankrupt or de facto bankrupt
10-2	Debtors in bankruptcy		Debtors who are legally and formally bankrupt	

• The Norinchukin Bank's Debtor Classification and Reserves for Possible Loan Losses (As of March 31, 2008) (On a Non-Consolidated Basis)

(Billions of Yen)

Self-Assessments					Reserves for possible loan losses	Claims disclosed under the Financial Revitalization Law	Risk-managed loans (Note 2)
Debtor classification	Category I	Category II	Category III	Category IV			
Debtors in bankruptcy Debtors in default	Portion deemed to be recoverable through collateral or guarantees		Provisions are made to cover the entire amount	Full amount written off or provisions made	Specific reserve for possible loan losses 86	Bankrupt or De facto bankrupt 4	Loans to borrowers under bankruptcy proceedings 1
Doubtful debtors	Portion deemed to be recoverable through collateral or guarantees		Provision ratio: 94.6%			Doubtful 134	Delinquent loans 135
Substandard debtors: Special attention	Provision ratio of the uncovered portion: 34.6%				General reserve for possible loan losses 50 (Note 1)	Special attention 49	Loans with principal or interest payments three months or more in arrears —
Substandard debtors: (Claims on debtors under requirement of control) Substandard debtors: Other substandard debtors	Claims on substandard debtors other than "Special Attention"					Standard loans 10,118	Restructured loans 49
Standard debtors							

Notes: 1. The expected default ratios for computing the provisions to the general reserve for possible loan losses are 0.24% for standard debtors, 4.14% for substandard debtors (excluding claims under requirement of control), and 11.63% for claims under requirement of control.
2. The difference between the total of claims disclosed under the Financial Revitalization Law and the total of risk-managed loans is the inclusion of claims other than loans.

• Criteria for Write-Offs and Provisions to Reserves

Write-offs and provisions to reserves for possible loan losses are made in accordance with the criteria set by the Bank for each category of obligors determined by self-assessment exercises. For exposure to standard debtors and substandard debtors, the Bank makes provisions to the general reserve for possible loan losses for each category of borrowers based on the expected loss ratio, which is calculated from historical loss data, including losses from defaults. For debtors under requirement of control with substantial exposure, provisions to specific loan loss reserves for possible loan losses are made on the basis of calculation by the discounted cash flow (DCF) method. For exposure to doubtful debtors or lower, provisions to specific reserves for possible loan loss are made, or write-offs are performed, for the amount not covered by collateral or guarantee to the exposure classified as Category III, and the amount deemed necessary to the exposure classified as Category IV.

• Criteria for Write-Offs and Reserves for Possible Loan Losses

Debtor classification		Criteria for write-offs and reserves for possible loan losses	Provision ratio as of March 31, 2008
Standard debtors		Provisions are made as the general reserve for possible loan losses multiplying the total credit exposure by the expected loss ratio based on the historical default ratio.	0.24%
Substandard debtors	Other substandard debtors	Initially, categorize debtors into two groups: "Debtors under requirement of control" or "Other substandard debtors," in accordance with credit quality of debtors. Debtors in the latter group are further classified into sub-categories. Applies Discount Cash Flow (DCF) method for a debtors with large exposure if classified as "Debtors under requirement of control." Provisions are made as general loan-loss provisions, multiplying the total credit exposure by the expected loss ratio based on the historical loss ratio for each category of borrowers.	4.14%
	Debtors under requirement of control		11.63% (Excluding borrowers the DCF method is applied)
Doubtful debtors		Provisions are made as specific reserve for possible loan losses the necessary amount estimated against the amount classified as Category Ⅲ (amount not likely to be recovered from collateral or guarantee) on an individual borrower basis.	94.60% of the unrecoverable portion
Debtors in default		Provisions are made as specific reserve for possible loan losses on an individual borrower basis for the entire amount classified as Category Ⅲ. Write-offs are performed on an individual borrower basis for the amount classified as Category Ⅳ (the amount estimated as uncollectible or unrecoverable), regardless of treatment under criteria in tax law.	The full amount of the unrecoverable portion is written off or provisioned
Debtors in bankruptcy			

• Credit Costs in Fiscal 2007 (On a Non-Consolidated Basis)

	Billions of Yen
Loan write-offs	¥ 3
Provision to general reserve for possible loan losses	(45)
Provisions to specific reserve for possible loan losses	(14)
Provision to reserve for specified overseas debts	(0)
Other	0
Total credit costs	¥ (56)

• Quantifying Credit Risk

By applying various credit ceiling systems and performing credit analysis for each transaction, credit risk portfolio is sufficiently diversified and managed to prevent concentration in a specific industry, company, or product. The Bank also measures the amount of credit risk using statistical methods, and applies it to economic capital management.

