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

Capital Adequacy

The Bank considers it a major management priority to secure a sufficiently high level of capital resources in order to maintain and strengthen its financial position. It does so to ensure a stable return of profit to its members and to enhance its capabilities as the central bank for Japan’s agricultural, forestry, and fishery cooperative system, contributing to those industries and the development of the cooperative banking business, and align itself with the diverse needs of its customers. As of March 31, 2011, the Bank’s capital adequacy ratio on both a consolidated (8 companies) and non-consolidated basis was in the 22% range. This was attributable to ordinary profit and a significant decrease in unrealized losses on securities resulting from the steady implementation of the Business Renewal Plan.

Enhancing the Bank’s Capital Adequacy and Financial Position

Amid the unprecedented financial crisis and market turmoil, the Bank implemented a large-scale capital increase during fiscal 2008. Its aim was to ensure operational soundness and also to meet the needs of members, customers, and domestic and overseas markets appropriately, and to maintain their confidence.

In March 2009, the Bank took another step to maintain sufficient levels of capital, the key indicator of soundness for financial institutions, especially for banks with international operations, even if the turmoil in financial markets worsens in the future. With the full understanding and support of members, the Bank raised ¥1,380.5 billion in lower dividend rate stocks, a form of common stock, and increased perpetual subordinated borrowings from ¥963.7 billion to ¥1,476.0 billion. The Bank intends to improve its capital adequacy ratio in both quality and quantity, and strengthen its financial position.

In the years ahead, we face a trend of strengthening international capital regulations in financial institutions. The center of the Bank’s management agenda will henceforth be to enhance the value the Bank will provide as the central financial institution of the cooperative banking system, maintaining its capital at a sufficiently high level, and to ensure a stable return to its members.
**Strong Capital Base**

The Bank is rated by the two leading credit rating agencies in the United States—Standard & Poor’s and Moody’s Investors Service—and have received top-tier ratings among Japanese financial institutions. One of the main factors supporting 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 restore the soundness of financial system and support them to enhance the capability for credit extension, the Bank has yet to apply for such an injection of public funds, in viewing the level of capital adequacy of the Bank.

**Methods of Capital Raising**

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

<table>
<thead>
<tr>
<th></th>
<th>Common Stocks</th>
<th>Preferred Stocks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investors</strong></td>
<td>Members, as stipulated by the Norinchukin Bank Law</td>
<td>No restrictions</td>
</tr>
<tr>
<td><strong>Voting rights</strong></td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td><strong>Par value / Issue price</strong></td>
<td>¥100 / Issued at par value</td>
<td>¥100 / Issued at market value</td>
</tr>
</tbody>
</table>

**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.

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.

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.
Approach to Risk Management

Essential components of the management of financial institutions are the generation of stable profits and the maintenance of an optimal portfolio. Managements must also address various types of risk arising from changes in the overall business environment, especially 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’s financial position has been significantly influenced by the unprecedented global financial crisis in fiscal 2008, but a substantial increase of capital in March 2009, the results of a review of various risk management systems, and improvement in market conditions made it possible to achieve sufficient capital adequacy as of March 31, 2011. To continue to provide stable profit returns to members and to expand its role as the central organization for cooperatives based on the agricultural, forestry, and fishery industries the Bank maintains a prudent investment stance under the basic concept of globally diversified investment. From this perspective, it is a high priority for the Bank to make unceasing effort to enhance its risk-management approach.

Initiatives of risk management by the Bank are stipulated in its Risk Management Policy. The policy identifies the types of risks to be managed by assessing the materiality of each risks at the operation and the 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, and measures the overall magnitude of these risks using quantitative methods, and controls integrated risk by comparing the amount of risk with the Bank’s capital resources.

To implement integrated risk management, the Bank has set up the Risk Management Committee. The Committee enables the Bank’s top managements 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 designated capital resources. The structure also requires the integrated risk management situation (e.g. significant decisions made by the Risk Management Committee, current issues on overall risk management) to be regularly reported to the Board of Directors. 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 and decide the measures required for controlling risks that arise in the execution of management strategy and business policies within an acceptable level. In line with the control described above, applying various risk management framework, including the economic capital management (please refer to P43) determined by the Risk Management Committee, the Bank conducts its portfolio management and financial management with the highest priority on the stable return of profits to members, by cautiously watching the balance between return, capital, and risk amid uncertain economic and financial environment surrounding the Bank.

