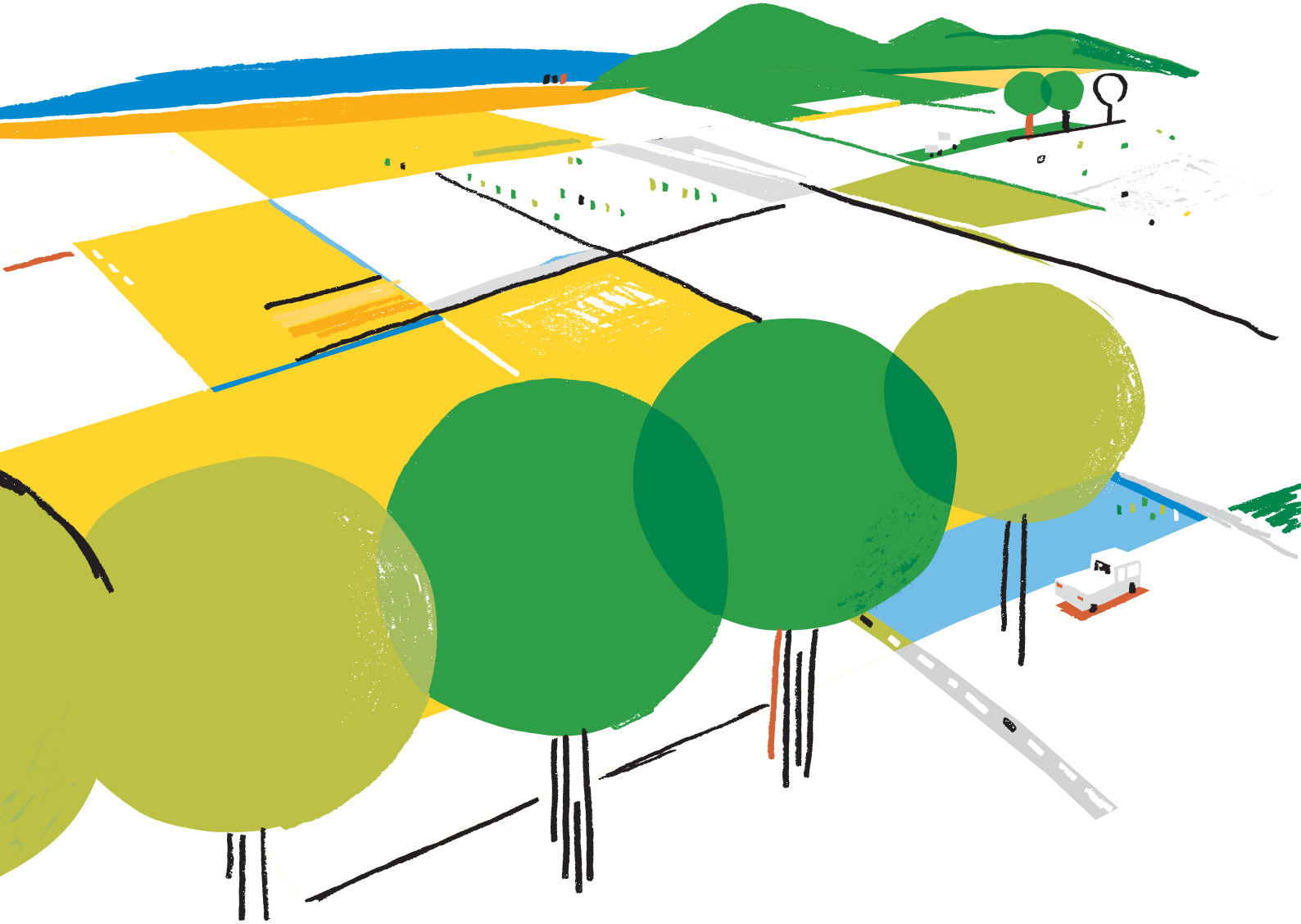
2018

VALUE REPORT



NORINCHUKIN

VALUE REPORT

2018

NORINCHUKIN

Our work at The Norinchukin Bank won't change the world overnight.

Our focus is on the agriculture, fishery and forestry industries.
This means that nature is our partner,
and nothing in nature bears fruit overnight.
Industries in this sector don't make things
—they produce and nurture life as a legacy for future generations.

This is precisely why we are dedicated to serving those who sustain these industries
and their local communities, no matter how small the scale of their operations.
As the financial institution wholly devoted to this sector
—the very cornerstone of our nation, we strive consistently
to generate solid outcomes in the global financial markets.

Our history spans more than 90 years.

But that alone is no longer enough.
We must take on a greater role than ever before
if this sector is to continue developing in response to the changing times.

We must harness our financial knowledge to make
new contributions that extend beyond our past functions and scope.
We must do our utmost to address on-the-ground issues.
We must respond to the needs not only of producers,
but also to those of processors, distributors and consumers.

The life generated by the agriculture, fishery and forestry industries
sprouts the workings of all life well into the future.

Now is the time for each and every one of us to give our all.
We aim to make the chain of life that connects us to the future
more bounteous and more certain.

Dedicated to sustaining all life.

The Norinchukin Bank

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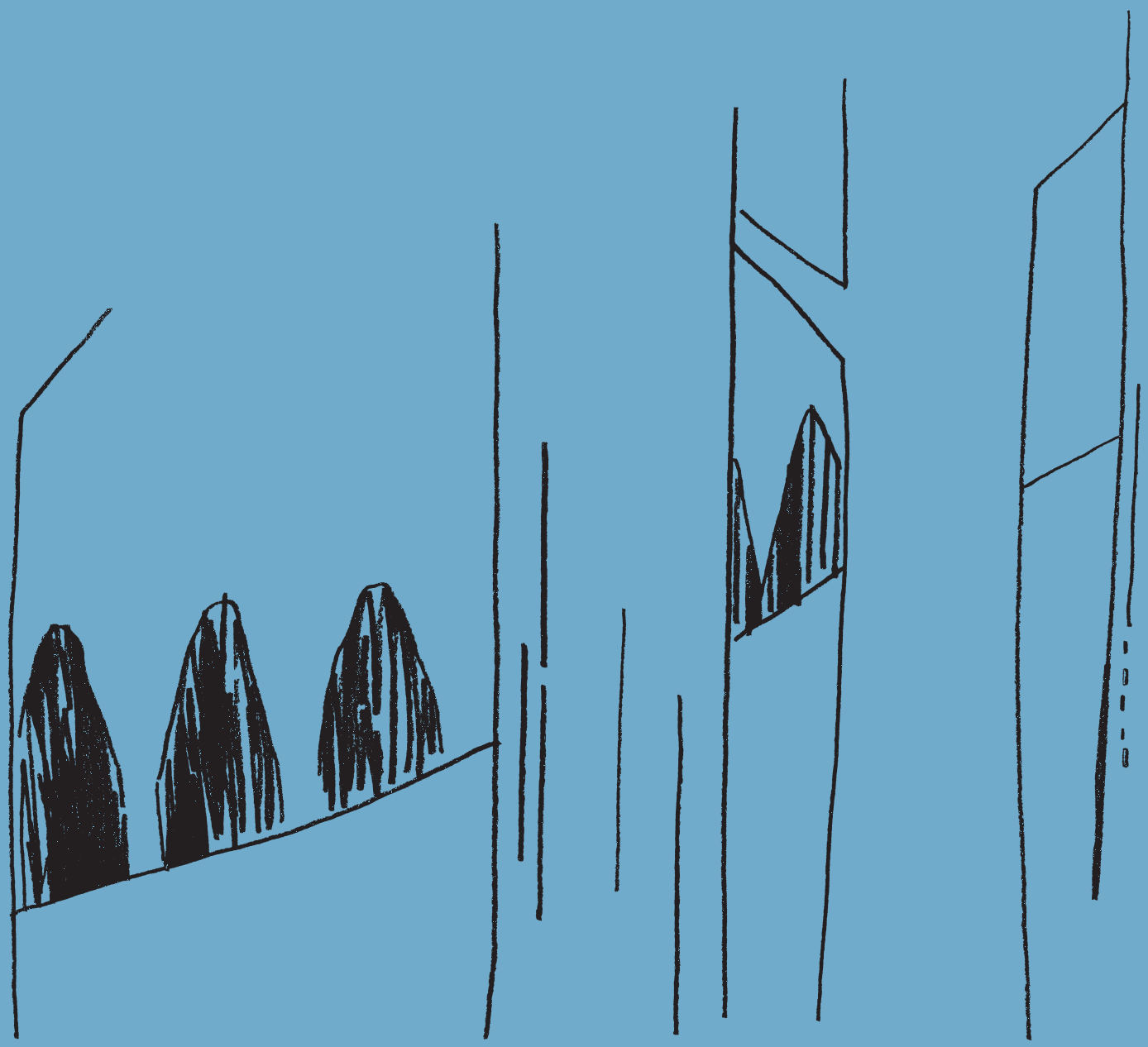
PART 1

The Norinchukin Bank and "Life" "Life" for The Norinchukin Bank



SHINYA YAMANAKA
Director, Center for iPS Cell Research and Application (CiRA), Kyoto University

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KAZUTO OKU
President & Chief Executive Officer, The Norinchukin Bank

PASSIONATE TALK ON "LIFE"

**Shinya Yamanaka is focused on daily efforts to realize clinical applications of iPS cells as soon as possible and deliver the benefits to patients.
Despite busy days traveling not only nationwide frequently but also between Japan and the United States every month, Dr. Yamanaka maintains an exercise routine of running.
His favorite running course during his frequent Tokyo visits is the area surrounding the Imperial Palace.
At our request, he stopped by The Norinchukin Bank's Head Office, which faces the moat of the Imperial Palace, for a talk with Kazuto Oku, who recently became President & Chief Executive Officer of The Norinchukin Bank.**

Status of Research

Oku:Professor Yamanaka, I heard that your father encouraged you to become a medical doctor.