Methods for Estimating Credit Risk

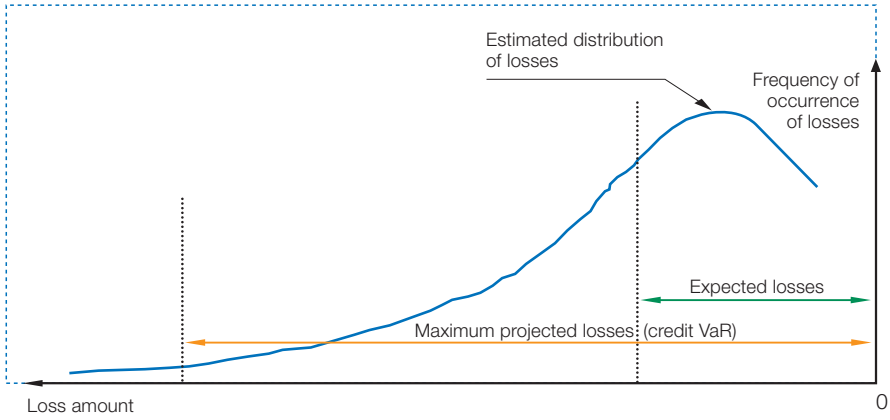
The Bank uses the internal model for credit risk (the Monte Carlo Method) in estimating credit risk, and conducts estimates of credit risk on a monthly basis. The scope of estimation includes loans, guarantees, foreign exchange, and securities, such as corporate bonds, as well as off-balance-sheet transactions, such as swaps.

The Bank conducts simulations on tens of thousands of scenarios for the credit portfolio, under various parameters, including probability of defaults (PD) for each rating category, rating transition probability, the loss given default (LGD) based on historical default data, and correlation of default and rating transition among credit exposures based on internal historical data or historical data released by credit rating agencies. Using the simulation results, the Bank estimates the distribution of potential losses on the Bank's credit portfolio over the next year.

The economic capital of the Bank is managed by calculating two figures for credit risk amount, namely the "Expected Loss (EL)," the average figure of estimated losses on simulated scenarios, and the "Maximum Projected Loss," defined as the potential losses in the worst case. Utilizing EL and UL, the Bank monitors the utilization of allocated risk capital. EL and UL are also used to monitor the risk-return balance of each asset class.

Risk Management

• Illustration of Credit Risk Quantification Model



The loss distribution of the Bank's credit portfolio is estimated based on the Bank's credit risk quantification model. Credit risk parameters, including expected loss and Credit Value-at-Risk (VaR) are calculated using this model.

Market Risk Management

The Bank deems market risk, such as interest risk and equity risk, to be one of the most significant risk factors affecting the Bank's earnings base, along with credit risk. Through active and appropriate risk-taking supported by a robust risk management framework, the Bank aims to retain a stable level of profit by constructing a sound and profitable market portfolio that balances profit, capital, and risk. The Bank's investment principle is to maintain a good balance of risk in its globally diversified investment portfolio in viewing the amount of aggregated market risk, the risk-return profile of each asset class, and the correlation among asset classes. Asset allocation is decided after considering the risk balance described above and other crucial factors, such as the financial position of the Bank and the market environment. To ensure the effectiveness of market risk management through the execution process of investments, the Bank ensures the segregation of duties among divisions in charge for decisions (planning) on allocation policy, execution of individual transactions, and monitoring of risk positions. Specifically, the Risk Management Committee is responsible for and discusses overall risk management, the Market Portfolio Management Committee sets market portfolio allocation policy, the front sections execute the transactions in accordance with allocation policy, and the middle section conducts monitoring. Matters relevant to the market risk portfolio management activity (such as market conditions, major investment decisions made by the Market Portfolio Management Committee, condition of the market portfolio, and views on near-term market portfolio management) are reported to the Board of Directors on a monthly basis.

