

## MANAGEMENT ISSUES FOR ATTENTION AND BASIC POLICY DIRECTIONS

---

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

The Norinchukin Bank (“the Bank”) is a nationwide financial institution based on Japan’s agricultural, forestry and fishery cooperatives. The Bank is supported by a stable supply of funds procured from the Japan agricultural cooperatives (JA) and fishery cooperatives and conducts stable and efficient management of these financial resources by making loans and investing in securities and other financial instruments. The gains acquired through these activities are returned to agricultural, forestry and fishery cooperatives, which are the Bank’s shareholders and clients. Along with these activities, the Bank provides support for the cooperative credit businesses operated by JA and fishery cooperatives by providing a range of services, including the operation of a unified nationwide computer system (JASTEM System) and the development of financial products. The Bank also responds to the funding needs of cooperative members.

The Bank also advises JA and fishery cooperatives on matters regarding their cooperative credit business activities, within the context of relevant laws, and assists in the structuring and management of safety nets for the JA Bank, which refers to agricultural cooperatives, their Prefectural Credit Federations and the Bank, and the JF Marine Bank, which refers to fishery cooperatives, their Prefectural Credit Federations and the Bank. We are continuing to implement initiatives to heighten the reliability of the cooperative credit system and are fully aware that our role is essential in contributing to enhancing its competitiveness and profitability.

### ***Basic Policy Directions***

Japan’s financial system is in the midst of a transition from a focus on “stability” to an emphasis on “dynamism.” As this transition progresses, we understand the rising importance in the management of financial institutions of strengthening profitability and expanding our customer base.

The objective of the Bank is to maintain the continued stable position of the cooperative credit system as a whole within Japan’s financial system and enhance the credit cooperative system’s value to society. To this end, the Bank is addressing a range of issues related to the two goals of (1) implementing a growth strategy for the cooperative credit system as a whole and (2) maintaining as well as strengthening its profitability from a global perspective. Attaining these goals is predicated on the strengthening



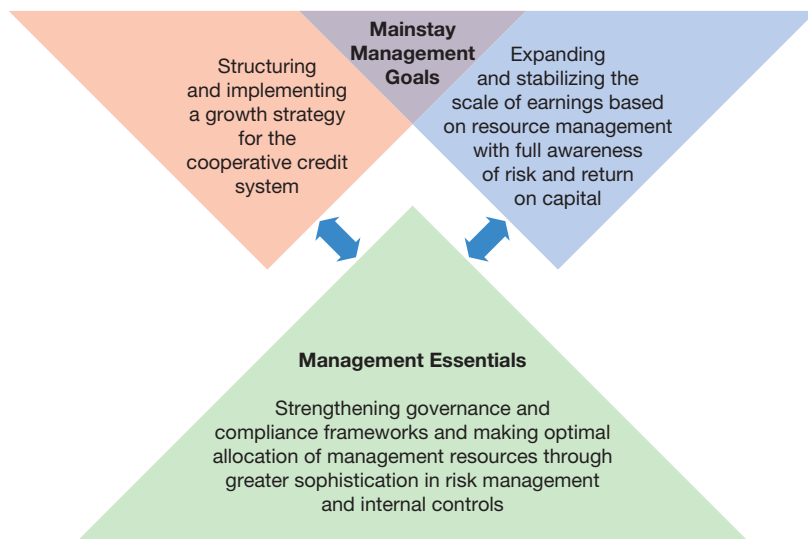
**Hirofumi Ueno, President & CEO**

of systems for risk management and internal controls, which are essential for the Bank's activities.

Since its sustainability as an organization depends on enhancing the value to society, we have integrated initiatives relating to economic, social and environmental issues in our operating plans. Through addressing these issues effectively, we are taking care to increase the satisfaction of our stakeholders.