Yamanaka:Yes. That is true. My father used to run a small factory in Osaka. He suggested I should be a doctor because he thought I was not suited to run a company. That he had an illness and a declining health condition might also have led him to wish his son would become a doctor. President Oku, did you major in science too?

Oku:Yes. I majored in agriculture with a specialization in marine biochemistry. I was born and raised in a mountainous area called Yabakei in Oita Prefecture. Until I was an elementary school student, a dispatched doctor treated people in my village. One day, the doctor had to return to his hometown, causing my village to become a doctor-less one. At that time, I constantly felt that my father wanted me to become a doctor, because my father was the president of an agricultural cooperative whose members discussed that the cooperative ought to establish a clinic. I ended up focusing on a different world, though.

Yamanaka:I see. In fact, Oita is my second hometown. My maternal grandfather and grandmother used to live in Kannawa Onsen, Beppu, Oita. I often visited them and spent time there during summer and winter vacations.

Oku:Beppu is a scenic and beautiful place with rich hot-spring (onsen) resources. Professor, you ran the Beppu-Oita Mainichi Marathon this year, didn't you?

Yamanaka:Yes, I did. I really enjoyed my stay at Beppu for my first visit there in many years.

Oku:I'm sure you are leading a busy life, but it is surprising that you run almost every day.

Yamanaka:Yes. This morning, I ran around the Imperial Palace. But "every day" is an overstatement. I run about 260 days a year and a little less than 10 kilometers (6.2 miles) a day. I also run full marathons to raise donations for our lab a few times a year.

Oku:At what stage is your research on iPS cells?

Yamanaka:We are currently compiling an inventory of iPS cells. It would be overly time-consuming if we make iPS cells every time a patient comes to us with damage from various diseases or injuries. Because each person has a different type of immune system, if a prepared iPS cell is used without considering such differences, the patient's body could have an immunological response that refuses to accept such a cell. However, some people have a unique immunity type that does not cause much of a rejection response when the cells are transplanted to others.

Oku:My blood type is "O," which is versatile for blood transfusion. Is what you just said analogous to O type blood?

Yamanaka:That's right. Some people have cells with a certain immunity type that is transplantable to people with other types like the blood type "O." We have made iPS cells from three such persons with a special immunity type. Cells from those three persons can cover approximately 30% of the entire Japanese population. In the next two years, we will make iPS cells from another seven persons. Then, we can cover nearly 60 million Japanese people, approximately half of the entire Japanese population. However, the increase in the coverage ratio diminishes beyond that because the remaining Japanese population would have rare immunity types. To cover the entire Japanese population, we are developing a methodology to change im-

> *"Until our treatment method can cover all the Japanese population."*
>
> *Shinya Yamanaka*

> *We continue further efforts toward our 100th anniversary.*
>
> *Kazuto Oku*

munity types by genome editing so that iPS cells can be used for many people. This research takes time and money.

Oku:Are there any other obstacles in your research?

Yamanaka:iPS cells transplanted in a human body stay there for many decades. Because such cells are artificial, the risk is whether these transplanted cells remain harmless for a long time. Our biggest concern is that such cells might start increasing out of control and, in the worst-case scenario, cause a cancer. We have spent a decade doing research to minimize such a risk. However, despite such efforts, such a risk never becomes completely zero. Therefore, whether to receive a cell transplant should be determined by the patient weighing the benefits and risks.

It Takes Time to Achieve the Vision

Oku:Do you have an idea of when your research can reach the clinical stage, which is your goal, and how much you can shorten the time frame?

Yamanaka:It has been a little more than 10 years since the first iPS cell was created. Thanks to so many people's efforts, we have finally reached the entry point of clinical application. A new treatment method cannot be delivered to everyone right away. First, with the cooperation of a small number of people, experiments need to be conducted regarding safety and efficacy slowly and carefully. The clinical research stage has finally started in the field of ophthalmology. I predict that experimental treatment and clinical research using iPS cells will start for Parkinson's disease and heart failure this year or next, and that is just the beginning. Although our final goal is to get our iPS cell method approved and covered by public health insurance, that will likely take another decade or so. Moreover, we will face increasing difficulties and obstacles from now on. Just like mountain climbing, things become harder as we get closer to the summit. The clinical applications of our method have finally reached the entry point of climbing a mountain. Now there is more to come.

Oku:Of course, you are not climbing the mountain by yourself, are you?

Yamanaka:Yes, we need many people. Our fundamental research to date could be done by one researcher or a small team of researchers if we pushed ourselves hard. When it comes to its application for medical treatment, however, researchers alone cannot move that forward. We need various talent including people with non-science backgrounds—staff for intellectual

property and contracts, for preparing applications for governmental permits and approvals, for bioethics and for raising funds so that we don't run out of resources.

Oku:Professor, you have the dual roles of making your vision understood by your research team, or specialists, and then the general public, or non-specialists, such as bankers and government officials. What are your thoughts when you discuss your vision with specialist researchers?

Yamanaka:We are fortunate in that we have a clear vision: "We want to save life." I don't have to say much about the vision because each MD on our research team has the same goal and people with other roles want to contribute to saving "life" as well.

The problem is that it takes a long time to achieve the vision—20 to 30 years. Maintaining our motivation over such a long period is important. When we face difficulties, everyone's conviction tends to waver: "Can we really save life using the iPS cell technology? Are other methods better?" In our occupation, it is harder to maintain motivation than to generate the initial enthusiasm.

From Growing Out to Spreading Wings

Oku:There is a Japanese saying that "Medicine and food share a common origin." We both wish to sustain "life"—you through "medicine" and we through "food" by contributing to the food-related primary industry.

Yamanaka:When I arrived at this head office, I was impressed by the word "life" displayed here and there. The video images of various places throughout Japan that I saw in the lobby show the working of "life" via the agriculture, fishery and forestry industries, which are linked to "food." "Life" is the keyword for us too. I was glad to learn that we share the same keyword.

Oku:Let me explain why we established a corporate brand featuring "life."

Since its establishment in 1923, The Norinchukin Bank has grown out of its old skin many times. Our first mission during the era when farms did not have money was to get money from the Japanese government and supply funds for the agriculture. Over time, regional financial disparities emerged and fund distribution became important. The next phase was to shift funds from agriculture to the manufacturing industry because the latter needed money.

Today's major mission of The Norinchukin Bank is to receive money from farmers, manage the money globally to generate profits and return them to farmers and the primary industry in Japan so they can utilize such profits for further growth. That's our history to date.

Our 100th anniversary is just around the corner. Facing this milestone, we should tackle a challenge at the level of "emergence" rather than "molt." We need to make efforts analogous to a caterpillar's tremendous struggle from getting out of its cocoon to spreading its wings to become a butterfly. When we thought about our fundamental basis, we rediscovered the importance of how to configure and derive our mission from "life," and then determined to set "life" as our corporate brand.

PROFILE

Shinya Yamanaka
Born in Osaka, Japan. Graduated from Kobe University Graduate School of Medicine/School of Medicine in 1987. Professor of Institute for Frontier Medical Sciences, Kyoto University, in 2004. Director of the Center for iPS Cell Research and Application (CiRA) in 2010. Received the Nobel Prize in Physiology or Medicine in 2012.

The industry that produces food is called the "primary industry." The meaning of the term *primary* is, in my opinion, not "first" but rather "most important." The primary industry produces the "food" that people eat and nurtures "life," connecting generations and the future. Also, the existence of the agriculture, fishery and forestry industries helps maintain communities themselves. Within these connections, I think we need to continue grappling with three challenges—first, to bring the profit via overseas investments to Japan and generate more "national wealth" in Japan; second, to support each region's cooperative organizations to be able to manage themselves soundly; and third, our focal point, to set up schemes in which The Norinchukin Bank can directly engage in generating cash flows to agricultural, forestry and fishery villages.

Our Thoughts as a Financial Institution

Yamanaka:Today, the population is concentrated in urban areas with many other regions experiencing depopulation, putting our rich country at risk of succumbing to an irreversible situation, which is scary. For example, beautiful fishing ports, rice paddies and crop fields cultivated for many years could become dilapidated in five years or so if abandoned. Once such a region is so ruined, restoring it to habitable conditions could take much longer. Those at-risk regions are spreading nationwide.

Oku:I also regard the decline in population and the concentration of population into urban areas as a major threat. We need to take measures to alleviate this trend. To that end, such regions need industry, or, if not industry, something to be able to live on.

Yamanaka:To grow the primary industry seems essential.

Oku:For that purpose, we need to circulate money in a good way.

Yamanaka:Though the government's support is necessary to conduct long-term research and development, we can't rely solely on government aid because Japan has the world's highest level of debt. Though we cannot expect donations as high as those in the United States, where some individuals donate on the scale of hundreds of billions of yen, I think there are many people in Japan who have the mind-set to donate for good causes. We need to find ways to reach such people. Because that cannot be done from a lab, I want to go out and make such efforts. In the United States, fund-raisers are making tremendous efforts.