Going forward, the Bank will continue to upgrade its market risk management infrastructure by implementing various measures, such as increasing the number of staff in charge, enhancing technical elements, such as the information technology infrastructure, and developing risk measurement techniques.

• Market Portfolio Management

The fundamental element of the Bank's market risk management is economic capital management. The key objectives of risk management of the market portfolio are to construct an optimal market portfolio through active adjustment of the risk balance among asset classes according to the economic and financial conditions, in pursuit of efficient use of the allocated economic capital, and to manage the risk balance and the level of earnings of the market portfolio in line with the financial position of the Bank. Specifically, the risk balance of the market portfolio is managed by analyzing and understanding the situation of the market portfolio based on market risk measured by the middle sections, including the amount of aggregate risk, risk indicators, such as Value at Risk (VaR) and Basis Point Value, and correlation among asset classes. The Bank also analyzes and takes into

account its financial position, based on the outlook for economic and financial conditions supported by research into macro-economic factors and the financial markets, and simulations of earnings, unrealized gains and losses of the portfolio, and the capital adequacy ratio.

In principle, market risk measurement covers all financial assets and liabilities in the Bank's portfolio, and applies the Internal Model (historical simulation method) for VaR calculation.

The basic framework of market risk management is described in the following section.

Decision Making

Material decisions on market investments are made at the Board level. The Market Portfolio Management Committee–composed of relevant board members as well as the general managers in charge of market portfolio management–examines, discusses, and makes decisions concerning specific policies related to market investments.

Decision making for market investment is carried out after examining the investment environment, including the financial markets and the economic outlook, the current position of the securities portfolio, and the asset and liability management (ALM) situation of the Bank. In principle, the Market Portfolio Management Committee holds meetings on a monthly basis (actually on a weekly basis), as well as flexibly when needed, to enable prompt response to changes in market conditions. In addition, to facilitate close communication regarding the market environment on a regular basis, relevant board members and the general managers in charge of the market portfolio hold meetings to share information and awareness on a weekly basis to facilitate timely decision-making.

Execution

Based on the investment decisions made by the Market Portfolio Management Committee, front sections execute securities transactions and risk hedging. Front sections are not only responsible for execution but also monitor markets conditions closely and propose new investment strategies, as well as make other suggestions to the Market Portfolio Management Committee.

Monitoring

The term "monitoring functions" refers to checking whether the execution of transactions made by front sections is compliant with the investment decision approved by the Market Portfolio Management Committee, and measuring the amount of risk in the Bank's investment portfolio. Risk measurements include risk calculation for economic capital management and measurements using various risk indicators to maintain a good risk balance among asset classes. The Risk Monitoring Division is responsible for those risk measurements and regularly reports to the Board of Directors about the results of monitoring, mainly conducted on a daily basis. Monitoring results reported to the Board are used to analyze the current situation of the market portfolio and as a data source for discussing the investment strategies of the Bank in the near future by the Market Portfolio Management Committee.

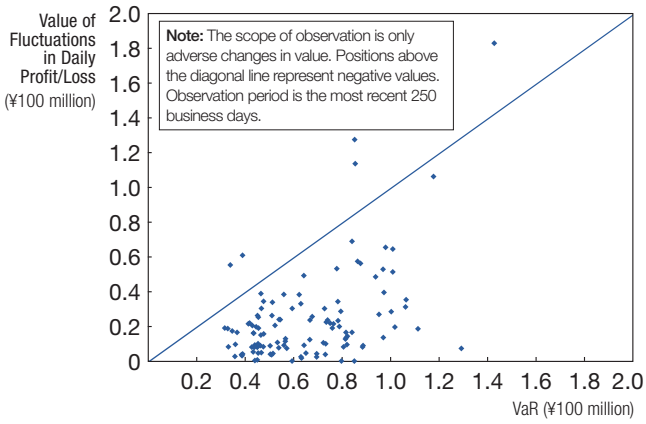
• Trading Operations

The Bank's trading operations are conducted to generate profits from short-term market fluctuations. The Bank maintains an organizational separation between front sections, in charge of executing trading activities, and units undertaking other types of transactions. The front sections in charge of trading activities aim to achieve profit targets within the approved position and loss limits determined from risk-return perspective.

