

The Cooperative System and the Cooperative Banking Business

The cooperative banking business, through its network covering all of Japan, contributes to the development of the agricultural, forestry, and fisheries industries in Japan, and provides financial support to the livelihood of the local citizens.

Cooperative System and the Cooperative Banking Business

In addition to the cooperative banking business, which includes taking deposits and making loans, our cooperative organizations engage in a number of other activities. These include providing “guidance and supervision” on business and daily matters to farmers, fishermen, and foresters; performing a “marketing and supplying” function through the sale of agricultural, forestry, and fisheries products and the procuring of production materials; and engaging in “mutual insurance” business to provide insurance coverage for various unforeseen events.

The cooperative organization that performs this wide range of activities comprises the Japan agricultural cooperatives (JA), the Japan fishery cooperatives (JF), and the Japan forestry cooperatives (Shinrinkumiai) at the municipal level, and the respective prefectural unions and federations as well as the national union and federations of the agricultural, forestry, and fishery cooperatives (as shown in the accompanying chart). As a whole, this nationwide structure from the municipal level to the national level is known as the “cooperative system.”

The framework and functions of (1) the banking businesses of JA and JF at the municipal level, (2) the Prefectural Banking Federations of Agricultural Cooperatives (Shinnoren) and the Prefectural Banking Federations of Fishery Cooperatives (Shingyoren) at the prefectural level, and (3) the Bank at the national level are referred to collectively as the “cooperative banking business.”

Activities of the Cooperatives

• JA (The Japan Agricultural Cooperatives) —————

The Japan agricultural cooperatives (JA) are organizations, established under the Agricultural Cooperative Law, that conduct a comprehensive range of businesses and activities in the spirit of mutual assistance. The principal businesses of the JA include offering guidance for improving the farm management of cooperative members and their standards of living; marketing and supplying activities related to farming, including the gathering and selling of crops, and supplying materials needed for production and daily living; provision of insurance, such as life insurance, automobile insurance, and other kinds of insurance; and provision of banking-related business activities, such as accepting deposits, making loans, remitting funds, and offering other financial services.

As of April 1, 2008, 750 JA throughout Japan have been making contributions to the agricultural industry and the development of local communities through their various business and other activities.

• JF (The Japan Fishery Cooperatives) —————

The Japan fishery cooperatives are organizations, established under the Fishery Cooperative Law, that have the objectives of protecting the operations of fisheries and the livelihood of fishermen, and contributing to members and local communities. The principal businesses of JF include offering guidance for the management of marine resources, such as improving the operational businesses of cooperative members and the standards of living of members; marketing and supplying activities, such as the storage, processing, and sale of fish catches and other marine products of cooperative members, and supply of materials necessary for the business activities and daily lives of members; banking business services,

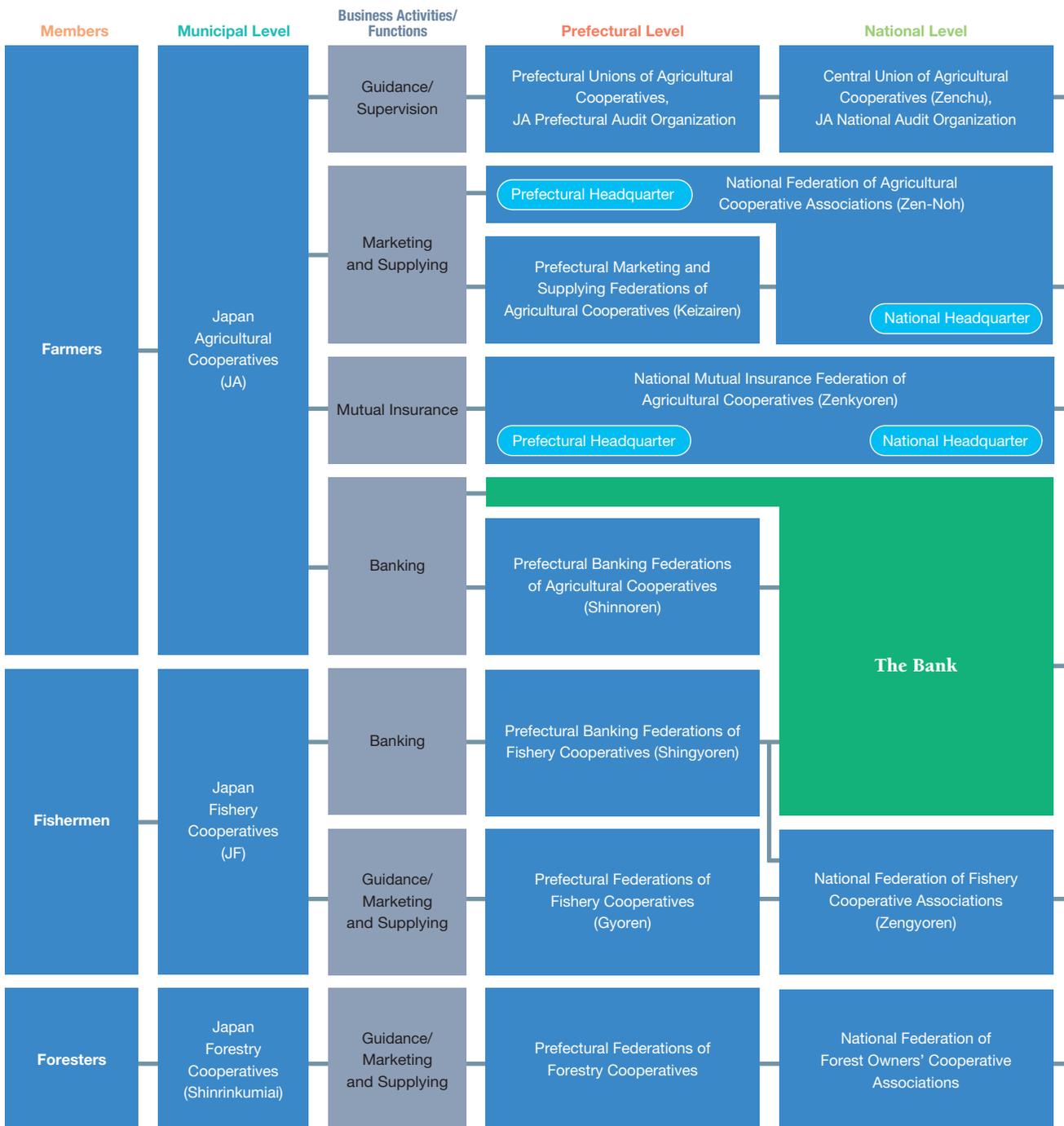
The Cooperative System and the Cooperative Banking Business