Oku:Regarding donations, we have some thoughts as a financial institution. A financial institution's operations mostly involve loans, traditionally. Although a financial institution could require collateral for security when providing loans, it could not do the same when it entered the investment world, where you need to bet on the quality of the entrepreneurs and to measure future return on target investment. So far, Japan has been behind in such investments compared to the United States. I believe it is important to develop the investment field—to configure how to circulate money to help those in areas where we see dreams and a great future despite uncertainty rather than just financing secure entities. Moreover, the Japanese government has an annual budget of approximately 3 trillion yen to help the agriculture, fishery and forestry industries. As a private entity, we want to do something that

> *I would like to deliver a superior and inexpensive treatment method.*
>
> *Shinya Yamanaka*

the government budget cannot do by utilizing our power as a cooperative organization with a mind-set to help each other. The major resource for such activities comes from profits via overseas investments. We aim to distribute returns of ¥400 billion–¥500 billion annually to our members in various forms such as dividends and interests to help agricultural, forestry and fishery workers and related community residents.

Reasons to Seek Donations

Yamanaka:Until recently, Japanese society, including researchers, did not allow failure. In such a society, a financial institution makes loans only to secure entities and government and bureaucrats, not wanting to risk failure or be criticized, just keep quiet and do nothing during a few years in charge. This approach no longer works even in Japan. I think real success will depend on how much risk everyone can afford to take.

Oku: That is true.

Yamanaka:Therefore, we ask for investments rather than loans. And although investments are important, donations are even better. There are reasons why we put the most value on donations. Even if the development of a medical drug or a treatment method is successful in the end, when that success is based solely on loans and investments, profits will need to be returned as reimbursements and dividends, and that will be reflected in the overall development costs. Then, drug prices and diagnosis fees under public health insurance must be high enough to absorb the return on profit. A new treatment method and a new drug can cost tens of millions of yen or nearly a hundred million yen per patient. Given that reality, we couldn't say that the drug was a complete success. I believe it is our social mission to keep medical treatment costs affordable.

Oku:Your point is that it doesn't do any good if profits do not benefit patients and end up profits only for investors.

Yamanaka:We need to think again about what medicine is. The purpose of healthcare treatments is to save "life." Although the resulting profitability is good, I think the order is currently upside down. We want to deliver affordable and effective treatments to patients.

Oku:That's wonderful.

Yamanaka:Japan's healthcare system provides universal coverage, with patients' payment responsibility at 30%, and a subsidy system for high-cost treatments so that most patients can access even high-priced drugs. In the United States, poor people cannot access high-priced medical treatment at all. Though Japan is a

PROFILE

Kazuto Oku
Born in Oita, Japan. Graduated from the Faculty of Agriculture, University of Tokyo, in 1983. Joined The Norinchukin Bank. Managing Director in 2011. Senior Managing Director (Representative Director) in 2017. President & Chief Executive Officer in June 2018.

> *I learned many things about organization management.*
>
> Kazuto Oku

good country in that sense, considering the future decline in population, we need to face a severe reality.

Oku:Everyone needs to face the reality and take the necessary risks. Otherwise, the situation will not change. I understand. An airplane that does not fly never falls, but the view from the sky can never be seen. To enjoy the beautiful scenery, we must take a risk and try to fly. To try to tackle various challenges is important for The Norinchukin Bank as well, I believe.

Aiming to Become a Rugby-Style Organization

Yamanaka:There are two kinds of risks—the risk of starting something and the risk of stopping what was started. It also takes courage not to stop what was started. It is easier than we expect to stop what was started to prevent further damage. If everything stops that way, however, many things end up half done.

Oku:Professor, have you stopped something in research or organization development?

Yamanaka:It happened many times in organization development. When I noticed that I made a significant error, I thought about what to do. It might have been possible to leave it as it was, but I chose to admit my mistake and decided to dissolve the organization (laughs). I think I have done crazy things in organization development.

Oku: Management plans of banks also sometimes end up just tweaking organizations. You have led organizations and teams for many years. What have you done to motivate your team members and subordinates so that they work hard?

Yamanaka:I believe I shouldn't do what I don't have to do because team members are there for that reason. Though delegation is the basis for that, the responsibility is on me as the top management. Our lab is a venture in corporate entity classification. That's why everyone tends to look at facial expressions of the manager/founder and base their judgments on "because President said so." Sometimes I didn't recall if I had said what they said I had done. I think we need to change such a culture.

Oku:How can we change such a culture?

Yamanaka:That is extremely difficult. Although I wish we had an option to stay where we are without doing anything, there is no option like that because patients are waiting for our research results. We need to keep making clear decisions. On the other hand, it is also important to withhold your decision when nobody other than me decides what to do, even if I am tempted to make every decision to continue operation. Why are my team members here? I want the specialists to make professional decisions of their own. In sports, a rugby-like organization is preferable to a baseball-like one, which requires that each player wait for a sign from a coach. In rugby, once a game starts, signs are exchanged among players while a coach cannot do anything. To become such an organization, each team member needs to be highly motivated.

The Brain Often Makes a Mistake

Oku:These days, corporations are facing a situation where engagement (talking to employees) by officers and managers is increasingly important to maximize each employee's commitment. In the human body too, a past understanding that the brain dispatches commands to each organ is changing to a recent understanding that the brain makes only the final decisions, which might be the case with an organization as well.

Yamanaka:The brain often makes mistakes. I am allergic to oysters. Although I know that well, when we went to a Japanese restaurant renowned in New York, I saw in front of me oysters cooked to perfection that looked extremely delicious. My wife was eating a lot

of them and enjoying them so much. Then, my brain made an erroneous judgment: "You will be fine eating oysters today" (laughs). Then, I ate them! But my intestines were not deceived. At the moment I digested the oysters, my whole body tried to reject them. My intestines protested to my brain, "What in the world have you done!?" I had a terrible time (laughs).

Likewise, the brain is often deceived but humans survive thanks to the subordinate (my intestines) covering the mistakes of the president (my brain) to save life. My intestines might want to tell my brain, "Have you finally learned your lesson?" (laughs)

Oku:There are many things to learn from that. I will keep that in mind.

The significance of your explanation that patients' needs cannot be adequately addressed without donations, while such funding tools as loans, investments and donations exist, weighs heavy on my mind. We want to refine our thoughts on how to make money work well with investments and other methods.

Yamanaka:Your corporate brand is *Inochi* or "life" in English. "Life" refers not only to life or death but also to a person's whole life and daily life. The term "life" covers all such meanings. We, medical professionals, have the same thoughts about life and want not only to save patients' lives but also to contribute to their whole life and daily life. To sustain "life," "food" is indispensable. Your occupation is a driving force to save life and support the entire primary industry throughout Japan, therefore I think you bear a heavy responsibility. Please continue to carry out your mission.

Oku:Thank you for wonderful encouragement. I look forward to the results of your research reaching patients as soon as possible.

VISIONS OF JOURNALIST

Journalists Talk about The Norinchukin Bank and Japanese Agriculture!

How do the Japanese mass media and society see and understand The Norinchukin Bank (hereafter "Norinchukin")? What is expected of Norinchukin at a time when Japanese agriculture is under pressure to transform itself and the financial environment is changing at home and abroad? We heard unreserved views on these topics from four journalists who have covered Norinchukin.

Why Is Norinchukin Difficult to Understand?

Fukushima: It is since I started to cover the Ministry of Agriculture, Forestry and Fisheries (MAFF) that I have come to know in detail about Norinchukin and the framework called "JA Bank." JA Bank refers to a framework consisting of three levels of organization—the Japan Agricultural Cooperatives ("JA") that form local networks of farmers; the Prefectural Banking Federations of Agricultural Cooperatives ("JA Shinnoren"); and The Norinchukin Bank serving as a national network for providing financial services. The framework of JA Bank and the respective roles of JA, JA Shinnoren and Norinchukin are not well known. Misunderstandings concerning Norinchukin might stem from such little recognition.

Kobayashi: I also cover the MAFF and am not familiar with the financial industry. So, at first, I had thought that a bank called "JA Bank" exists. Later, I was surprised to learn that JA Bank does not refer to a single bank but rather to a framework in which JA, JA Shinnoren and Norinchukin play respective roles to create flows of money. I found it difficult to get a whole picture of the framework quickly. It is almost impossible to understand Norinchukin without knowing the whole picture.

Okuda: Because I started by covering financial affairs at my work, most of my understanding of Norinchukin was that it was a huge institutional investor without a strong impression of its loan business. Savings at JAs around the nation are collected at Norinchukin, with assets now reaching 100 trillion yen. I think Norinchukin is perhaps second to the Government Pension Investment Fund (GPIF) in terms of asset size. In addition, Norinchukin has long dealt with various overseas investments and alternative investments. In other words, since we have followed the aspects of Norinchukin more as an institutional investor rather than as a loan provider, it is not easy to write on the topic of the agricultural loans provided by Norinchukin.

Oda: I am currently an international correspondent, but it was back in the 1990s when I first reported on Norinchukin—a time when the issue of failing housing loan companies had attracted attention. The theme then was Norinchukin as a lending institution. After that, however, I focused on the aspect of Norinchukin as an institutional investor, with fewer chances to look at the aspect of Norinchukin as an agricultural financial institution. As you can see from the profiles of the journalists who follow the issues of Norinchukin, some from the financial field and some from the agricultural field, Norinchukin has two faces, which I suppose makes it less understandable. The puzzling part is whether you should look at Norinchukin as a sole financial institution or as part of JA Bank.