### **Initiatives in Fiscal 2005**

- Initiatives related to the growth strategy for the cooperative credit system as a whole have included the conclusion of a basic contract with Mitsubishi UFJ Financial Group, Inc. (MUFG), covering strategic operational and capital alliances, that will strengthen the cooperative credit system's retail operating base. Under this agreement, the credit cooperative system will be able to draw on MUFG's cutting-edge financial technologies and product development capabilities. Specific preparations are under way to enable the JA Bank to offer its cooperative members and other customers significantly more attractive products and services, including the issuance of IC cash cards and tie-up credit cards as well as adaptation of its ATM network for the use of IC cards and biometric identification. Moreover, based on the agreement with MUFG, Norinchukin Trust & Banking Co., Ltd., a subsidiary of the Bank, has begun to provide inheritance-related services, including testamentary trusts and estate settlement services.
- The Bank is also moving forward with measures to enhance the cooperative credit organization. The Miyagi Prefectural Credit Federation of Agricultural Cooperatives (Shinnoren) was integrated through the full transfer of all business operations in October 2005, and this was followed



in January 2006 by the integration through the same method of Okayama Shinnoren and Nagasaki Shinnoren. Also, in August 2005, JA took over the full rights and obligations of the Shinnoren and the Prefectural Marketing and Purchasing Federation of Agricultural Cooperatives (Keizairen) in Okinawa Prefecture, thus becoming the second prefecture, after Nara, where all JA, Shinnoren and Keizairen have been consolidated into one JA.

- Another recent development was the completion of the transition to the JASTEM System, which is the JA Bank's collective, nationwide online system. Now, JASTEM is in operation, linking JA Banks in all 47 prefectures.
- During the fiscal year under review, the Bank implemented initiatives founded on the basic principle of globally diversified investment to secure earnings, including taking risks appropriate to its financial position and strengthening and observing appropriate risk management methods, as well as structuring an investment portfolio of high-quality assets selected from a global perspective.

As a result of these and other initiatives, the Bank reported the highest levels of profitability in its history, with ordinary income of ¥317 billion, 48% higher than in the previous fiscal year and net income of ¥269 billion, 92% above the previous fiscal year.

On the other hand, to ensure the soundness of assets, the Bank wrote off and provisioned reserves based on rigorous self-assessment of its assets. The Bank also liquidated particular non-performing loans and recovered certain unsound loans. As a result, the balance of risk-managed loans declined ¥185 billion, to ¥305 billion, corresponding to 2.5% of total loans outstanding.