such as acceptance of deposits and lending of necessary funds; and provision of life insurance and property insurance.

As of April 1, 2008, there were 1,121 JF throughout Japan that contribute to the fisheries industry and to the development of fisheries communities through a wide range of activities.

As of July 1, 2008, there are 172 JF nationwide in Japan that conduct banking business services on their own initiative. In addition to these JF, there are JF which act as agents of Shingyoren providing banking business services for coastal communities throughout their respective prefectures.

• Structure of the Agricultural, Forestry, and Fishery Cooperative System



- **Shinrinkumiai**

- (The Japan Forestry Cooperatives)

The Japan forestry cooperatives are cooperative organizations for the owners of forestland, which was established under the Forestry Cooperative Law. A high percentage of forestland owners in Japan possess small land parcels, and forestry cooperatives play an important role in organizing and representing the interests of these small forestland owners.

The principal businesses of forestry cooperatives are carrying out operations including planting, removal of undergrowth, and thinning of forests owned by cooperative members as well as the sale of forest products, such as logs and timber.

As of April 1, 2008, there were 726 forestry cooperatives nationwide in Japan. As core participants in cultivating and improving forestlands, the forestry cooperatives make a major contribution in enabling forests to perform their wide range of natural functions, including the preservation of national land, the formation of watersheds, the maintenance of the living environment, the provision of places for health and leisure as well as the supply of timber, and other forest resources.

Positioning of the Norinchukin Bank within the Cooperative Banking Business

The Bank was established in 1923 as the central bank for Japan's industrial cooperatives. It was renamed the Norinchukin Bank in 1943 and is now a private financial institution based on the Norinchukin Bank Law.

JA, JF, and Shinrinkumiai were created with the aim

of improving the economic and social positions of the agricultural, forestry, and fisheries industries through the cooperative efforts of the respective members under the slogan "one for all and all for one."

The Bank is a national level cooperative financial institution whose membership (shareholders) are composed of the previously mentioned municipal cooperatives, prefectural and national federations, and other organizations. Moreover, the Bank is playing a major role in society to contribute to the development of the nation's economy and support in the advancement of the agricultural, forestry, and fisheries industries for its members in accordance to the provision of Article 1 of the Norinchukin Bank Law.