Okuda: But Norinchukin is quite simple when you see it as a huge institutional investor.

Oda: Norinchukin as a financial institution is not so different from other private commercial banks. In that sense, Norinchukin is easily understandable. However, the exact relationship of Norinchukin with JA and its role within JA Bank still puzzle me.

Kobayashi: Perhaps not many people have a clear and correct understanding of what Norinchukin and JA Bank really are. People in the agricultural business or those who have relationships with Norinchukin might understand, but for others the name of Norinchukin only comes up in government debates.

Oda: The most complicated part is how Norinchukin should be positioned. Should Norinchukin handle agricultural loans? Or leave that to JA and JA Shinnoren with Norinchukin just specializing in managing funds? How should Norinchukin be positioned within the entire JA Group? Maybe this issue should start with a discussion of how to treat the individual JAs.

Reasons Why Norinchukin Bears the Brunt of Attacks

Kobayashi: From the viewpoint of agricultural finance, when you think of what the JA Group as a whole should do to answer the increasingly strong call to enhance the competitive edge of Japanese agriculture, which is also promoted by national governmental policies, it is important to consider how to enable the JA Group to perform its comprehensive strengths. Due to the huge size of JA Bank, which consists of JA, JA Shinnoren and Norinchukin, the organization could form silos. However, the group as a whole has a tremendous amount of information on Japanese agriculture and on finance. Based on such information, I think JA Bank can promote its efforts more to figure out what it can provide for Japanese

agriculture.

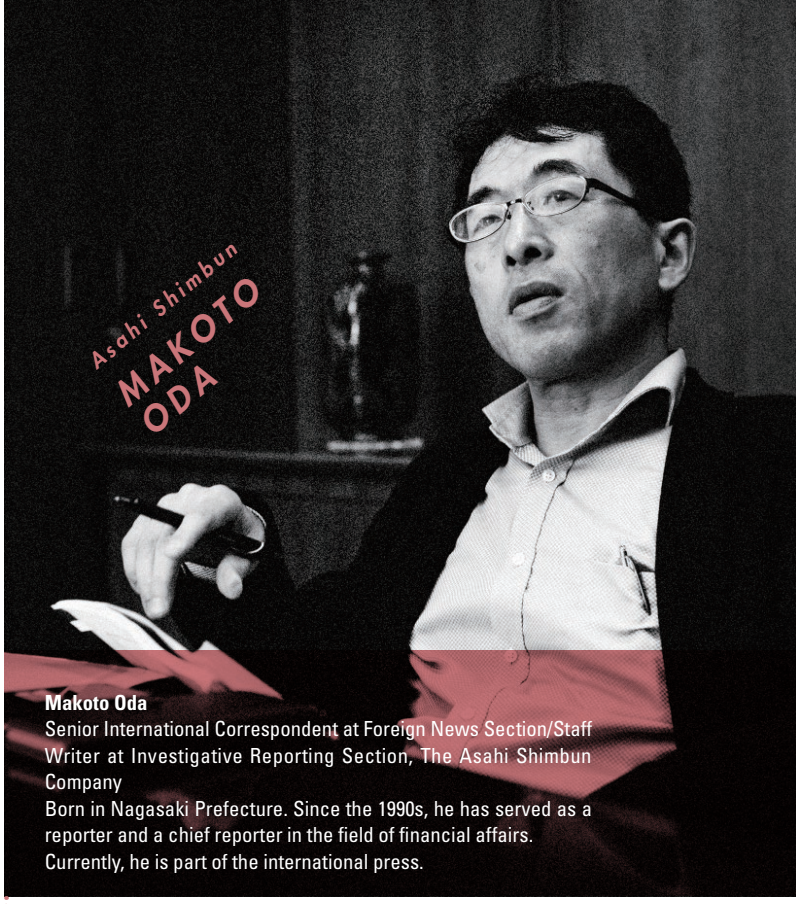
Fukushima: Because Norinchukin has a clear and certain recognition of its own roles, I assume that it has not felt the need to communicate externally for a long time. It has adhered to its own roles faithfully without committing to public relations efforts. That's one of the reasons why we have these questions about what Norinchukin is.

Oda: I agree. I think Norinchukin has not made active efforts to make it understood by saying "this is what we are." Maybe it didn't even need to do so. That's why it has been able to keep a low profile until now.

Okuda: The general public and those who have little interest in these matters believe that Norinchukin is a governmental financial institution or the like. But it is not. Norinchukin should do more to deliver at least that level of message. Norinchukin's name might invite political attack, but in practice it is just a private commercial bank. Nevertheless, there are circumstances that force it to follow political intentions. That is something I do not feel is right.

Kobayashi: When Mr. Shinjiro Koizumi—then Director of the Agriculture and Forestry Division and now Chief Deputy Secretary-General of the Liberal Democratic Party of Japan—made a statement criticizing Norinchukin relating to the reform of the government's agricultural administration, I had a strong impression that it was an easy target for criticism from a political space. The name "The Norinchukin Bank" itself, which literally includes words meaning "central bank," seems to suggest political involvement. Norinchukin has managed funds of about 70 trillion yen; nevertheless, its functions and roles are not well known. Such poor recognition might have exposed it to criticism. From the standpoint of Norinchukin's roles in the context of turning agriculture into a growth industry, I think the criticism was partly unavoidable. It is less visible where Norinchukin plays roles in promoting the revitalization or growth of the agriculture, forestry and fishery industries. The existence of JA and JA Shinnoren might make how Norinchukin is functioning less apparent. To counter the severe criticism, Norinchukin should have sufficient materials to present a counterargument.

Fukushima: The figures for agricultural loans cited by Mr. Koizumi refer to the part handled directly by Norinchukin alone but do not include the parts handled by JA and JA Shinnoren. The entire amount of agricultural loans provided by JA Bank is much bigger, which I had not realized until I became involved with agricultural issues. The press might also be blamed for not reporting such information extensively, but I expect Norinchukin to advocate as well because it has the evidence to do so.



Makoto Oda
Senior International Correspondent at Foreign News Section/Staff Writer at Investigative Reporting Section, The Asahi Shimbun Company
Born in Nagasaki Prefecture. Since the 1990s, he has served as a reporter and a chief reporter in the field of financial affairs. Currently, he is part of the international press.

Teruhiko Kobayashi
Staff Reporter at Economic News Section, Editorial Bureau, Kyodo News
Born in Tokyo. He is the chief reporter in the field of agricultural administration.

VISIONS OF JOURNALIST

Evaluating Norinchukin...

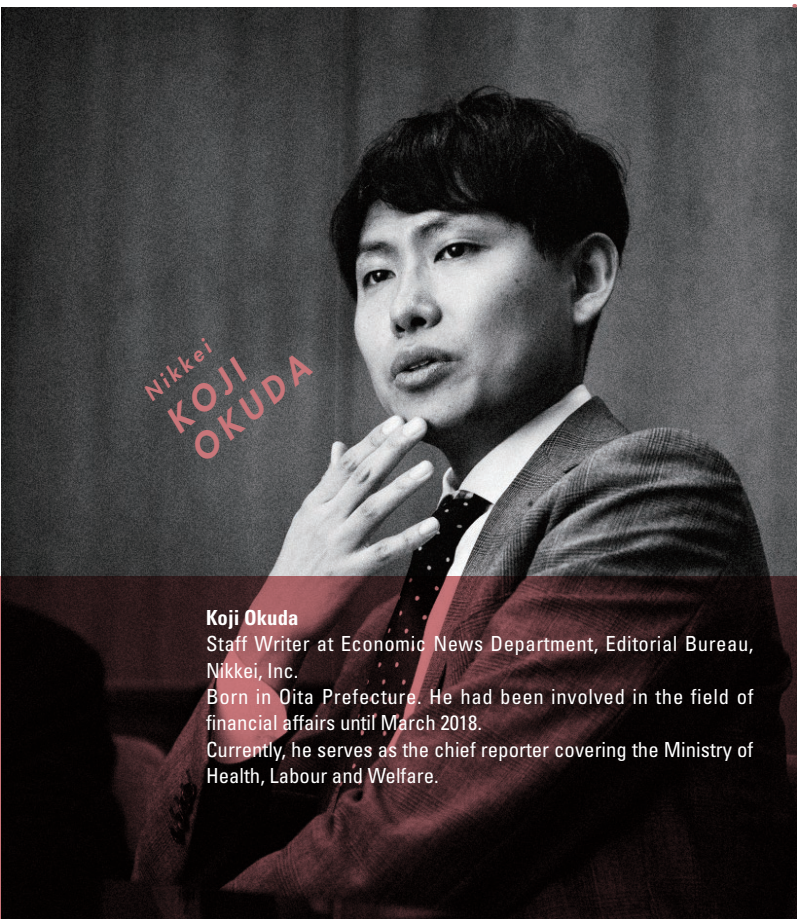
Oda: My view is that Norinchukin has contributed fully to JA and JA Shinnoren by returning the results of its fund management to them. If political circles bring up the issue of agricultural loans, they should not have criticized Norinchukin alone but rather look at the entire JA Bank. However, it is also true that the time has come for Norinchukin to transform itself. It now confronts a big issue of how its funds should be invested as the investment environment has become tough even with its globally diversified investments. When it comes to transforming Norinchukin, it is necessary to consider how to transform JA Bank as a whole. I think it is necessary to reform the agricultural administration and finance.