The Bank has set up a number of divisions to manage individual types of risks, as well as a division responsible for overall risk management. The roles and responsibilities of those divisions are clearly defined in the Bank’s policy. The Bank also ensures the maintenance of appropriate internal controls among those divisions.
Complying with Basel Banking System

Basel II (the new capital adequacy regulations), which went into effect in Japan in March 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 the financial institution’s internal capital adequacy assessment process, consistent with its risk profile, followed by supervisory review. Pillar III is the proactive disclosure to secure the proper evaluation of the effectiveness of Pillar I and Pillar II by the market. The Bank is making constant efforts to address issues relating to these three pillars.

In the wake of the financial crisis stemming from the sub-prime loan problem in the United States, the Basel Committee on Banking Supervision (Basel Committee) will partially strengthen the Basel II. Basel III (‘A global regulatory framework for more resilient banks and banking systems’ and ‘International framework for liquidity risk measurement, standards and monitoring’), is scheduled to be phased in from fiscal 2013. The Bank will respond appropriately to any new regulatory requirements when it is implemented.

For the calculation of the capital adequacy ratio, 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 II (Pillar II), to manage profits, capital, and risk in a consistent and efficient manner. Under the ICAAP, the Bank comprehensively manages its capital resources, from both capital (the numerator of the capital adequacy ratio) and risk assets (the denominator of the capital adequacy ratio) perspectives.

The ICAAP is a process to demonstrate the appropriateness of the risk management practice by addressing the risks that arise while achieving business objectives and maintaining the sufficient levels of internal capital to cover these risks. The purpose of ICAAP is not only to understand capital in relation to risk, but to recognize capital adequacy as a “triangular” relationship among profit, capital and risk needed to attain the management’s objectives and strategies. Also it aims to simultaneously achieve soundness and profitability of the Bank at high level through a proper balance between these three factors.

Specifically, the ICAAP ascertains the consistency between the amount of risk quantitatively recognized in line with “Risk Appetite” and capital resources internally designated. This process is achieved through two different types of frameworks to maintain capital adequacy: regulatory capital management and economic capital management.
• Risk Appetite
In implementing the Bank’s strategies, such as budget and business plan, for attaining its management goals, Risk Appetite reflects specific views on risk-taking, and defines what types of risk and the magnitude of risk the Bank is willing to accept. Under Risk Appetite, the level of risk to be controlled is also determined by various related indicators and from both a qualitative and a quantitative perspective. The proper setting of risk appetite by the board of directors is important to enhance the effectiveness of governance in risk management. The Bank’s portfolio management strategy for prosecution of globally diversified investments is called an asset allocation strategy and is viewed as the manifestation of Risk Appetite.

• Risk Appetite and Consistent Business Operations
The Bank establishes, a budget and business plan consistent with Risk Appetite and manages its finances and operations by maintaining a balance between risk and capital. Capital management checkpoints are established in order to ensure that capital adequacy is maintained above a certain level determined by Risk Appetite even in uncertain economic and financial environments.

The checkpoint provides a framework to ensure that the capital adequacy is maintained above a predetermined level regardless of volatilities due to various factors by monitoring key factors that causes fluctuations and by discussing action plans at an early stage. A specific checkpoint is determined according to the Bank’s risk profiles. Under this mechanism, each checkpoint is determined from two perspectives, namely regulatory capital management and economic capital management, and appropriate levels of capital are maintained by closely monitoring two major variables: the level of unrealized gains and losses on securities, and measured risk amount.

• Implementation of Stress Tests
The stress tests are basically performed in conjunction with the fiscal year ICAAP implementation. By preparing severe stress scenarios that factor in specific timelines and the ripple effects of risks covering the Bank’s entire portfolio, the Bank verifies the impact of those stresses on capital adequacy. Based on that, the Bank implements the Internal Capital Adequacy Assessment Process (ICAAP), which includes a review of countermeasures envisioned when stresses arise. In addition, the stress analysis is separately performed in conjunction with semi-annual budget planning. The impact of major changes in market risks and credit risks that are assumed in day-to-day portfolio management is verified by both the regulatory capital adequacy ratio and economic capital management and is used in decision making.
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 manages overall risk on a comprehensive basis, including the risk not covered by the regulatory capital management. The core function within the risk management process is economic capital management.