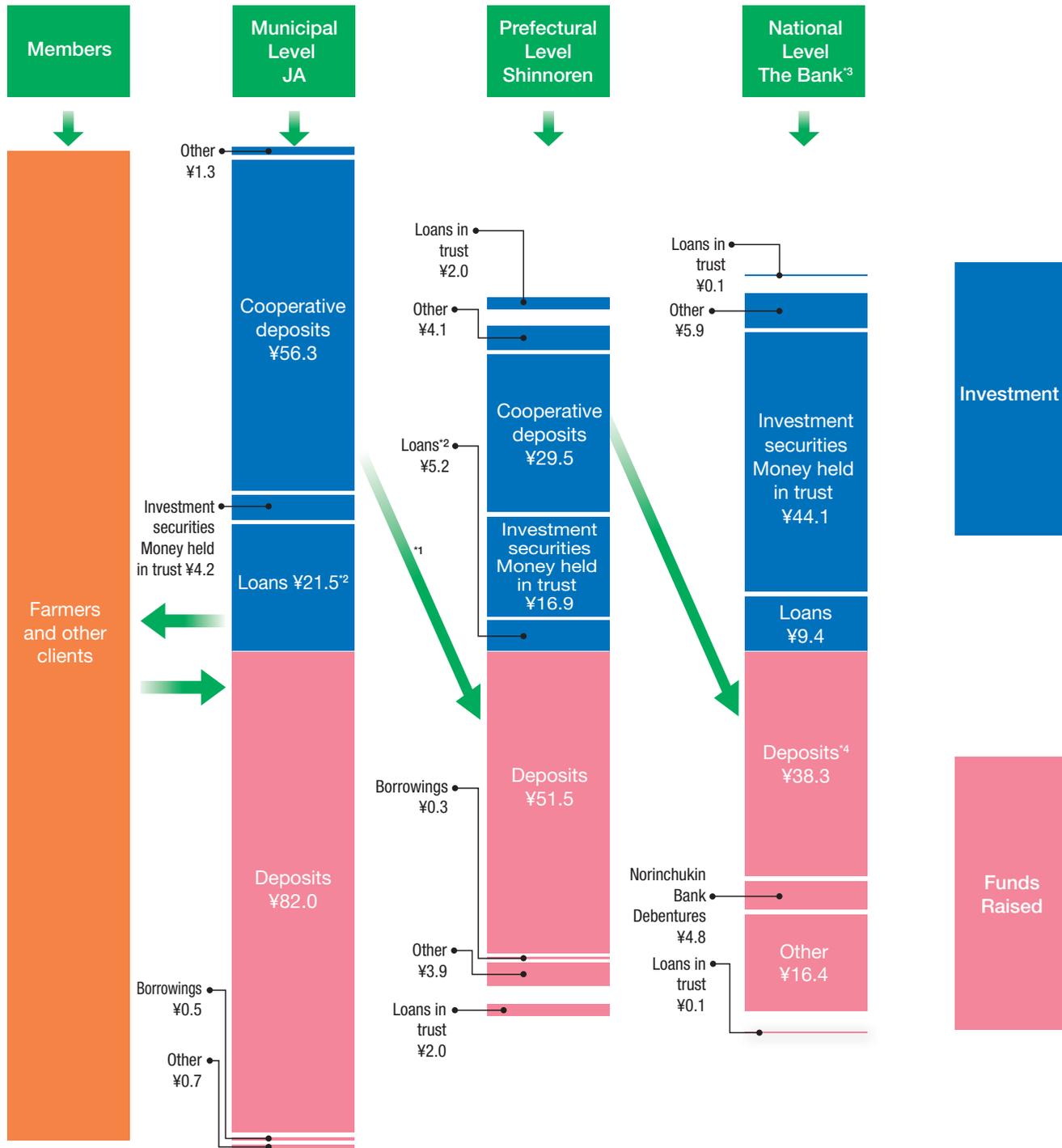
The Bank's funds come from deposits placed by members (the majority of the funds held at the Bank are deposits placed originally by members of JA and JF), and the issuance of Norinchukin Bank debentures. In addition, the Bank raises funds from financial markets. These financial resources are then lent to the agricultural, forestry, and fisheries industries; corporations connected to the agricultural, forestry, and fisheries industries; regional governments; and public entities. Other than the aforementioned activities, the Bank manages its funds efficiently through investments in securities and other financial instruments. The Bank then provides stable returns to members a part of earnings received from lending and investment activities, and other various financial services. Through these various services and activities, the Bank plays a major role as the national level financial institution for the cooperative organizations.

Article 1 of the Norinchukin Bank Law

As a financial institution with its base in the agricultural, forestry, and fishery cooperatives as well as other members of the agriculture, forestry, and fishery cooperative system, the Bank strives to contribute to the development of the nation's economy by supporting the advancement of the agricultural, forestry, and fisheries industries through the provision of financial services for the member organizations of the cooperative system.

The Cooperative System and the Cooperative Banking Business

Flow of Funds within JA Cooperative Banking System (As of March 31, 2008) (Trillions of Yen)



The calculated total investment and funds raised may disagree due to rounding errors.

Notes: *1. In some prefectures, JA may make direct deposits to the Bank.

*2. The loan balances of the JA and Shinnoren do not include lending to financial institutions.

*3. Overseas accounts have been excluded from the Bank's balances.

*4. The Bank's deposits include not only deposits from the JA Banking Cooperative System but also those from the JF Banking Cooperative System and Forestry Cooperative System as well as other sources.

Safety Net for Cooperative Banking System

The JA Bank System and the JF Marine Bank System have created a safety net consisting of the Bankruptcy Prevention System and the Savings Insurance System to provide an increased sense of security for their cooperative members and customers.

Bankruptcy Prevention Systems

The JA Bank System and JF Marine Bank System have developed their own respective bankruptcy prevention systems.

Specific functions of these systems include (1) the monitoring of the management condition of individual JA and JF to identify any problems at an early stage, (2) implementing measures at the earliest possible time to prevent bankruptcy, and (3) infusing necessary funds drawn from the JA Bank Support Fund or the JF Marine Bank Support Fund* (which have been collected from all members of the JA Bank and the JF Marine Bank) to restore the management soundness of JA and JF.

* As of March 31, 2008, the balance of the JA Bank Support Fund was ¥159.8 billion and that of the JF Marine Bank Support Fund was ¥23.4 billion.

The Savings Insurance System (Savings Insurance System for Agricultural and Fishery Cooperatives)

When a member organization of the cooperative banking system, such as JA or JF, is unable to reimburse

deposited funds to its members and other users, this system provides policy coverage for depositors and ensures the fulfillment of funds settlements, thereby contributing to the stability of the cooperative banking system.

The Savings Insurance System is provided for under the Agricultural and Fishery Cooperative Savings Insurance Law. Its functions are carried out by the Agricultural and Fishery Cooperative Savings Insurance Corporation, which was established through joint investments by the Japanese government, the Bank of Japan, the Bank, Shinnoren, Shingyoren, and other entities.

When depositors place funds in agricultural or fishery cooperatives that are covered by the Savings Insurance System, their savings are automatically guaranteed by this insurance system.

Even though the blanket deposit insurance was fully removed on April 1, 2005, checkable, payment, and settlement deposits are still fully protected by the system. However, all other types of deposits are only covered up to ¥10 million in principal (per depositor of each cooperative organization) plus interest accrued.