Kobayashi: Speaking of efforts to carry out such reforms, Norinchukin recently has promoted its "Food and Agriculture Business" and I am interested in how this move will develop in the future. Norinchukin's initiatives to that end include holding business conventions and seminars for those who are interested in international exports, and with Norinchukin's commitment, I think it would provide an opportunity to demonstrate the strength of the JA Group as a whole. Considering that the National Federation of Agricultural Cooperative Associations (JA Zen-Noh) focuses on exports, I think it would be interesting if these efforts were actually shown with concrete figures. I heard that export-related figures already have grown owing to Norinchukin's steady efforts to hold frequent business conventions. Although its current moves might not provide instant results, I would like to keep an eye on how Norinchukin performs its roles. Achieving strikingly successful results would change the situation surrounding it.

Haruna Fukushima
Staff Writer at Economic News Department, The Yomiuri Shimbun
Born in Ishikawa Prefecture. She is a reporter in the field of agricultural administration.

Fukushima: Norinchukin's business extension to the field surrounding agriculture, such as the Food and Agriculture Business, shows a new phase in its initiatives. The ratio of agricultural loans provided by Norinchukin alone might be small, but considering that JAs provide loans to small-scale farmers and that general regional banks would not easily make loans to such farmers, you could say that the primary role of JA Bank as a whole is fulfilled. However, regional banks, which have strong connections with food processors and distributors, also have been increasing their agricultural loans recently. To compete against those regional banks, JA Bank must display its distinctive character and advantages. That's the point I am paying attention to.

Okuda: As for its Investment Business, Norinchukin steadily has carried out globally diversified investments, and its newly started infrastructure investment (alternative investment) has reached almost 1 trillion yen, a move followed by other institutional investors in Japan. Mr. (Norihiro) Takahashi (former Senior



Koji Okuda
Staff Writer at Economic News Department, Editorial Bureau, Nikkei, Inc.
Born in Oita Prefecture. He had been involved in the field of financial affairs until March 2018.
Currently, he serves as the chief reporter covering the Ministry of Health, Labour and Welfare.

Managing Director of Norinchukin and former President of JA Mitsui Leasing, Ltd.) previously engaged in managing funds at Norinchukin and became the President of GPIF because of Norinchukin's stable reputation as an institutional investor. Though Norinchukin executed a large-scale capital increase after the collapse of Lehman Brothers in 2008, it has since continued stable operations to my disappointment (laughs). Of course, that is the way a financial institution should be, though.

Oda: Norinchukin has done well as a financial institution to make it through the times when it suffered from bad loans and the 10 years following the Global Financial Crisis. I am concerned that Norinchukin does not seem to have set a clear new goal after achieving its target of collecting JA savings worth 100 trillion yen. I pay close attention to how Norinchukin is addressing the severe operating environment, such as the continuation of extremely low interest rates, the rising cost of foreign currency funding and other negative factors for fund management, as well as the movement to realign regional banks to address the state of overbanking in Japan. On one hand, Norinchukin is a solid institutional investor, but, on the other hand, it is asked to help solve agricultural issues in Japan. Norinchukin's initiative to promote the Food and Agriculture Business is excellent and interesting, but to what extent can this cover the agricultural issues? Although it might be Norinchukin's unique first step toward solving agricultural problems, getting involved further in agriculture will necessitate addressing, for example, the issue of the labor shortage.

VISIONS OF JOURNALIST

How Can Norinchukin Address the Expectations and Challenges Concerning the Agriculture in Japan?

Kobayashi: As has been pointed out, the issue of aging farmers continues to be raised, with no solutions on the horizon. The key is how much agriculture can attract young people. Agriculture must become an attractive choice when young people think about their career. If domestic agricultural production decreases, you cannot promote exports either. To address such an issue, I think it is necessary to stress the importance of raising the capacity of agricultural production.

Fukushima: Again, my worry is the labor shortage. Currently, the number of people starting to farm is on the rise. I, myself, have some agricultural experience, such as growing corn and buckwheat and helping farmers plant rice as activities of a gardening club I

belonged to during my student days. But the number of farmers remains insufficient. The reality is that the shortage is being partially addressed by a growing dependence on technical interns from overseas. In terms of labor alone, there is doubt that Japanese agriculture can really be sustainable. Clearing such doubt is critical to ensure the sustainability of Norinchukin.

Okuda: Solutions that can be provided by a financial institution to address the issues of aging farmers and the labor shortage include financing technologies to lessen the burden on agricultural workers and reduce the need for labor. Because in Japan information on such technologies tends to accumulate in Tokyo, it is advantageous for Norinchukin to have its headquarters in Tokyo. Is the only way to benefit Japanese agriculture an increase in agricultural loans directly to farmers and agricultural corporations? I would think it better to take a broader view of agricultural loans and include loans to entities, even if not agricultural entities, that help reduce the burden on farmers and/or increase agricultural productivity.

Kobayashi: Norinchukin already has started the supply of risk money in the form of capital contributions. I think Norinchukin should consider increasing such efforts if careful evaluation shows that they generate good results.

Okuda: Though Norinchukin suffered a huge loss in the aftermath of the Global Financial Crisis, it has since invested with an upgraded review. That's what I hear from financial institutions that sell investment products to Norinchukin. Some institutional investors have forgotten such suffering and become less strict about their due diligence in the past 10 years. However, Norinchukin is excellent in that it has maintained that carefulness until now. Looking forward, it is currently trying to focus on the big trend moving from savings to asset building, while there are some challenges to be addressed including the establishment of sales and other systems.

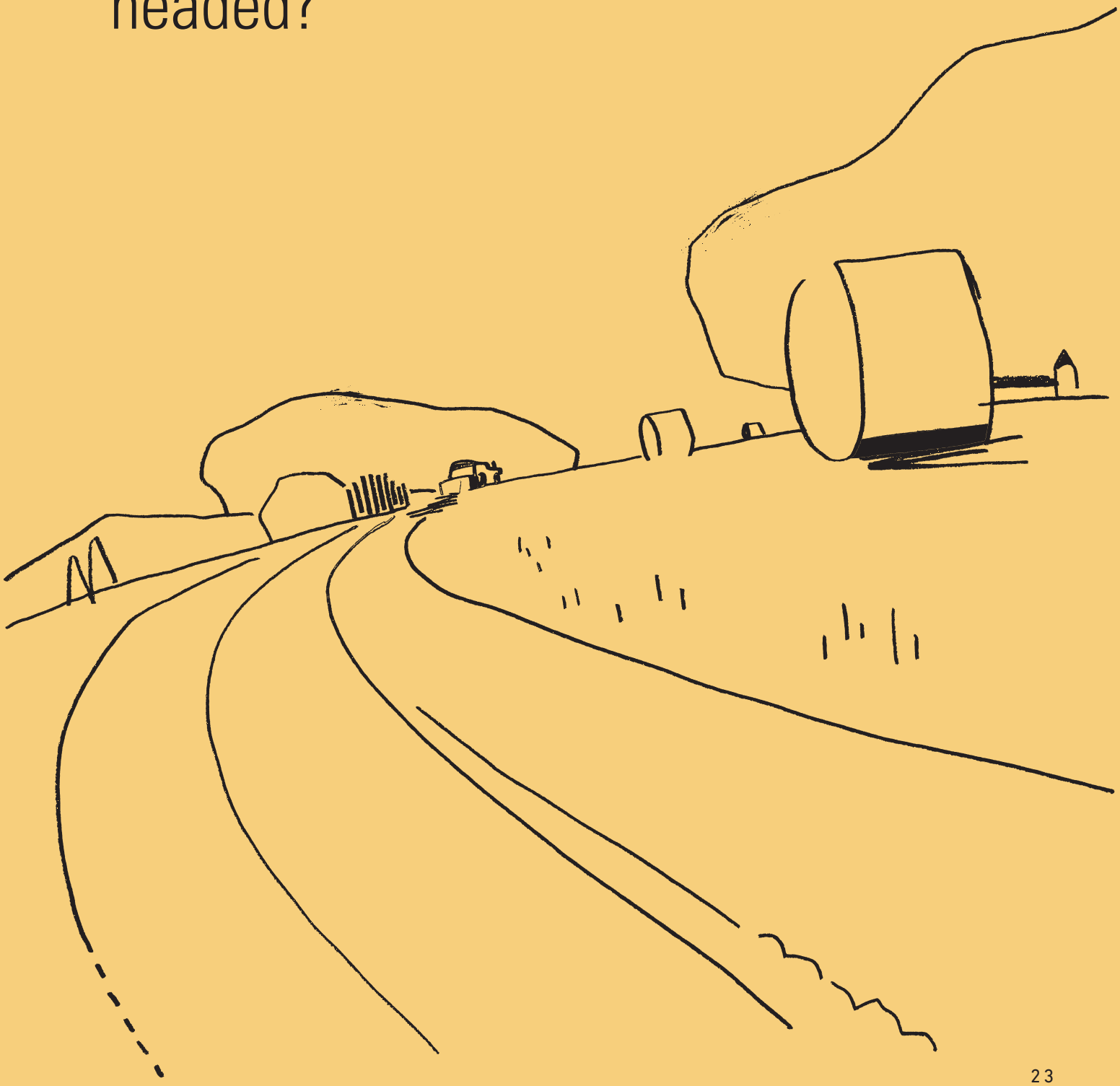
Oda: Norinchukin has responded well to the changing business environment, as seen in the fact that it was the early adaptor of globally diversified investments among Japanese financial institutions. To address future changes in the agricultural and financial environments at home and abroad, there is no doubt that Norinchukin must continue to transform itself.