Under this economic capital management policy, the risks to be covered by capital are measured, and the internal capital for this purpose is applied in advance. The amount of risk is controlled in order not to exceed the applied internal capital by monitoring the changes of amount of risk caused by market fluctuations and additional risk taking in timely manner during a fiscal year. The Bank manages economic capital both on a consolidated and non-consolidated basis.

In economic capital management, the capital applied is principally Tier I capital in the similar definition as in the regulatory capital calculation. Tier II capital is viewed as a buffer for risk in stress situations. The Bank categorizes the types of risk to be controlled into market risk management, credit risk management, liquidity risk management, and operational risk management.

Risk Management System

Board of Directors
Sets management objectives
(in the form of medium-term management plans, business plans, ICAAP and budget plan)

Management Committees
[decide on strategies, tactics and policies]
- Risk Management Committee
- Market Portfolio Management Committee
- Credit Portfolio Management Committee
- Operational Risk Management Committee
- Credit Committee
- Cooperative Finance Committee

Financial Management
(Control of financial risk)
- Budget Control
- Asset and Liability Management (ALM)
- Market Portfolio Management
- Credit Portfolio Management

Risk Management
(Control of financial risk and risk management framework, risk measurement and validation)
- Capital Adequacy Management
- Integrated Risk Management
- Market Risk Management
- Credit Risk Management
- Liquidity Risk Management
- Operational Risk Management
- Asset Evaluation & Supervision
risk, credit risk and operational risk. To maximize the benefit of the globally diversified investment concept, the Bank manages the economic capital on an aggregate basis instead of allocating the capital to each asset class or to each business segment, as the Bank believes such an approach should fit in the business profile of the Bank. In addition, the definition of internal capital applied and the economic capital management framework are determined by the Board of Directors, while its middle sections are responsible for monitoring the fluctuations in capital levels and the amount of risk during each fiscal year. Those results are reported to management on a regular basis.

Market risk is primarily measured by the Value-at-Risk (VaR), using a historical simulation method with a 99.50% confidence interval and one-year holding period. Credit risk is mainly measured by the Value-at-Risk (VaR), using a Monte Carlo simulation method with a 99.50% confidence interval and rating transition within a one-year holding period. Operational risk is measured by The Standardized Approach (TSA), in line with the regulatory capital requirement. This amount is taken as the operational risk volume.

Through these measures, the Bank manages risk via a comprehensive perspective, and plans to develop further its risk management framework going forward.

- 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 impact on profit/loss, and price sensitivity analysis of its assets 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 price volatilities 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 strives for flexible financial management by understanding the impact of market volatilities on the value of its assets.

- Credit Risk Management Framework

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 to be significantly impaired.

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.
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 consider a number of credit ceiling systems which are employed 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.

Middle sections perform monitoring including the condition of the credit risk portfolio. In addition, the status of credit risk measurement (such as market overview; significant decision made by the Credit Committee, Credit Portfolio Management Committee, and Cooperative Finance Committee; overview of the credit risk portfolio; current approach to risk management) is regularly reported to the Board of Directors.

- **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 cooperatives, corporates, public entities, financial institutions, overseas borrowers, and securitized products. Credit analyses on corporates and public entities are assigned according to sectors in order to utilize accumulated institutional knowledge on analysis for each industry. That framework is designed to take advantage of 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 corporations, by looking into economic and political conditions and makes effective use of the country ceiling system. Together with the region-specialized senior credit administrator system or evaluation of credit applications, the credit risk on overseas loans is appropriately managed. In addition, securitized products such as those backed by cash flows generated from residential mortgage, corporate lending, and commercial real estate are subject to due diligence and credit analysis according to the risk profile of each product. In addition, in order to monitor and identify the risk, the Bank performs ongoing monitoring and review of performance indicators of underlying assets of these investment products.

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

- **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 diversified investment and pursues an optimized investment portfolio by diversifying investment assets according to product profile, region or industry. Accordingly, the Bank considers it crucial to manage credit risk exposure from an integrated perspective, as well as to manage regulatory capital by measuring the amount of credit risk, ensure financial soundness, and maintain profitability.