As of March 31, 2008, the balance of the reserve fund of the Savings Insurance System was ¥256.2 billion.

• Safety Net for Cooperative Banking System



Operations of the JA Bank System

The members of the JA Bank: namely, JA, Shinnoren, and the Bank are working under the framework for integrated and systematic cooperation in each business activity. We call this the “JA Bank System,” and our aim is to be a financial institution that is trusted and chosen even more by its members and customers.

What is the “JA Bank?”

- **The JA Bank System Comprises a Group of Financial Institutions**

The JA Bank System consists of JA, Shinnoren, and the Bank, known as the “JA Bank members.” It functions as one institution, having one of the largest networks of private financial groups in Japan.

As of July 1, 2008, the JA Bank is comprised of 765 JA, 38 Shinnoren, and the Bank, for a total of 804 entities.

- **JA Bank**

JA Bank consists of JA, Shinnoren,
and the Bank, known as the
“JA Bank members”



*Number of JA Bank members: 804 (as of July 1, 2008)

The JA Bank System

- **Framework for Integrated and Systematic Cooperation among JA Bank Members**

To ensure that cooperative members and other customers place even stronger confidence in the cooperative banking system, and make increased use of its services, we have established the JA Bank Basic Policy. This is based on the Reorganization and Strengthening Law (the law related to the reorganization and strengthening of the cooperative banking business by the Bank and specified agricultural and fishery cooperative organizations) and in consent with JA Bank members. The framework for integrated and systematic cooperation among JA, Shinnoren, and the Bank is based on the JA Bank Basic Policy and is known as the JA Bank System.

The JA Bank System is founded on two basic pillars. The first is “the bankruptcy prevention system,” which ensures the reliability of the JA Bank. The second is the “promotion of unified operations,” which aims to improve and strengthen the financial services by taking advantage of economical scale and finely tuned interfaces with our customers.

• Initiatives Aimed at Enhancing the Reliability of the JA Bank

Under the “bankruptcy prevention system,” the JA Bank Headquarters receives management-related information from all JA Bank members and reviews them to confirm that they meet certain standards. This system makes it possible to foresee potential issues well in advance and provide early guidance prior to the prompt corrective action by the government.

In addition, the JA Bank Support Association has established the JA Bank Support Fund with financial resources contributed by the JA Bank members. This fund can provide capital injections and other support to the JA Bank members in case of necessity.

Through these initiatives, we are working to ensure that the JA Bank enjoys even greater credibility and confidence among cooperative members and other customers. Please also note that JA, Shinnoren, and the Bank participate in the Savings Insurance System, which is a public system mandated by law.

• Activities for Enhancing and Strengthening Financial Services

In accordance with the “JA Bank Medium-Term Management Strategy (fiscal 2007 through fiscal 2009),” the JA Bank is working to promote stronger unified operations among JA, Shinnoren, and the Bank, with the aims of further expanding its customer base, which is already one of the largest in Japan, and offering financial services that are carefully tailored to customer needs.

Specific measures aimed at enabling the Bank to adequately meet the needs of cooperative members and customers contain providing financial support for core

farmers, expanding pension accounts, and offering inheritance-related services primarily for the succession of assets, including farmland to future generations. The Bank has also entered the credit card business primarily through new JA Card, which has been issued since October 2006 as part of a strategic retail sector alliance with the Mitsubishi UFJ Financial Group. On other fronts, the Bank has entered into an ATM deposit partnership with Seven Bank.