Some of the various topics and issues brought up in this roundtable talk are also reported on page 23 and thereafter in this report. Please read them as well.
We would like to extend our sincere gratitude to the journalists who provided their honest comments, including questions, criticisms, expectations and suggestions.

VALUE REPORT 2018 Editorial Team

PART 2

Where is The Norinchukin Bank headed?



The Norinchukin Bank's

Resources and Strengths

Abundant food and agriculture knowledge and leading-edge financial knowledge

95 years
History of supporting the agriculture, fishery and forestry industries through finance

16 years
Integrated management of JA Bank composed of 652 JAs and 32 JA Shinnorens

20 years
Got into globally diversified investments ahead of the times

Network of cooperatives

3,585 groups
Members of The Norinchukin Bank

101.3 trillion yen
JA Bank savings balance

2.7 trillion yen
JF Marine Bank savings balance

Cooperative system

Stable deposits and financial base

A (S&P)
A1 (Moody's)
Credit rating

23.5 %
Total capital ratio

Expert human resources

28.6 billion yen
Total assets per employee (non-consolidated basis)

3,608 people
Number of employees

160 people
Number of employees who have studied overseas (= number of employees who have obtained MBA/LLM)

INPUT

The Norinchukin Bank's Business

The Norinchukin Bank Business Model

Food and Agriculture Business
Connecting producers and the business community to turn the agriculture, fishery and forestry industries into growth industries
▶P32 ～ P38

Retail Business
JA Bank and JF Marine Bank meeting diverse financial needs in each region while achieving efficient management
▶P42 ～ P45

Investment Business
Ensuring stable profit over the medium to long term through globally diversified investments based on advanced risk management
▶P46 ～ P49

Our Mission

Facilitating funding for cooperative organizations → Supporting the advancement of the agriculture, fishery and forestry industries → Contributing to the development of the nation's economy

Our Vision

Leading bank that supports the agriculture, fishery and forestry industries, food production and consumption, and the daily lives of local communities

Our Foundation

One for all, all for one.

Value Creation Model

Business Achievements

OUTPUT

Business achievements related to the agriculture, fishery and forestry industries

Turning the agriculture, fishery and forestry industries into growth industries

Support

Providing funds

Agri-Seed Fund	Agri-Seed Loan	Support Fund for Business Entities of Agricultural Leaders
288 cases	155 cases	22 cases
2.18 billion yen	3.28 billion yen	0.62 billion yen

Small — Business size — Large

Human resource development

Japan Institute of Agricultural Management
Nurturing young and next-generation farmers

No. of graduates	No. of current students
61	30

Agricultural entrant support
Supporting trainees aiming to work in agriculture and agricultural entrepreneurs at the start-up stage

Farming operation cost assistance	Training placement assistance
6,190 cases	2,189 cases
1.15 billion yen	0.71 billion yen

Connect

Providing various services
Information
Know-how

Improving management capacity
Enhancing sales capacity
Support via capital contributions

- Management consultation
- ICT companies / AgTech companies
- Distribution companies
- Sixth industrialization fund
- Business conventions in Japan and overseas
- Inbound Green Tourism

Providing financial services right across the country

Share of Japan's agriculture-related loans (JA Bank overall)

Approx. 60% (2.3 trillion yen)

JA	JA Shinnoren	The Norinchukin Bank
1.2 trillion yen	0.8 trillion yen	0.3 trillion yen

No. 2 in Japan	No. 3 in Japan	47 vehicles
Total number of JA Bank branches in Japan	JA Bank share of individual deposits	The number of mobile branches introduced

Generating profits

Approx. 600.0 billion yen	Approx. 400.0 billion yen
Profit generated from the market investment portfolio around 60 trillion yen and transactions with more than 3,600 companies in the Food and Agriculture Business	Return of profit to members

Providing return of profit and financial functions

JA JF JForest

Value provided to local communities, inhabitants and national land through collaboration with the cooperative system

- Turning the agriculture, fishery and forestry industries into sustainable growth industries
- Stable supply of safe and secure food
- Revitalizing the infrastructure in rural areas
- Preserving local diversity
- Protecting the land and marine environment
- Developing the economy through the agriculture, fishery and forestry industries

Value Provided to Society

▶P39 ～ P41

Our Features

Constant Mission over 95 Years: Transforming Itself to Meet the Needs of the Times

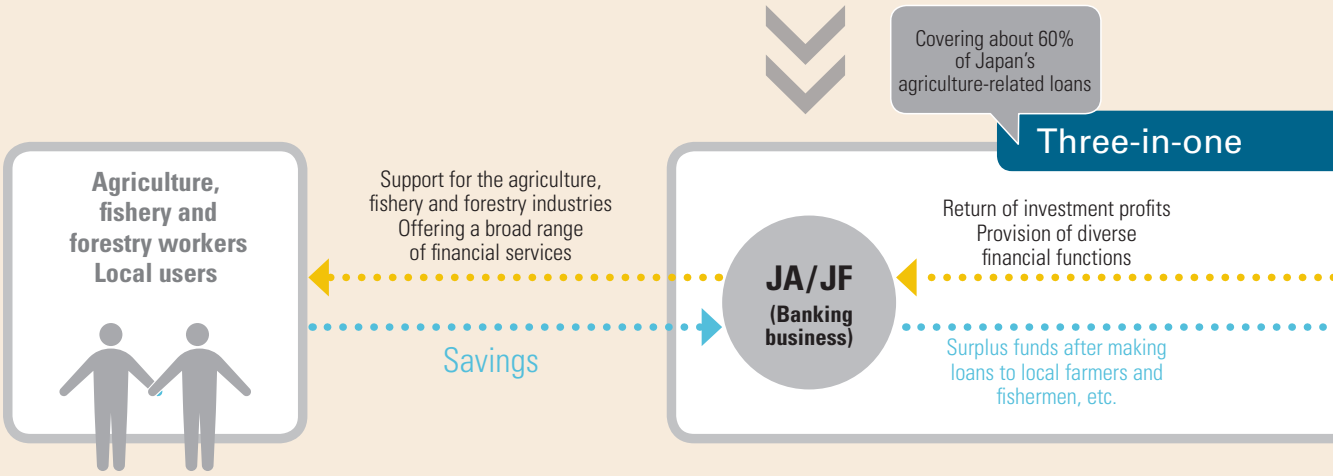
1923~

Meeting the demand for funding in the agriculture, fishery and forestry industries before and after World War II

Launched as the central bank for Japan's industrial cooperatives

Supporting producers with financial services, including loans, through cooperative organizations with the spirit of helping one another

Producers involved in the agriculture, fishery and forestry industries faced a shortage of funds before and after World War II until Japan's era of high economic growth. As the central body for agricultural, fishery and forestry cooperative organizations based on the "one for all, all for one" spirit of helping one another, The Norinchukin Bank, established in 1923, supplied funds to agricultural, fishery and forestry cooperatives throughout Japan to provide loans to producers and met the demand for large-scale funding beyond the capacity of individual cooperatives.



Since its establishment in 1923, The Norinchukin Bank has been managed under special legislation, initially, as the central bank for Japan's industrial cooperatives, "Sangyo Kumiai", and subsequently via the Norinchukin Bank Act.

It is a cooperative private financial institution with a clear mission to "contribute to the development of the nation's economy by supporting the advancement of Japan's agriculture, fishery and forestry industries by providing financial services for the members of the agricultural, fishery and forestry cooperative system."

Since its establishment, we have continued to provide support for everyone engaged in the agriculture, fishery and forestry industries for more than 90 years while constantly transforming in line with changes in the environment surrounding the agriculture, fishery and forestry industries.

1970~

In light of the increase in JA Savings due to economic growth

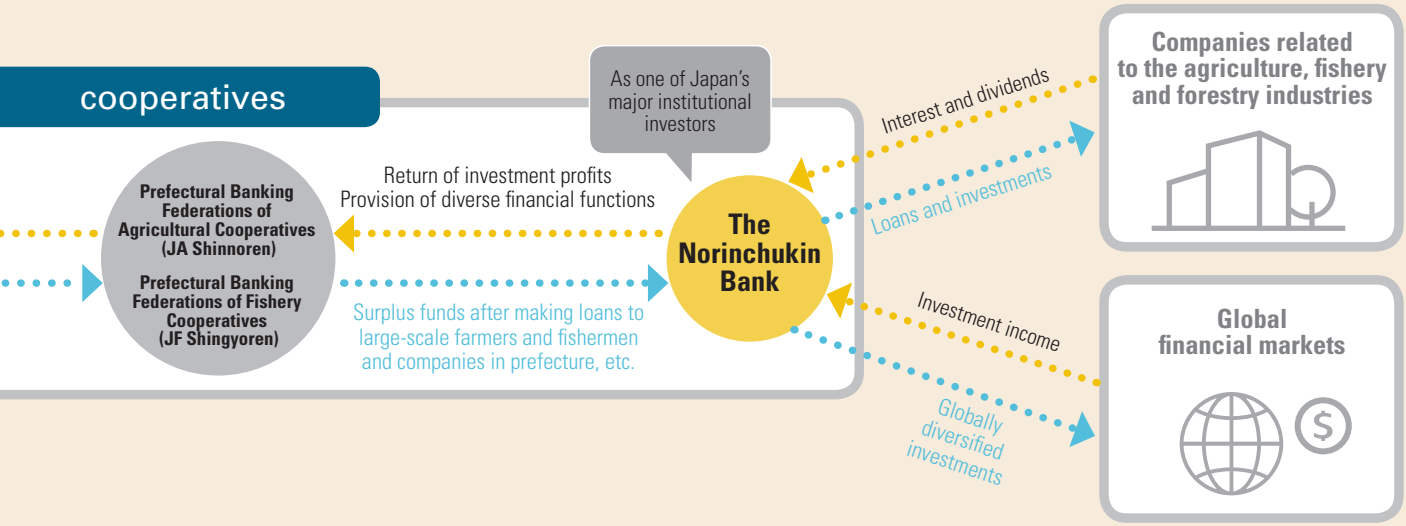
Extending loans and investments into wider financial markets in addition to the agriculture, fishery and forestry industries in response to the needs of the times

Since the 1970s, when savings deposited by individual members and local users increased considerably, we have been meeting Japan's strong demand for funds through loans and investments for companies related to the agriculture, fishery and forestry industries, the supply of funds to Japan's short-term capital markets, and investment in Japanese government bonds. Moreover, from the latter half of the 1990s, we quickly moved into top gear on globally diversified investments in global financial markets. We have returned stable earnings to members as JA, JF and JForest even in a low interest rate environment.