### Key Management Indicators (Consolidated)

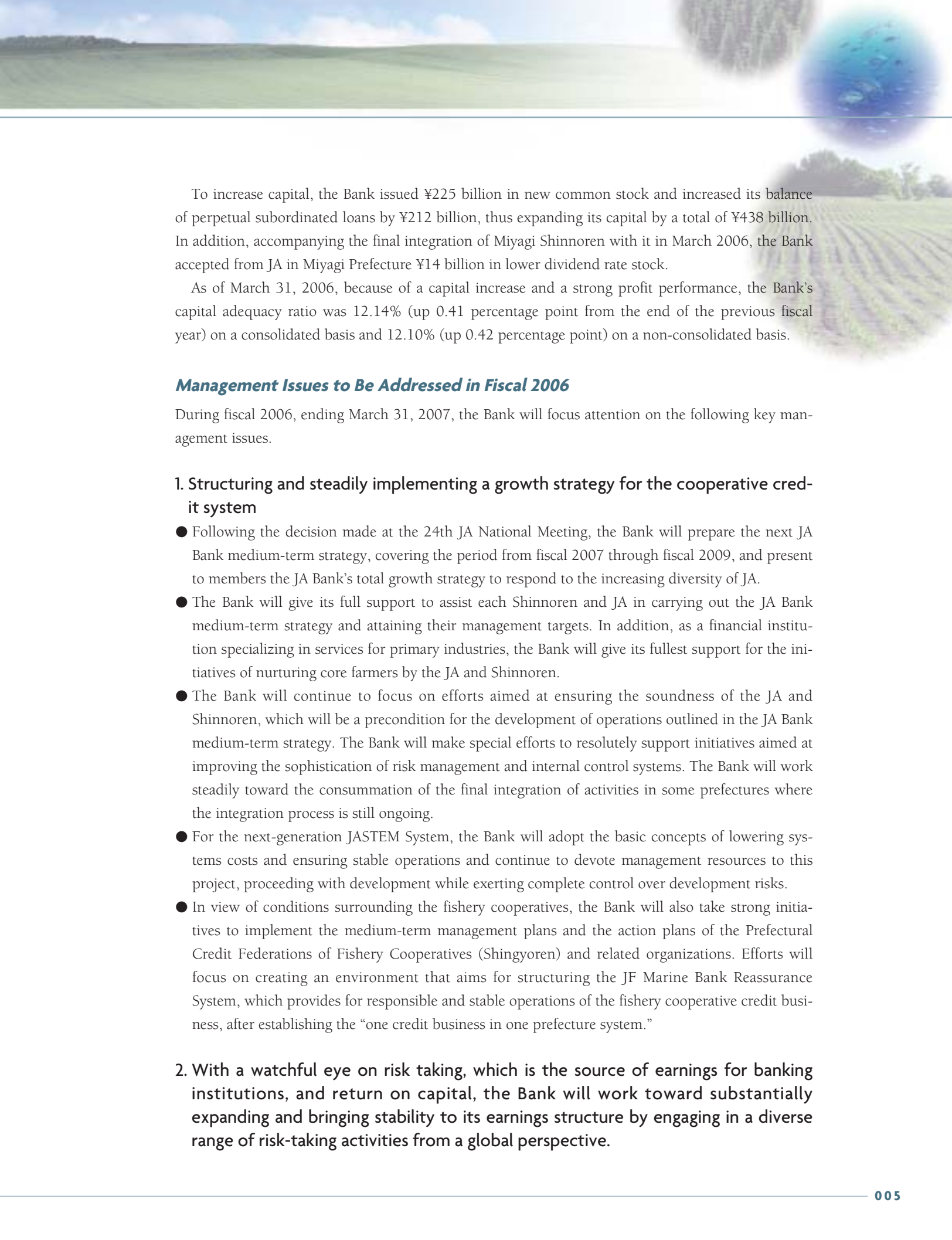
	Billions of Yen					Millions of U.S. Dollars (Note)
	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005	Fiscal 2005
Total Income	¥ 1,619	¥ 1,463	¥ 1,141	¥ 1,176	<b>¥ 1,811</b>	<b>\$ 15,428</b>
Total Expenses	1,528	1,367	953	981	<b>1,445</b>	<b>12,309</b>
Net Income	70	65	144	139	<b>269</b>	<b>2,295</b>
Total Shareholders' Equity	1,881	1,767	2,523	2,901	<b>3,962</b>	<b>33,750</b>
Total Assets	57,579	61,265	61,833	61,978	<b>70,818</b>	<b>603,227</b>
Deposits	38,255	40,421	41,099	40,879	<b>41,487</b>	<b>353,386</b>
Debentures	5,906	5,790	5,213	4,704	<b>4,787</b>	<b>40,779</b>
Loans and Bills Discounted	23,985	19,179	17,789	15,692	<b>11,963</b>	<b>101,908</b>
Securities	23,224	28,623	33,509	37,425	<b>45,586</b>	<b>388,298</b>
Capital Adequacy Ratio (BIS)	10.02%	9.87%	12.94%	11.73%	<b>12.14%</b>	

Note: Yen amounts have been translated, for convenience only, at ¥117.4 to U.S.\$1.00. "Billion" is used in the American sense of one thousand million.

### Nonperforming Loans (Consolidated)

	Billions of Yen		Millions of U.S. Dollars
	Fiscal 2004	Fiscal 2005	Fiscal 2005
Loans to Borrowers under Bankruptcy Proceedings	¥ 2	<b>¥ 13</b>	<b>\$ 113</b>
Delinquent Loans	247	<b>169</b>	<b>1,444</b>
Loans with Principal or Interest Payment More than Three Months in Arrears	2	<b>1</b>	<b>12</b>
Restructured Loans	239	<b>120</b>	<b>1,029</b>
Total Risk-Managed Loans	490	<b>305</b>	<b>2,599</b>
Reserve for Possible Loan Losses	318	<b>229</b>	<b>1,957</b>

Note: Yen amounts have been translated, for convenience only, at ¥117.4 to U.S.\$1.00. "Billion" is used in the American sense of one thousand million.



To increase capital, the Bank issued ¥225 billion in new common stock and increased its balance of perpetual subordinated loans by ¥212 billion, thus expanding its capital by a total of ¥438 billion. In addition, accompanying the final integration of Miyagi Shinnoren with it in March 2006, the Bank accepted from JA in Miyagi Prefecture ¥14 billion in lower dividend rate stock.