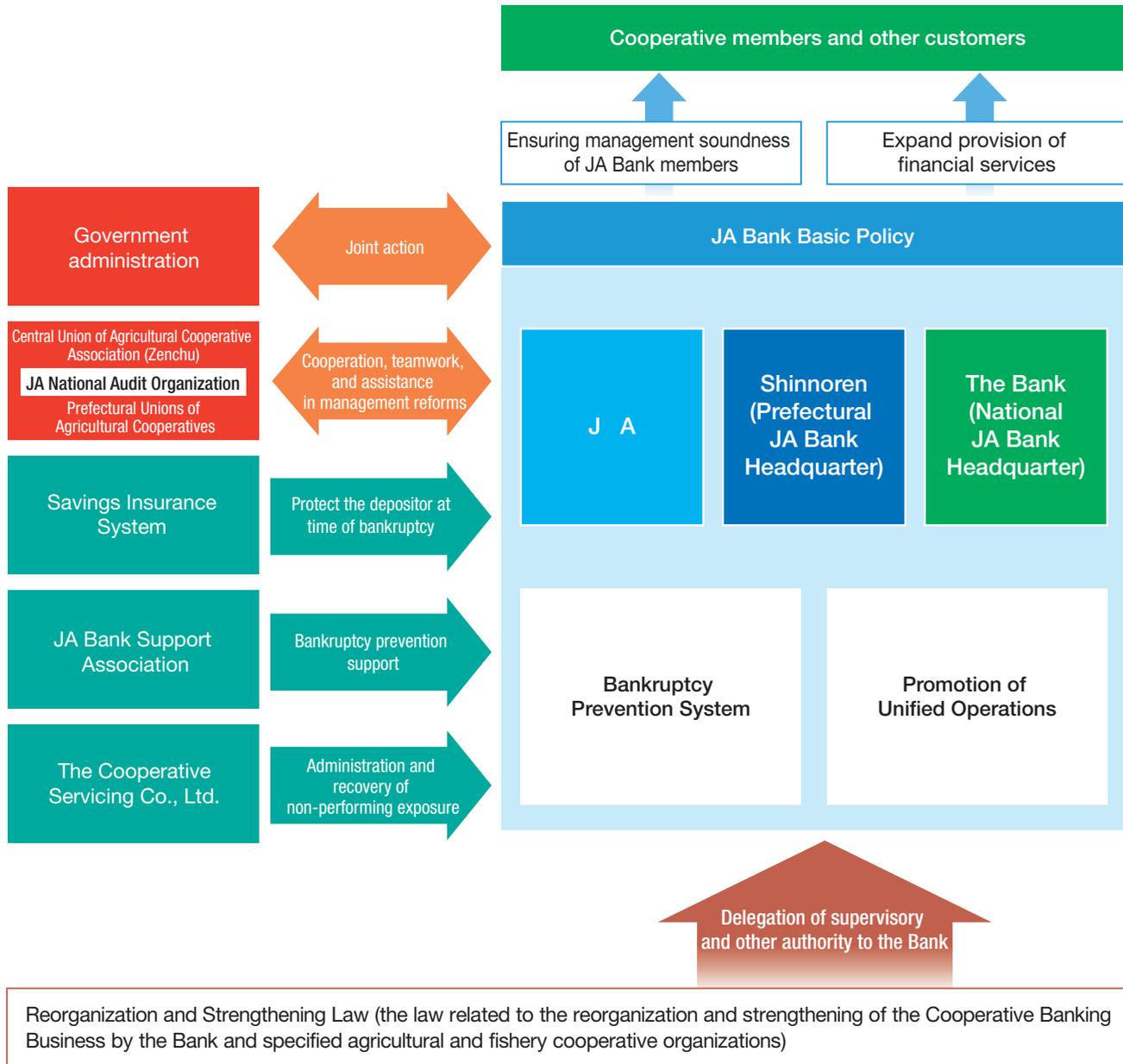
The Bank continues to make every effort to offer greater convenience to cooperative members and customers through ongoing initiatives aimed at equipping the nationwide JASTEM System, the JA Bank’s uniform IT infrastructure platform, with the necessary capabilities to operate JA Cooperative Banking Business.

Preparations for the transfer to the next-generation JASTEM System, which is scheduled to take place in January 2010, are also proceeding according to schedule based on adequate risk management.

In addition to these activities, the JA Bank is working diligently to prevent criminal activities, such as theft and forgery of cash cards, as well as expand its disclosure of information. Through these initiatives, the JA Bank will continue to strive to ensure that it is a financial institution offering more convenient and reliable products and services, and is chosen proactively by cooperative members and customers.

Operations of the JA Bank System

- Framework of the JA Bank System



Trends in the Agricultural Industry and the JA Cooperative Banking Business

Growing worldwide pressure on the supply of grain is causing a shift in the balance of supply and demand for food, from surplus to shortage. As part of discussions held by the WTO with the aim of establishing new rules for trade liberalization in the agricultural industry, a revised WTO text was published in February 2008. Discussions are continuing in an effort to reach an agreement on the subject of modality (i.e. criteria for reducing protective standards applicable to all nations), including figures for tariff reduction ratio. As for Economic Partnership Agreement (EPA) and Free Trade Agreement (FTA) discussions on the elimination of tariffs and other bilateral and regional measures, EPAs have so far been concluded with five countries of which are mainly Southeast Asian countries, and agreements have been reached with three countries and the ASEAN region.

In Japan, a new rice supply and demand adjustment system, under which agricultural organizations play a key role, was implemented as part of the Rice Policy Reform Plan. However, over-planting resulted in a drop in prices for the 2007 rice crop, prompting the government to set out emergency measures. Budgetary measures have been taken in the livestock and dairy sectors too, including emergency measures in response to soaring feed prices. The government has indicated that it intends to look into further additional measures in the future.

In addition to proceeding with a one-off campaign to ensure that production adjustments for the 2008 rice crop are effective, the JA Group is responding to calls for livestock and dairy measures designed to ensure stable management and secure earnings for producers. The JA Group is also making every effort to nurture and support core farmers as part of comprehensive measures targeting core farmers, including improving the qualifications of dedicated core farmer advisors and stepping up business support.

• Flow of Funds in the JA Cooperative Banking Business

Thanks to a continued steady increase in deposits from individuals as a result of the provision of financial services in line with customer needs during fiscal 2007, JA deposits rose by 2.4% on the previous year to an end of year balance of ¥82,075.6 billion.

Total JA loans rose by 1.8% year on year to an end of year balance of ¥21,598.3 billion due to an increase in individual loans, especially mortgage loans thanks to home loan advisory events and other campaigns. JA securities meanwhile saw a year on year decline of 5.6% to an end of year balance of ¥4,297.3 billion.

Deposits with Shinnoren rose as a result of steady trends in JA deposits, recording a year on year increase of 3.0% to an end of year balance ¥51,534.7 billion.

The balance of loans issued by Shinnoren increased by 1.8% on the previous year to an end of year balance of ¥5,246.6 billion as a result of factors such as increased lending to companies. Securities (including money trusts) held by Shinnoren saw an annual decline of 0.9% to an end of year balance of ¥16,911.0 billion.



Operations of the JA Bank System

Reorganization of the JA Cooperative Banking Business

To deal effectively with change in the environments for the agricultural industry, cooperative members, and JA, the JA Group has made progress in streamlining management and improving efficiency.