2016~

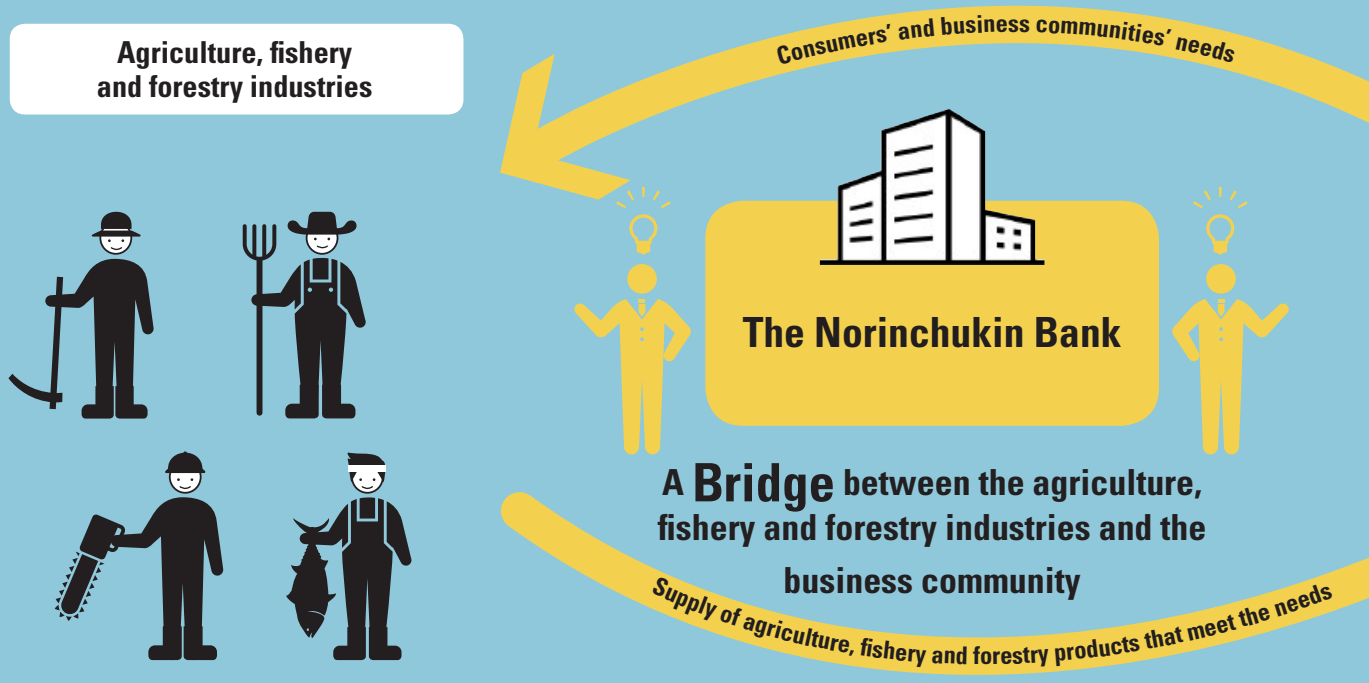
Anticipating changes in the environment surrounding the agriculture, fishery and forestry industries

Trying Now!



Our Present and Future

Striving to Resolve New Challenges with the Aim of Turning the Agriculture, Fishery and Forestry Industries into Growth Industries



Role as "Bridge" now expected

Consumer preference has changed significantly during the past 40 years. "Outsourcing of meals" has taken place, which includes eating out and prepared meals. There has been a major shift in the purchasers of fresh food from consumers who cook at home to restaurants and processed food companies. These companies, which have responded to the voices of consumers so far, seek to be supplied with domestically produced agriculture, fishery and forestry products with quality, volume and price that are stable year-round. We believe that meeting the needs of these companies and delivering safe and secure domestic agriculture, fishery and forestry products that consumers demand will pave the way to turning the agriculture, fishery and forestry industries into growth industries.

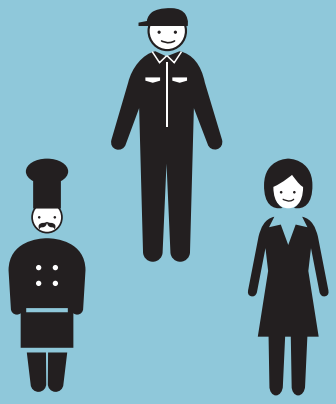
Therefore, based on the deep ties with producers in the agriculture, fishery and forestry industries around Japan and longstanding business relationships with Japan's iconic companies related to the agriculture, fishery and forestry industries, both of which are our strengths, we will play a role as a coordinator to link the two together. To achieve this goal, rather than simply acting as a "bridge" between primary industry and secondary and tertiary industries, we will actively work on "building" the bridges ourselves. We will connect producers to the diverse needs that arise from the consumers' standpoint and provide solutions leading to good results. These initiatives are what we are now expected to take on.

We believe that there are three key factors to ensure that Japan's agriculture, fishery and forestry industries, and agriculture in particular, grow as major industries. The first is strengthening the management capabilities of large-scale farmers and agricultural corporations leading the agriculture industry of the future. The second is maintaining the protective functions of all farmers, regardless of their scale, in communities, villages and the production base. The third is production that meets consumer needs more.

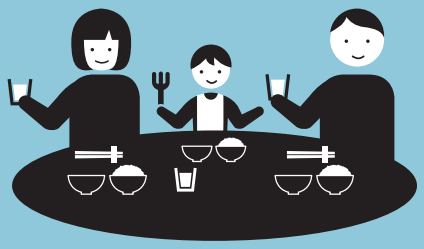
We believe that addressing these factors is the key to turning the agriculture, fishery and forestry industries into growth industries.

Industries related to the agriculture, fishery and forestry industries

- Materials manufacturers
- Trading companies
- Distributors
- Food processors
- Wholesalers and retailers
- Restaurants



Consumers



Strengthening the management of future leaders and supporting the protectors of the production base

Amid an ongoing population decline in agricultural leaders due to the aging demography, a full-scale trend toward expansion in management scale and forming corporations has emerged. In response to this trend in agriculture, we aim to become a financial institution that will be trusted even more by the large-scale farmers and agricultural corporations that will lead the agriculture industry of the future.

With a concept of strengthening our foundation, we will work on the management challenges faced by leaders at each development stage with hands-on onsite support. Rather than limiting ourselves to only making loans, we will provide diverse solutions that will strengthen management capabilities to support long-term growth for leaders.

Meanwhile, small-scale family farmers account for 90% of agricultural entities. In Japan, which is mountainous and where each area has its own diverse characteristics, a variety of leaders, regardless of their scale, play multifaceted roles in addition to agricultural production. These roles include the maintenance of the production base of waterways and farmland and the preservation of the land and the environment, and we believe the continuation of these roles is a prerequisite for the sustainable development of agriculture.