As of March 31, 2006, because of a capital increase and a strong profit performance, the Bank's capital adequacy ratio was 12.14% (up 0.41 percentage point from the end of the previous fiscal year) on a consolidated basis and 12.10% (up 0.42 percentage point) on a non-consolidated basis.

### ***Management Issues to Be Addressed in Fiscal 2006***

During fiscal 2006, ending March 31, 2007, the Bank will focus attention on the following key management issues.

#### **1. Structuring and steadily implementing a growth strategy for the cooperative credit system**

- Following the decision made at the 24th JA National Meeting, the Bank will prepare the next JA Bank medium-term strategy, covering the period from fiscal 2007 through fiscal 2009, and present to members the JA Bank's total growth strategy to respond to the increasing diversity of JA.
- The Bank will give its full support to assist each Shinnoren and JA in carrying out the JA Bank medium-term strategy and attaining their management targets. In addition, as a financial institution specializing in services for primary industries, the Bank will give its fullest support for the initiatives of nurturing core farmers by the JA and Shinnoren.
- The Bank will continue to focus on efforts aimed at ensuring the soundness of the JA and Shinnoren, which will be a precondition for the development of operations outlined in the JA Bank medium-term strategy. The Bank will make special efforts to resolutely support initiatives aimed at improving the sophistication of risk management and internal control systems. The Bank will work steadily toward the consummation of the final integration of activities in some prefectures where the integration process is still ongoing.
- For the next-generation JASTEM System, the Bank will adopt the basic concepts of lowering systems costs and ensuring stable operations and continue to devote management resources to this project, proceeding with development while exerting complete control over development risks.
- In view of conditions surrounding the fishery cooperatives, the Bank will also take strong initiatives to implement the medium-term management plans and the action plans of the Prefectural Credit Federations of Fishery Cooperatives (Shingyoren) and related organizations. Efforts will focus on creating an environment that aims for structuring the JF Marine Bank Reassurance System, which provides for responsible and stable operations of the fishery cooperative credit business, after establishing the "one credit business in one prefecture system."

**2. With a watchful eye on risk taking, which is the source of earnings for banking institutions, and return on capital, the Bank will work toward substantially expanding and bringing stability to its earnings structure by engaging in a diverse range of risk-taking activities from a global perspective.**

3. The Bank will work to strengthen its corporate governance and compliance frameworks by striving for substantially greater sophistication in the operation of its risk management and internal control systems, which are essential for its management.

Also, to attain management objectives efficiently, the Bank will optimize allocation of its management resources.

- The Bank will work to enhance the sophistication of its risk management and monitoring methods, from a comprehensive risk management viewpoint, and respond to additional content requirements under the new BIS regulations.
- Along with measures to strengthen its overall capital, the Bank is aware that to advance further, strengthening its Tier I capital will be essential. Accordingly, the Bank will work to increase its retained earnings and begin by carrying out those measures that are considered as necessary and possible.
- In fiscal 2006, while reviewing the overlap of functions among the levels of the cooperative system and working toward an integration method of approach for the cooperative credit business, the Bank will make specific preparations for closing or consolidating certain branches and is scaling down its retail operations, with the aim of thoroughly rationalizing and increasing the efficiency of its operations. When implementing these measures, utmost efforts will be made to prevent any inconvenience for customers.

### **CSR Initiatives**

We believe that in our corporate social responsibility (CSR) activities we should “strive to increase the satisfaction of investors (cooperative members), depositors, other corporate clients, employees, the communities we serve and other stakeholders by making our contributions to the economy, society and environmental preservation an integral part of our medium-term strategy.”

Translating this into specific action, we would like to make our CSR initiatives strategic and conduct them on a continuing basis from the viewpoints of (1) our role as a nationwide institution based on the cooperative system, (2) our role as a financial institution for the agricultural, forestry and fishery industries and as an institutional investor and (3) our roles as a corporate citizen. During fiscal 2006 in particular, we will emphasize activities related to the agricultural, forestry and fishery industries, including such areas as a financial lender to core farmers and as the founding institution of the Forest Rejuvenation Fund.

### **In Closing**

The Bank will steadily address the management issues I have mentioned and will work toward increasing the satisfaction of its stakeholders. We look forward to your continued support and encouragement.

August 2006



Hirofumi Ueno  
President and Chief Executive Officer