The Bank’s internal rating framework is designed to evaluate and measure the Bank’s credit risk portfolio consistently, and is considered a crucial tool for the integrated management of credit risk. It plays an important role in daily credit risk management and
portfolio management, particularly in 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.

The Loan Recovery Rating System is used to grade 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 the type of pool.

As the Bank adopts the F-IRB approach, the internal rating system is the foundation of the calculation of the capital adequacy ratio for regulatory capital, the primary indicator for the financial soundness of a bank. The Bank applies the same PD figures calculated for capital adequacy ratio of regulatory capital to measure credit risk deriving from credit exposure to maintain consistency between the internal rating systems. In addition, the Bank differentiates interest rates according to the internal ratings and collateral provided, in order to maintain a sufficient level of returns in line with the degree of credit risk.

Management of the Internal Rating Framework and Validation Procedures

The internal rating system is managed by dedicated units of the Bank that are segregated from front section. The systems are designed to fit into the profile of the Bank’s credit portfolio and implemented according to policies and procedures stipulating the objectives of the internal rating system, criteria for each rating grade, evaluation methods and mapping of ratings, approval authority and validation of rating system. Validation of the internal rating system and monitoring of it to ensure appropriate implementation is performed on a regular basis.

In addition, the Internal Audit Division periodically oversees and audits the Bank’s credit risk management, including the appropriateness of estimated parameters and historical default rates, compliance with minimum requirements for the IRB Approach, and reports to the Board of Directors.

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

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

The self-assessment process initially classifies obligors in line with the Bank’s internal ratings. There are five classifications: standard, substandard, doubtful,
The Norinchukin Bank's Debtor Classification and Reserves for Possible Loan Losses (As of March 31, 2011) (On a Non-Consolidated Basis) (Billions of Yen)

<table>
<thead>
<tr>
<th>Debtor classification</th>
<th>Self-Assessments</th>
<th>Reserves for possible loan losses</th>
<th>Claims disclosed under the Financial Revitalization Law</th>
<th>Risk-managed loans (Note 2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor classification</td>
<td>Category I</td>
<td>Category II</td>
<td>Category III</td>
<td>Category IV</td>
</tr>
<tr>
<td>Debtors in bankruptcy</td>
<td>Portion deemed to be recoverable through collateral or guarantees</td>
<td>Provisions are made to cover the entire amount</td>
<td>Full amount written off or provisions made</td>
<td>Specific reserve for possible loan losses 204.4</td>
</tr>
<tr>
<td>Debtors in default</td>
<td>Doubtful debtors</td>
<td>Portion deemed to be recoverable through collateral or guarantees</td>
<td>Provision ratio: 68.7%</td>
<td>Doubtful 232.3</td>
</tr>
<tr>
<td></td>
<td>Special attention</td>
<td>Provision ratio of the uncovered portion: 16.6%</td>
<td>Claims on substandard debtors other than “Special Attention”</td>
<td>Bankrupt or De facto bankrupt 3.4</td>
</tr>
<tr>
<td>(Claims on debtors under requirement of control)</td>
<td>Other substandard debtors</td>
<td></td>
<td></td>
<td>Delinquent loans 231.6</td>
</tr>
<tr>
<td>Standard debtors</td>
<td></td>
<td></td>
<td></td>
<td>Loans with principal or interest payments three months or more in arrears 59.7</td>
</tr>
</tbody>
</table>

Notes: 1. The expected default ratios for computing the provisions to the general reserve for possible loan losses are 0.30% for standard debtors, 4.75% for substandard debtors (excluding claims under requirement of control), and 7.14% 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.
3. In addition, as of March 31, 2011, Money Held in Trust includes restructured loans of ¥0 billion and special attention of ¥0 billion, respectively.

debtors in default, and debtors in bankruptcy.