The risk of trading operations is managed under an integrated risk management framework and within the market risk management framework with economic capital management as a key element. From a risk management perspective, the front sections executing trades for the Trading accounts are explicitly separated from the front sections executing trades for the Banking accounts. Targets for profits, and position and loss limits are revised semi-annually. Progress in achieving profit targets within approved limits is monitored on a daily basis.

Risk Management

• Results of Back Testing Performed (Trading Divisions, Interest Rate VaR (1day))



During the last 250 business days, including and ended on March 31, 2008, the adverse changes in value in daily profit and loss exceeded VaR (for a one-day holding period) five times. The Bank utilizes an internal model to calculate VaR, validated internally or by outside experts on a regular basis, and is working to incorporate cutting-edge financial and information technology into the model. Depending on results, the Bank also revises the internal model if discrepancies beyond certain level occur due to the designs of the model, based on back-testing and an analysis of the relevant factors if necessary.

Changes in Interest Rate Risk (with a one-day holding period) in the Trading Divisions

	VaR (¥100 million)
June 29, 2007	0.9
September 28, 2007	0.3
December 28, 2007	0.4
March 31, 2008	0.5

When positions or losses exceed the approved limits, the middle sections raise the alarm and require the front sections to take appropriate actions, including preparing corrective measures, reducing trading volume, or suspending trading.

Risk Measurement Methods

The Bank measures the risk in its trading operations by adopting risk measurement techniques such as basis point value (BPV), slope point value (SPV), optional risk parameters, and value at risk (VaR) to monitor compliance with risk limits.

The Bank uses an internally developed model for risk measurements. The model employs a variance-covariance method with a one-tailed 99% confidence interval and a 10 business day holding period and measures VaR on a daily basis. The Bank's internal model is developed by the Bank and periodically validated internally by middle sections and the Internal Audit Division, as well as by outside experts, from quantitative and qualitative perspectives. The Bank continues to apply cutting-edge financial and information technologies to upgrade its risk measurement methods.

In addition to validate the Bank's internal model, the amount of risk calculated by the model is compared with the volatilities in actual profit and loss on a daily basis (known as back testing). When discrepancies between the model's estimates and actual results due to the designs of the model go beyond a certain level, the Bank scrutinizes the relevant model factors and revises the model if necessary. The Bank also performs a series of stress tests assuming extremely volatile market situations, such as the largest interest rate changes in the last

Glossary of Terms

• BPV (basis point value)

BPV refers to the changes in the value with respect to a 0.01% change in interest rates given the current position. The Bank uses total delta as the indicator of the impact of the change assuming a parallel shift in the yield curve.

• SPV (slope point value)

SPV is an indicator of the impact assuming a non-parallel shift in the yield curve. It is the aggregate of the absolute value for BPV for each yield curve grid. SPV indicates the changes in value of the Bank's positions when the interest rate moves against the Bank's positions by 0.01% in each grid.

• Optional Risk Parameters

Financial products such as bond options have specific risk characteristics such that the position or value of the products might change according to the changes in the base indicator level, such as interest rates and volatilities. The Bank uses delta (changes in the value of options according to the change in the level of an indicator), gamma (changes in the the positions of options according to the change in the level of an indicator) and vega (changes in the value of options according to the changes in the volatility) to evaluate the degree of correlation and sensitivity between the value of options and market indicators.

• VaR (value at risk)

VaR is the maximum possible loss over a specified holding period and within a certain confidence interval. The Bank calculates VaR by setting specific holding periods and confidence intervals, and applying the appropriate measurement method to measure the risk.

five years, on a monthly basis. The Bank also monitors whether the amount of risk in the stress tests is within the maximum tolerable loss limit and within the capital allocated to the trading activities on a monthly basis.

Liquidity Risk Management

The Bank defines liquidity risk as the following: "The risk of suffering financial losses as a result of difficulty in securing funds required for activities of the Bank, or of being forced to procure funds with significantly higher funding costs than normal as a result of a maturity mismatch between investment and funding procurement, or as a result of an unforeseen fund outflow from the Bank (cash flow risk)." It is also defined as: "The risk of suffering financial losses as a result of being unable to execute transactions at the market due to significant market turmoil, or of being forced to execute transactions under conditions much less favorable than normal (market liquidity risk)." The Bank manages liquidity risk in accordance with its Policy and Procedures for Liquidity Risk Management.