Likewise at Shinnoren and the Bank, since the establishment of a basic policy for reorganizing the cooperative banking business in June 1998, a part of the operations at nine Shinnoren (Miyagi, Akita, Yamagata, Fukushima, Tochigi, Toyama, Okayama, Nagasaki, and Kumamoto) was transferred to the Bank.

In fiscal 2005, three Shinnoren (Miyagi, Okayama, and Nagasaki) were fully integrated into the Bank, followed by one more in fiscal 2006 (Akita) and a further three in fiscal 2007 (Tochigi, Yamagata, and Toyama). The transition from the previous three-tiered structure, consisting of JA, Shinnoren, and the Bank, to

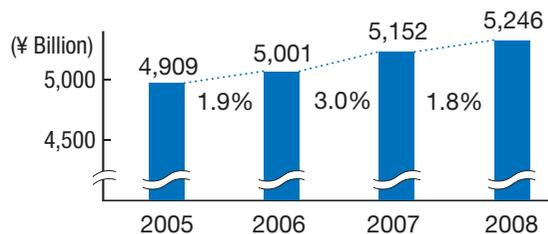
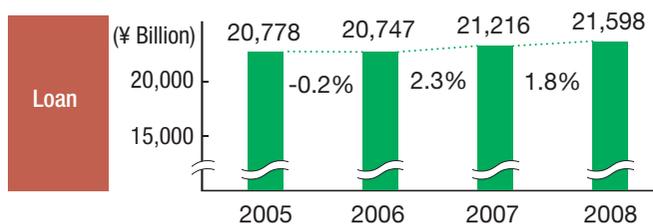
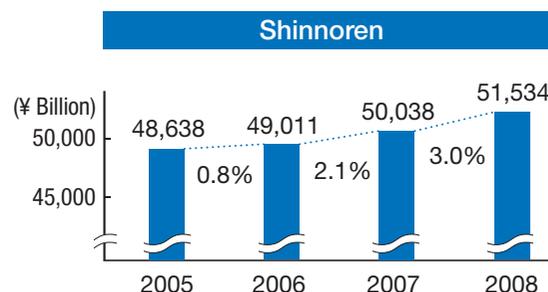
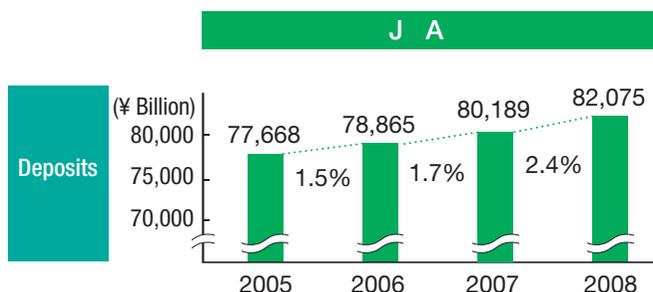
a two-tiered structure, consisting of JA and the Bank, has therefore been completed in a total of seven prefectures to date.

Elsewhere, the goal of “one JA in each prefecture,” whereby rights and duties at Shinnoren and Keizairen (Prefectural Marketing and Supplying Federations of Agricultural Cooperatives) are integrated and taken over by a single JA, has been achieved in Okinawa and Nara prefectures to date.

As part of the ongoing reorganization of the JA Group, plans are carried out based on the conditions in each prefecture with the intention of working towards increased efficiency in the cooperative banking business.

The Bank continues to steadily support for the efforts to enhance JA’s organization and implement the Bank’s rationalization as well as efficiency with the aim of creating a cooperative banking structure capable of meeting the expectations and securing the trust of cooperative members and customers.

• Deposits and Loans (As of March 31)



Operations of the JF Marine Bank

Financial Support for Coastal Communities and Providing Financial Functions for Fisheries

What is the “JF Marine Bank”?

• The JF Marine Bank Comprises a Group of Financial Institutions

The JF Marine Bank consists of the Japan fishery cooperatives (JF, limited to those engaging in banking services), Shingyoren (Prefectural Banking Federations of Fishery Cooperatives), and the Bank as well as the computer system company operated by Zengyoren.

As of July 1, 2008, there were 172 JF offering financial services, 30 Shingyoren, for a total of 203 members, including the Bank.

• JF Marine Bank

The members of the JF Marine Bank

- JF offering financial services
- Shingyoren
- The Bank

Zengyoren

*Number of JF Marine Bank members: 203 (as of July 1, 2008)

Basic Policy Direction for the JF Marine Bank

• JF Marine Bank Basic Policy

The JF Marine Bank formulated its Basic Policy in January 2003, based on the provisions of the Reorganization and Strengthening Law. The objectives of this basic policy are, first, to protect depositors by ensuring the soundness of the activities of the JF Marine Bank and conducting its business operations properly. The second objective is to appropriately respond to the financial needs of the cooperative members and other customers by reforming the business activities, organization, and management of the JF Marine Bank.

• Framework for Preventing Bankruptcy

In consideration of various changes in the financial environment, such as the full removal of the blanket deposit

insurance, from the view of ensuring proper and sound operations, all members of the JF Marine Bank are required to provide management information to the JF Marine Bank Headquarter. Based on their examination of this information, the JF Marine Bank Headquarter can prevent organizations, such as JF that has problems in its operations, from bankruptcy by quickly identifying them and taking anticipatory actions, thus creating a system that is reassuring to the customers. These activities are undertaken with the guidance of the Bank and Shingyoren.