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

• 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 classification of obligors determined for 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 control requirements with substantial exposure, provisions to specific loan loss reserves for possible loan losses are calculated by the discounted cash flow (DCF) method.
on an individual basis. For exposure to doubtful debtors or lower, provisions to specific reserves for possible loan losses are made, or write-offs are performed, for the amount not recovered 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

<table>
<thead>
<tr>
<th>Debtor classification</th>
<th>Criteria for write-offs and reserves for possible loan losses</th>
<th>Provision ratio as of March 31, 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard debtors</td>
<td>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.</td>
<td>0.30%</td>
</tr>
<tr>
<td>Substandard debtors</td>
<td>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.</td>
<td>4.75%</td>
</tr>
<tr>
<td>Doubtful debtors</td>
<td>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.</td>
<td>68.70% of the unrecoverable portion</td>
</tr>
<tr>
<td>Debtors in default</td>
<td>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</td>
<td></td>
</tr>
<tr>
<td>Debtors in bankruptcy</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Credit Costs in Fiscal 2010 (On a Non-consolidated Basis)

<table>
<thead>
<tr>
<th></th>
<th>Billions of Yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan write-offs</td>
<td>¥1.8</td>
</tr>
<tr>
<td>Provision to general reserve for possible loan losses</td>
<td>(24.9)</td>
</tr>
<tr>
<td>Provisions to specific reserve for possible loan losses</td>
<td>(2.0)</td>
</tr>
<tr>
<td>Provision to reserve for specified overseas debts</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
<td>—</td>
</tr>
<tr>
<td>Total credit costs</td>
<td>¥(25.0)</td>
</tr>
</tbody>
</table>

### Credit Overconcentration Risk

Credit overconcentration risk is defined as the risk of incurring unexpected huge losses triggered by simultaneous credit event such as event of default, due to overconcentration of credit exposure to specific groups of borrowers, industries or regions. To mitigate such risk, the Bank has installed credit ceiling systems according to the profile of credit exposures, namely, Country Ceilings (for credit exposure to individual countries or regions), Corporate Ceilings (for credit exposure to corporates), and Bank Ceilings (for credit exposure to financial institutions). Total credit exposure for each ceiling category is monitored on a regularly basis and controlled to avoid any overconcentration of credit exposure.

Regarding the corporate ceiling, maximum lending limits are set for each borrower, based on the rankings assigned by the internal rating system. Limits are set and lending managed not only on an individual obligor basis but also on a corporate group basis. The Bank Ceiling is precisely managed and credit limits are set for each type of transaction. Regular reviews are also performed on credit exposure of each industry.

### Measuring Credit Risk

The Bank measures the amount of credit risk using statistical based methods, and applies it to economic capital management.
Methods for Measuring Credit Risk
The Bank uses the internal model for credit risk (the Monte Carlo Method) in estimating credit risk, and measures credit risk. The scope of measurement includes loans, guarantees, foreign exchange, and securities (e.g. corporate bonds), as well as off-balance-sheet transactions (e.g. swaps). The Bank measures the amount of credit risk by defining it as the potential impairment amounts incurred from credit exposure.

The method of measuring credit risk involves performing simulations on tens of thousands of scenarios using statistical models for the credit portfolio. Such exercise is intended to simulate deterioration or loss in assets value due to rating changes of obligors or investment products or due to defaults. Key parameters for the simulation include probability of defaults (PD) for each rating category, rating transition probability (likelihood for changes of one rating category to another rating category), and correlation among credit exposures. 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 the amount of credit risk, namely the “Expected Loss (EL),” the average indicator of losses on simulated scenarios, and the “Maximum Projected Loss,” defined as the potential losses in the worst case scenario in the simulation. Utilizing EL and UL, the Bank monitors the utilization of allocated risk capital against the amount of risk under economic capital management.

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 of decision-making (planning) for 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 sections conduct 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 regular basis. Going forward, the Bank continue to upgrade its market risk management framework and further improve risk management by implementing various measures such as increasing the number of staff in charge, enhancing technical elements, such as the information technology infrastructure, and refining risk measurement techniques.

**Market Portfolio Management**

The fundamental element of the Bank’s market risk management is management of allocated capital under economic capital framework. 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 employs the Internal Model (historical simulation method) for the calculation of VaR. Further, risk management is conducted together with VaR based on the variance-covariance method taking into account the impact of short-term market fluctuations.

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 Board of Directors formulates the annual allocation policy. Based on this, the Market Portfolio Management Committee-composed of Board members involved in market portfolio management-makes decision, together with general managers, on specific policies related to market investments after reviewing and discussing them.

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. The Market Portfolio Management Committee holds meetings on a weekly basis, as well as when needed, in a flexible manner, to enable prompt responses 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 make both timely and appropriate decision.