As the appropriate management of cash flow risk is a prerequisite for business continuity and reliable portfolio management, in examining the inherent nature of the asset and liability structure of the Bank, the Bank manages this risk by controlling from the two sides of investment and funding procurement operations, by each currency, by each funding procurement method, and by each funding center. The cash flow management plan is reviewed on a quarterly basis and approved by the Market Portfolio Management Committee. The progress of the cash flow management plan is reviewed on a monthly basis and its execution strategies are discussed on a weekly basis. Cash flow is managed by constantly monitoring market conditions.

Market liquidity risk is considered as a crucial factor for investment decisions to maintain a flexible investment allocation framework that enables prompt response to changes in market conditions. Investment strategies are also prepared that take into account the market liquidity of each product, after assessing market liquidity (cash-convertibility) of each type of financial product. In addition, middle sections regularly review and analyze the market liquidity of all financial products handled by the Bank.

Operational Risk Management

The Bank defines operational risk as including all types of risk that arise in the course of business activities, after the exclusion of risk incurred when the Bank actively seeks to generate profits, such as market risk, credit risk, and liquidity risk. The Bank manages operational risk according to its Operational Risk Management Policy.

In managing operational risk, the Bank prioritizes processing risk, systems risk, legal risk, and other forms of operational risk that occur passively in the course of business operations to make it possible to allocate limited management resources rationally. The basic objective of operational risk management is to minimize the risks and expected losses potentially arising from those risks incurred from activities which do not generate profit due to their nature.

Operational risk management is divided into two areas: (1) management of risks where the occurrence of the risk itself can be controlled and (2) management of risks that must be controlled and contained once it occurs. Each of these types of risk is managed separately, depending on their specific characteristics and the effectiveness of control measures, and in accordance with policy and procedure stipulated for each type of risk.

In addition, taking into account the definition of operational risk in Basel II, the Bank not only manages five types of operational risk (namely, processing risk, legal risk, systems risk, personnel risk, and physical assets risk) individually, but also applies comprehensive risk management methods, as descried below. Those measures include the gathering and analysis of data on losses arising from these risks, and the application of the Risk and Control Self-Assessment (RCSA) process.

Risk Management

(1) Gathering and analyzing data on losses to identify operational risks and develop countermeasures

The Bank gathers and analyzes data on actual loss events such as accidents, errors, and system failures that are considered to be the realization of operational risk, identifies operational risks that are inherent in each business process and develops countermeasures.

(2) Implementation of RCSA to assess inherent risks, control measures, and residual risks

RCSA is a series of procedures conducted by each business unit itself to identify operational risks inherent in their business processes, identify control measures for the risks, evaluate effectiveness of the control measures and residual risks, and clarify problems to be resolved.

Loss data identified and analyzed by the above method, including results of RCSA, such as problems to be resolved, are reported to board members. These reports are then reflected in the preparation of the Comprehensive Risk Management Plan, the Systems Risk Management Plan and the Processing Risk Management Plan, and used to manage and mitigate the risk.

The Comprehensive Risk Management Plan and other plans are discussed by the Risk Management Committee and the Operational Risk Management Committee, which are composed of relevant board members and general managers in charge of operational risk management, and approved by the Board of Directors.

There are several initiatives aimed at improving the effectiveness of operational risk management. The Risk Management Division monitors the progress and appropriateness of implementation of the plans as the organizational unit responsible for operational risk management. In addition, the Internal Audit Division, as the unit responsible for internal auditing, assesses the framework and effectiveness of the operational risk management.

The Bank adopts the Standardized Approach (TSA) for calculating operational risk capital charges, as required in Basel II.

• Processing Risk Management

The Bank defines processing risk as the risk of losses arising when the activities of management and staff or the processes employed in business operations are inappropriate. Specifically, processing risk may occur when staff fail to follow the established procedures for processing business operations, when losses are incurred due to accidents or unethical behavior, and when proper processing of operational matters cannot be carried out because procedural regulations are insufficient or there are faults in the prescribed operating processes themselves. The Bank manages processing risk in accordance with its Policy for Processing Operations Risk Management.