• Stable and Responsible JF Cooperative Banking Business System (the JF Marine Bank Safety System)

The JF Marine Bank provides financial services for participants in the fisheries industry in their local communities and assumes an essential role in coastal communities. To make improvements that will ensure the JF Marine Bank has management systems appropriate for a member of Japan's financial system, measures have been implemented to establish a “one fishery cooperative banking business at each prefecture.” As a result, this objective has been achieved in 35 of 37 prefectures.

The “New Policy for the JF Group Business, Organizational and Managerial Reform for 2006-2008,” a three-year policy beginning in Fiscal 2006 was agreed on at the JF National Meeting of Representatives of Fishermen which was held in November 2005. Under this policy, a new method, “Creating a Wide Area Shingyoren beyond prefectural boundaries,” was added for the future of the JF Cooperative Banking Business Management System to the existing three conventional methods of establishing “one JF in each prefecture,” “integrating the prefectural JF cooperative banking businesses into Shingyoren,” and “lending surplus funds between JF and Shingyoren” to establish “The Stable and Responsible JF Cooperative Banking Business System (The JF Marine Bank Safety System).” In the

Operations of the JF Marine Bank

future, we will implement one of these four methods to reorganize the JF cooperative banking business.

A new “JF Marine Bank Medium-Term Business Promotion Policy” covering the current three-year period has also been prepared as part of initiatives related to the cooperative banking business under the JF Marine Bank. Based on this policy, the JF Marine Bank promotes stable operation of the cooperative banking business as the financial providers for coastal communities. Other activities include the strengthening of risk tolerance and review of cost structures based on the preparation of medium-term management and action plans.

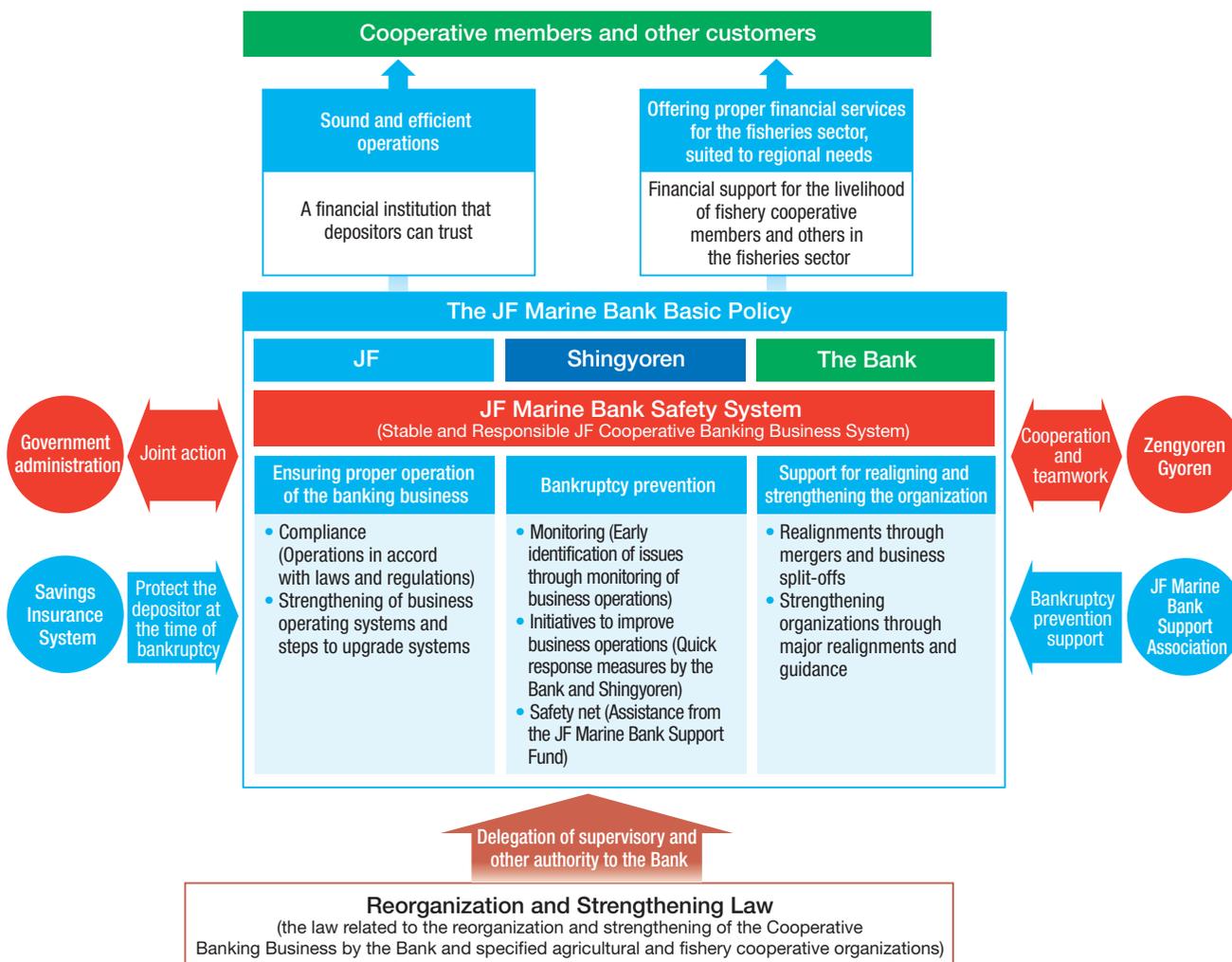
These initiatives are expected to address issues arising

from small-scale businesses in the fishery industry, and respond to their needs by offering financial services that take into consideration of the characteristics of each region.