**Execution**

Based on the investment decisions made by the Market Portfolio Management Committee, front office sections execute securities transactions and risk hedging. Front
office sections are not only responsible for executing securities transactions and risk hedging but also monitoring market conditions closely and proposing new investment strategies. Additionally, they also make other recommendations to the Market Portfolio Management Committee.

**Monitoring**

The term “monitoring functions” refers to checking whether the execution of transactions made by front office sections is compliant with the investment decisions approved by the Market Portfolio Management Committee, and measuring the amount of risk in the Bank’s investment portfolio. To maintain an appropriate risk balance among asset classes, various risk indicators as well as risk amount measured for economic capital management are monitored. Middle office sections independent of front sections are responsible for those risk measurements and regularly report 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 that aim to generate profits from short-term market fluctuations are organizationally separated from other front office sections. The front sections in charge of trading activities conduct trades within the approved position and loss limits determined from a risk-return perspective.

The risk involved in trading operations is managed under an integrated risk management framework and within the market risk management framework with economic capital management as a critical element of the framework.

<table>
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<th>VaR (¥100 million)</th>
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<tr>
<td>June 30, 2010</td>
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<tr>
<td>September 30, 2010</td>
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<tr>
<td>December 30, 2010</td>
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<td>March 31, 2011</td>
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**Risk Measurement Methods**

The Bank measures the risk in its trading operations by adopting risk measurement techniques such as basis point value (BPV), 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 model is internally developed and periodically validated by both the middle office sections and the Internal Audit Division, as well as by outside experts, from the quantitative and qualitative perspectives. The Bank continues to apply cutting-edge financial and information technologies to the upgrading of 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 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 on a monthly basis for trading activities.

The Bank defines liquidity risk as the following: “The risk towards financial losses incurred from a difficulty in securing funds required for activities of the Bank, or from being forced to procure funds at 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 towards financial losses arising from being unable to execute transactions in the market due to market turmoil, or from being forced to execute transactions under significantly less favorable conditions than normal occasions (market liquidity risk).”

The appropriate management of cash flow risk is a prerequisite for business continuity and stable portfolio management. Considering the characteristics of the Bank, such as its steady fund procurement structure, which is primarily centered on deposits from its membership, together with its assets of low market liquidity that holds, and examining the funding procurement capability under stressed environments, the Bank takes initiatives to diversify and enhance the varieties of funding instruments, placing emphasis on the stability of cash flows. Cash flow management is conducted on an aggregated basis at the head office. For this purpose, various operating limits including currency, funding instruments and individual funding office are established considering the global market situation and these are approved by the Risk Management Committee.

Specific cash flow management plan is reviewed on a quarterly basis with the Bank’s investment portfolio projection and its expected funding procurement capacity, and it is approved by the Market Portfolio Management Committee. The progress of the plan is reviewed on a monthly basis and its execution strategies are discussed on a weekly basis. The Bank endeavors the appropriate cash flow management in response to circumstances by constantly monitoring market conditions. In addition,
the Bank conducts monthly liquidity stress testing that assume severe stress such as adverse market condition. Market liquidity risk is considered to be an important factor for investment decisions in order to maintain a flexible investment allocation framework that enables prompt responses to changes in market conditions. Investment strategies are also prepared through assessing the market liquidity (cash-convertibility) of each type of financial product. Market liquidity risk is applied to the evaluation of stabilities on funding procurement as well. For this reason, middle office sections are regularly reviewing and analyzing the market liquidity of financial products, including the market size of each asset class and product. The results of these analyses are reported to the Risk Management Committee and the Market Portfolio Management Committee.

The operational status of liquidity risk management is also regularly reported to the Bank’s Board of Directors.

**Operational Risk Management**

As its basic policy for the management of operational risk, the Bank has adopted the “Operational Risk Management Policy” by its board of directors. Under this Policy, the Bank clearly states the definition, management framework, and basic management processes of operational risk.

- **The objective of the Operational Risk Management**
  The Bank categorizes and ranks by importance each risk arising from daily operations such as processing risk, legal risk, and IT systems risk; and handles these risks according to their category and rank. This allows the Bank to reach its objective of effectively allocating the organization’s management resources, and at the same time minimizes the likelihood of risk event occurrence arising from business operations which per se do not generate profit, and losses incurred from such events.

- **Definition of Operational Risk**
  The Bank defines operational risk as the risk that arises in the course of business activities which per se do not generate profit. These risks are different from market risks, credit risks, and liquidity risks, the types of risks the Bank actively takes to generate profits.