Specifically, according to results of processing risk RCSA and analysis of collected loss data resulting from accidents and errors, the Bank prepares a Processing Risk Management Plan covering risk mitigation measures and measures for upgrading processing risk management. Progress in the implementation of the plans is reported to the board members. Along with this, the Bank also implements continuing initiatives to minimize occurrences of accidents and errors. Such initiatives include preparing action plans to prevent recurrence of the same type of accidents and errors on a individual case basis, making improvements in procedures, conducting self-inspection and self-reviews, and conducting staff training programs. Through these activities, as well as by proactively and appropriately responding when there are changes in the operating environment that may impact the processing of operations, such as mergers with Shinnoren, the Bank ensures that operational risk is managed.

• Legal Risk Management

The Bank defines legal risk as the risks of losses or problems arising from the conduct of transactions in violation of the law, or entering into inappropriate agreements in the course of management decision or execution of individual business operations. The Bank manages legal risk in accordance with its Policy for Legal Risk Management.

As the Bank strives toward the realignment of the cooperative credit system, offers new financial services and engages actively in investment activities in addition

to providing conventional financial services, it considers legal risk management to be a key management issue for all of its offices, and works continuously to upgrade legal risk management.

Specifically, the Bank has developed a database that enables staff to search laws and regulations relevant to business activities according to sections or type of businesses. By using the database, the Bank's staff can easily recognize the enactment, revision and repeal of relevant laws and regulations, and appropriately and promptly make the corresponding changes in their procedures. The Bank's legal divisions work to minimize legal risk by offering their full support to departments and offices of the Bank, performing legal checks of individual transactions as well as assisting in the preparation and reviewing of contractual documents, and by liaising closely with units in charge of compliance.

• Systems Risk Management

There are growing requirements for more sophisticated systems risk management. In addition to the traditional mission of providing stable and reliable financial services as an integral part of the social infrastructure, these days, the Bank is expected to ensure information security, including personal information protection and countermeasures against fake or stolen cash cards. The Basel II operational risk management framework, as well as the Financial Instruments and Exchange Law (the Japanese version of the Sarbanes-Oxley corporate reform law), require enhanced internal control related to management information systems.

In view of this situation, the Bank regularly reviews its systems risk management framework, and revises its relevant policy and procedures, most notably its Policy for Systems Risk Management, to further strengthen its internal controls. The Bank regularly conducts risk control self-assessments (RCSA) for critical information systems based on the safety criteria established by the Center for Financial Industry Information Systems (FISC). On the basis of these assessments, the Bank draws up and implements Systems Risk Management Plans to mitigate system risk.

Risk Management in the Bank's Consolidated Subsidiaries

The Bank's consolidated subsidiaries are managed in accordance with the Bank's Group Company Operating and Administrative Regulations. The Bank's Risk Management Policy provides that each of these subsidiaries should prepare a workable and effective basic risk management policy and framework, taking account of the Bank's Risk Management Policy as well as the nature of its own business activities and the risk profile. The Bank and each of its consolidated subsidiaries then confer and determine the basic policy that identify the risks the subsidiary should manage and describe the risk management framework, taking into consideration the characteristics of the risks the subsidiary bear. More specifically, Norinchukin Trust & Banking Co., Ltd., Kyodo Housing Loan Co., Ltd., and certain other consolidated subsidiaries manage market risk, credit risk, liquidity risk, and operational risk. The remaining consolidated subsidiaries manage various forms of risks categorized into operational risk. In addition, the Bank extends the economic capital management framework to the consolidated subsidiaries. Through this framework, the Bank comprehensively assesses and measures the risks faced by the Bank itself and its consolidated subsidiaries, and ensure that the total risk volume is managed within the capital. Furthermore, the Group Strategy Office of the Corporate Planning Division, which is responsible for managing the Bank's subsidiaries, is cooperating with the Risk Management Division and other related units to work toward uniform risk management and compliance throughout the Group and is implementing day-to-day management. When necessary, meetings are held with the top management of Group companies and with working-level personnel. Moreover, the Internal Audit Division of the Bank conducts audits of the risk management framework and business operations of consolidated subsidiaries, based on the Group's Operating and Audit Regulations, as well as periodic external audits.

Through the various activities described above, the Bank aims to increase the sophistication of the risk management of the Group as a whole.