In addition to the activities mentioned thus far, JF, Shingyoren, and the Bank have contributed jointly to create the “JF Marine Bank Support Fund,” that also provides a framework to encourage autonomous activity by cooperative members aimed at organizational and business reforms.

Please also note that JF, Shingyoren, and the Bank participate in the Savings Insurance System, which is a public system mandated by law.

• Framework of the JF Marine Bank



Trends in the Fisheries Industry and the JF Cooperative Banking Business

• Finance Fisheries Industry

The management in the fisheries industry continues to be challenging, owing to falling catch volumes, declining prices of marine products, and diminishing workforce figures as well as rising fuel prices due to crude oil price surges. Other issues, including the burden created by capital investments in previous years, are making it difficult to reinvest in alternative fishing vessels.

In an effort to resolve this situation, the government set out a Fuel Price Appreciation Fund (¥10.2 billion) in a supplementary budget in fiscal 2007. This was followed by a program of Fishery Management Stabilization Measures (¥5.2 billion) aimed at enabling efficient, stable fishery management as part of the fiscal 2008 budget.

The use of some of these funds in the downstream marine product sector is expected to contribute to the development of industry participants and to the stability of the marine product sector in the years ahead.

• Flow of Funds in JF Cooperative Banking Business

Deposits held with JF decreased 2.1% from the previous fiscal year-end, to ¥2,241.3 billion, at the end of fiscal 2007, reflecting a decline in catch volumes, weakness in prices of marine products, and other factors.

The balance of loans at JF fell 8.9% year on year, to ¥710.5 billion, due to such factors as the slackening of demand for new financing.

Reorganization of the JF Cooperative Banking Business

The JF cooperative banking business is being reorganized to create a more sound and efficient management system through two methods: one of these is through mergers among JF and the other is through the transfer of banking business from JF to Shingyoren. These efforts have reduced the number of JF engaged in the banking business from 875 as of March 31, 2000, to 174 as of April 1, 2008.

The total number of JF, including those that are not engaged in banking business, was reduced by 71 in fiscal 2007, and, as of April 1, 2008, the number stood at 1,121, reflecting the progress toward merger and consolidation.

In the future, greater focus will be placed on policies to strengthen and reorganize the JF cooperative banking business under the JF Marine Bank Safety System.

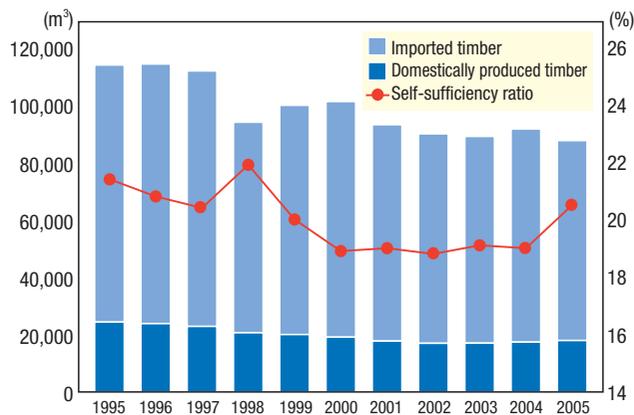
The Bank supports these initiatives of the JF cooperative banking business.

Initiatives of the Japan Forestry Cooperative

Current State of Forests in Japan and Cooperative Activities

Forests cover about two-thirds of Japan's land mass, which cover 25 million hectares of the country. About 70% of forestland in Japan is owned by the private forest owners. Along with the aging of population and the depopulation in rural mountain villages, which have caused a decline in forestry development, Japanese forestland is not properly sustained and has become unproductive wilderness. This explains why the cedar and cypress trees that were planted after World War II are unable to properly perform their functions despite reaching maturity.

• Japanese domestic timber demand (volume terms)



Source: Forestry Agency "Timber Supply & Demand"



Untended forestland becomes backwoods



A forest that has been maintained by tree trimming

Operating conditions for participants in the Japanese forestry industry continue to be severe as a result of prolonged softness in prices of timber. However, a trend has emerged toward the return to the use of domestic timber accompanying the accumulation of forest resources in Japan and the growing shortage of supply in international markets. In addition, in the area of the government administration of forest resources, policies are being implemented not only with the aim of expanding the capabilities of forests to absorb carbon dioxide but also with the goal of developing the Japanese forestry industry through projects aimed at concentrating on forest management and establishing systems to provide a stable supply of domestic timber.

Under these circumstances, the Japan forestry cooperatives have been promoting a cooperative campaign which constitutes three pillars of concepts based on a "Movement to Revitalize Forestlands, the Forestry Industry, and Rural Mountain Villages that support the Environment and our Livelihood." The three parts of this approach are: (1) the "Project for Joint Administration" of forestlands through the grouping of forest areas with the goal of lowering operating costs, (2) the "Project for Stable Supply of Domestic Lumber," which aims to provide a stable supply of high-quality lumber, and (3) the "Project for Management Reform," which has the objective of nurturing forestry cooperative organizations that can be relied on by its cooperative members and customers.

Also, since fiscal 2007, the Forestry Agency has adopted, along with the forestry cooperatives, to implement measures in promoting the stable supply of domestic lumber. The Bank's policies include helping to strengthen the autonomous management foundation of the forestry cooperatives and to substantially increase its support for their initiatives.