  Operational risk is further broken down into subcategories, such as processing risk, legal risk, IT systems risk, personnel risk, tangible assets risk, information security risk, business continuity risk, reputational risk, and regulatory risk.

- **Organizational Structure of Operational Risk Management**
  Important issues such as the basic policies and annual planning of the Bank’s operational risk management are approved by its board of directors. The Operational Risk Management Committee, comprised of relevant members of the board as well as the heads of related divisions, is set under the board’s supervision, and monitors the current status of the Bank’s operational risk management. The committee also promotes cross-risk as well as cross-divisional approaches towards managing operational risk.

  The Bank also possesses a central controlling unit for operational risk, independent from all business lines, as well as functional units responsible for the management of each sub-categorical risk. Furthermore, an operational risk administrator is designated in each branch and division. The administrator is in charge of the operational risk management of his or her branch (division), and acts as a liaison officer between the branch (division), and the functional units stated above.

- **Basic approach of Operational Risk Management**
  Of the various subcategories of operational risk, for risks (such as processing risk, legal risk, IT systems risk, personnel risk, tangible assets risk, and information security risk) for which the bank’s key management strategy is the prevention of risk event occurrence, the Bank has put into effect the following controlling measures. In
order to identify, analyze, assess, monitor, manage, and mitigate risk effectively, the Bank employs the results of its RCSA (Risk & Control Self Assessment), as well as the information of actual risk and near-miss events which have been accumulated using the organization’s operational risk reporting framework. In addition, management standards which have been designed to meet the characteristics of specific risks and which the Bank deems capable to effectively control the said risks, have been implemented in the organization’s operational risk management framework. The Bank’s RCSA is carried out in the following manner. Each division identifies the potential risks inherent in the business activities they are in charge of, analyzes the effectiveness of the controls which have been put in place, and assesses what risks reside. Important vulnerabilities which have been recognized as a result of the RCSA are tended to by including their control into the annual risk management plan. The Bank’s operational risk reporting framework amasses and analyzes information based on a clear reporting standard which comprehends the classification of loss events defined by Basel II. From the collected information, specific cases may be fed back to the Bank’s RCSA (for example when a certain reported risk was overlooked by the assessment made by the division in charge), and new controls may be imposed to prevent their recurrence.

For business continuity risk, the bank focuses its aim on controlling the situation after the risk event has occurred. The Bank has implemented business continuity plans based on specific stressed scenarios, such as the occurrence of an earthquake in Tokyo or the emergence of a pandemic. Drills based on these plans are performed on a regular basis.

For risks other than the above (such as reputational risk and regulatory risk), the Bank defines them as risks which should be dealt in accordance with the Bank’s business judgment. The Bank strives to take proactive actions in order to prevent the occurrence of risk events of this type, and continuously monitors these risks for signs of change, and endeavors to incorporate those changes in the Bank’s management strategy.

The Bank’s current status in operational risk management is reported to the Operational Risk Management Committee and the board of directors periodically, and (based on these reports) the basic policy for the management of operational risk is reviewed when necessary. In addition, the overall operational risk management framework is subject to thorough internal audit on a regular basis, in order to continuously improve its effectiveness.

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

• Processing Risk Management

The Bank defines processing risk as the risk of suffering losses caused from inappropriate operation processes performed in the course of its business, or from improper activities pursued by the Bank’s executives or employees. To be more precise, processing risk is defined as the risk of suffering losses due to accidents, fraud, or failing to comply with the established procedure manuals; or the risk of inadequate performance of business operations due to faults in the procedure manuals or the lack of a manual itself. The Bank manages its processing risk based on its “Processing Risk Management Standards.”

The organization’s framework for managing processing risk comprises the following procedures. A processing risk management plan which includes methods for further development of risk mitigation measures and steps to enhance the current risk management framework is created based on the result of the Bank’s process RCSA, as well as the information of actual risk and near-miss events which have been accumulated using the organization’s operational risk reporting framework. The progress of this plan is reported to the Bank’s management (namely the Operational Risk Management Committee) periodically. In addition, various procedures, such as implementing preventive procedures for specific risk events which have surfaced in the past, updating the current procedure manuals,
carrying out self-checking exercises, and hosting staff training sessions, have been continuously performed by the Bank in order to mitigate the occurrence of processing risk events. Should there be any major environmental changes in the Bank’s business procedures (for example due to the adoption of new products and services, organizational restructuring, etc.), and should this change have a certain impact on the current business processes and operating manuals, the Bank takes steps deemed necessary to address this change.

• **IT Systems Risk Management**

The Bank defines IT systems risk as the risk of suffering losses from computer system crashes, errors, system defects, improper computer use, or from the inadequate operation of system development projects. The Bank manages its IT Systems risk based on its “IT Systems Risk Management Standards.”

The organization’s framework for managing IT Systems risk comprises the following procedures.

An IT Systems risk RCSA is conducted based on industry-standard criteria such as the safety standard published by the Center for Financial Industry Information Systems (FISC), followed by the creation of an IT Systems risk management plan which takes into account the result of the RCSA. The Bank then formulates methods for further development of risk mitigation measures as well as steps to enhance the current risk management framework, in accordance with this plan. The Bank further enforces its management of IT Systems Risk, by periodically reporting to management information and analysis on the Banks system failures, and by analyzing and assessing preventive procedures put in place for important system failures and using the information of such failures as feedback for the Bank’s IT Systems RCSA. In addition to our mission of providing stable and reliable financial services as an integral part of the social infrastructure, the Bank has taken steps to further strengthen its internal controls and framework of IT systems risk management, in light of growing social demand for more stringent information security management.

• **Legal Risk Management**

The Bank defines legal risk as the risk of incurring losses or facing transactional problems in the context of a management decision or execution of a business operation, by violating the law or by entering an inappropriate contract. The Bank manages its legal risk based on its “Legal Risk Management Standards.”

As the Bank reorganizes the agricultural and fishery cooperative financial system, offers new financial services, and engages in investment activities, in addition to providing traditional financial services, the Bank considers legal risk management to be a key management issue for all of its branches and divisions, and strives to enforce its legal management framework.

• **Business Continuity Risk Management**

The Bank defines business continuity risk as the risk of being incapable of continuing critical businesses in an emergency such as massive natural disasters or major systems failures, due to lack of effective control measures. The Bank manages its business continuity risk based on its “Business Continuity Policy,” “Business Continuity Standards,” and its “Emergency Headquarters Set Up and Operation Procedure.”

The organization’s framework for managing business continuity risk comprises of creating business continuity plans for critical businesses, and performing regular drills based on these plans. This enables the Bank to augment continuously its ability to carry on business even under stressed circumstances. In relation to the Great East Japan Earthquake that struck in 2011 and the subsequent rolling power outages, the Bank responded effectively through its emergency headquarters, and is now enforcing its BCP in order to address the problems it encountered at the time of the quake.
The associated companies in the Norinchukin Bank Group are managed in accordance with the Bank’s Management and Operation Policy for Group Companies. Each of these companies should prepare a feasible and effective risk management policy and framework, taking into accounts the Bank’s Risk Management Policies as well as the nature of its own business activities and risk profile. The Bank and each Group company then confer and decide on a risk management system for the company in question, taking into consideration the characteristics of the risks the company bears.

At the sections responsible for supervision of all group companies, to ensure adequate risk management and compliance throughout the Group, those sections work together with relevant sections as and when necessary, and categorize group companies according to risk profiles and other characteristics. For each category of Group companies, the required risk management frameworks and controls are specified by the Bank in its policies. Risk management of Group companies is performed based on those policies. When deemed necessary, meetings between the Bank and its group companies are arranged and represented by the top management levels or operational levels. With regard to the risk management framework of Group companies and their administrative operations, the Bank’s Internal Audit Division oversees and conducts audits in accordance with Internal Audit Policy and relevant policies and procedures.

In addition, the Bank performs economic capital management on a consolidated basis and ensures that it maintains its economic capital within the allocated capital by understanding and measuring the risks the Bank bears on an exhaustive basis including the risk of consolidated subsidiaries. Among consolidated entities, Norinchukin Trust & Banking Co., Ltd. and Kyodo Housing Loan Co., Ltd. manage market risk, credit risk, liquidity risk, and operational risk. Other consolidated entities manage operational risk.

Through the various initiatives described above, the Bank aims to refine the risk management framework of the Bank Group on a group basis.