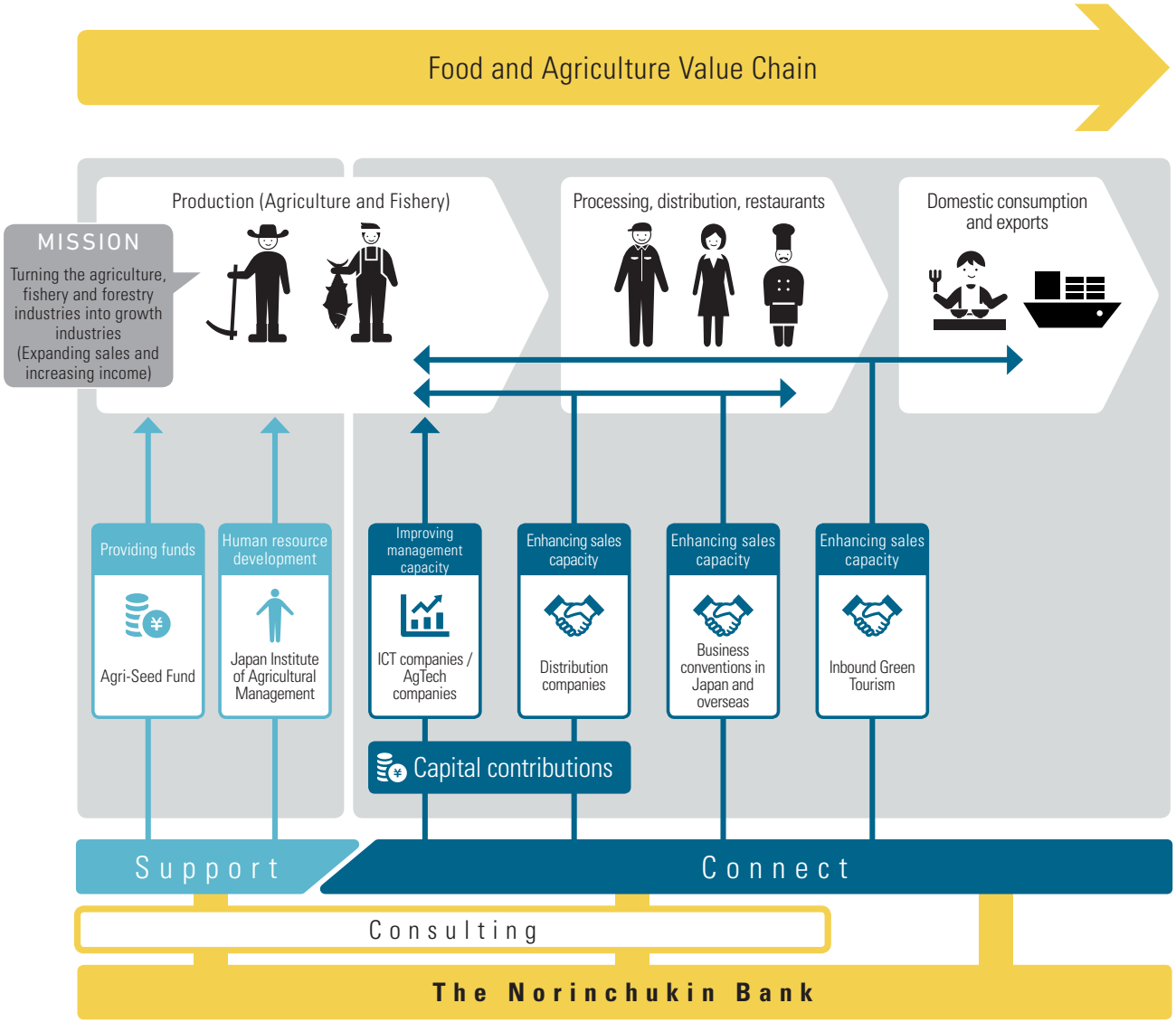
We will support this diverse variety of farmers and aim to turn the agriculture as a whole into a growth industry.

Three Value-Creating Businesses

The Norinchukin Bank continues to offer various kinds of value to local communities, residents and national land via collaboration with cooperative organizations consisting of Japan Agricultural Cooperatives (JA), Japan Fishery Cooperatives (JF) and Japan Forestry Cooperatives (JForest). Such value is created by our three businesses.
The three businesses are the **Food and Agriculture Business** to support and connect the food and agriculture value chain; the **Retail Business** to provide various financial functions as a member of JA Bank and JF Marine Bank; and the **Investment Business** to ensure the stable return of profits via sophisticated fund management through globally diversified investments.

1 Food and Agriculture Business

Aiming to be the "First Call Bank"
in the Food and Agriculture Value Chain

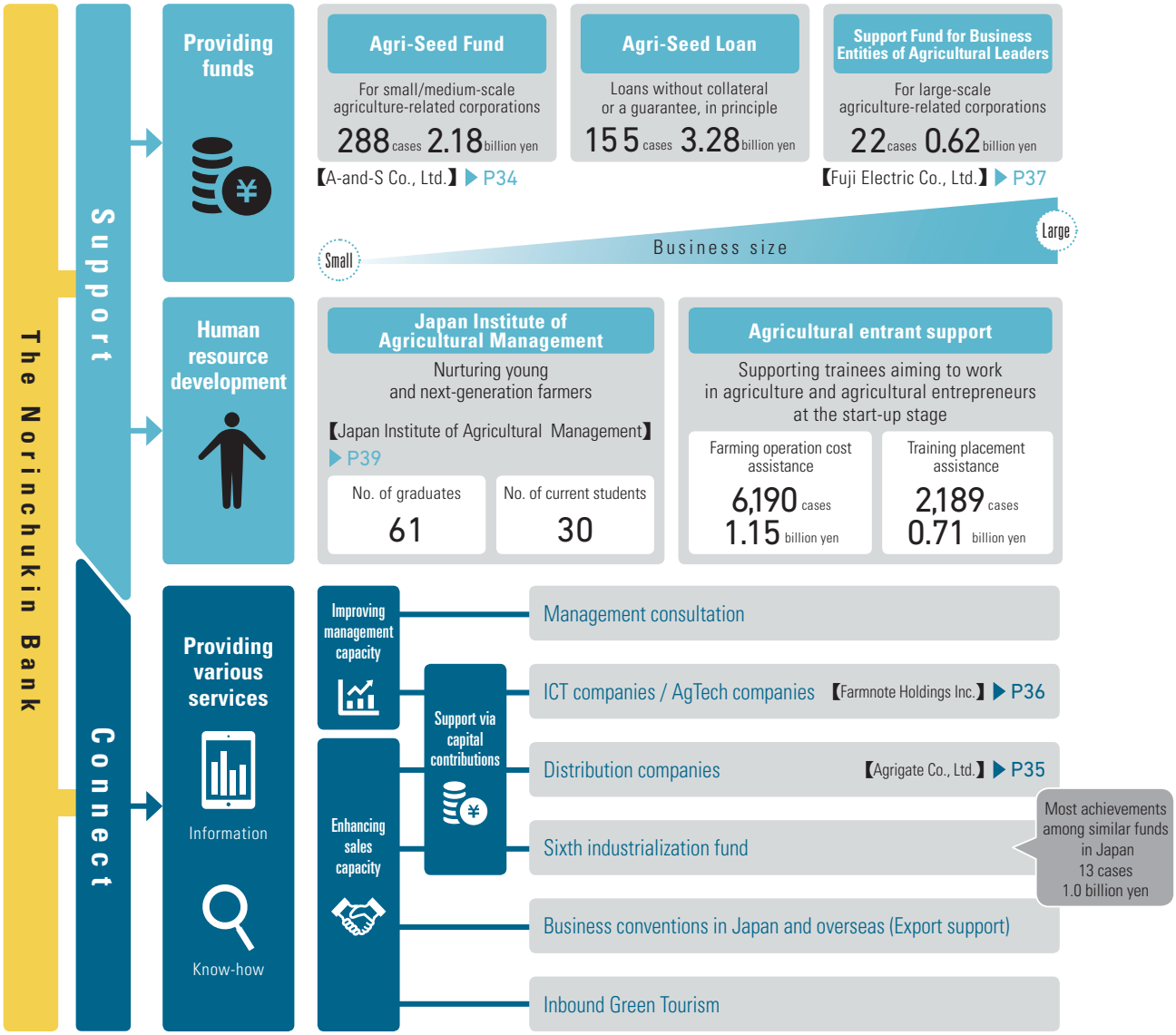


Combining and utilizing funds, information, and know-how

We established the Food and Agriculture Business as one of the new pillars of our businesses under the Medium-Term Management Plan (fiscal 2016 through fiscal 2018). This business aims to contribute to turning the agriculture, fishery and forestry industries into growth industries by supporting and connecting each part of the food and agriculture value chain covering the upstream (production), midstream (food-related industries such as processing, distribution and restaurants) and downstream (domestic and overseas consumption) to increase the value added of the entire chain. Our goal is to be reliable for all those who make up the food and agriculture value chain, that is, to become the "First Call Bank," the financial institution that people call on first.

Providing solutions to the producers in all managerial aspects

(March 31, 2018)



Turning the agriculture, fishery and forestry industries into growth industries by supporting and connecting people, organizations and corporations

Various people, organizations and corporations are involved in the food and agriculture value chain. Our Food and Agriculture Business supports and connects the entire value chain with aggressive and multifaceted participation throughout the value chain. Our initiatives include providing risk money via capital investments, human resource development by supporting the Japan Institute of Agricultural Management, support for improving agriculture-related technologies and management, and enhancing sales capacity by promoting export support of agricultural, fishery and forestry products and the sixth industrialization of the agriculture, fishery and forestry industries. By supporting and connecting the people, organizations and corporations forming the food and agriculture value chain with these initiatives, we continue to push forward to turn the agriculture, fishery and forestry industries into growth industries.

Food and Agriculture Business Supports and Connects the Entire Food and Agriculture Value Chain

The Food and Agriculture Business is a new pillar business conducted by The Norinchukin Bank. This business covers diverse areas from production, processing and distribution through sales. Norinchukin's business partners are truly diverse including farmers, agricultural corporations, JAs, venture enterprises and major companies. Many of the projects that we have accomplished show our future path to be wide and long.

Colorful paprika lined up in the vegetable-and-fruit corners of supermarkets; various cut vegetables available 24 hours a day at convenience stores; sharply curved cucumbers sold at a vegetables/fruits chain shop newly born in the Tokyo metropolitan area; fresh fish sent via the Tokyo International Airport (Haneda Airport) from fishery ports nationwide directly to restaurants and retail stores at various locations; minced onions used in a national brand tartar sauce available at stores; and frozen fried rice that has become a staple choice among frozen food with a surge in popularity in recent years—These various foodstuffs and food-related products have something in common. It is the deep involvement of the Food and Agriculture Business conducted by Norinchukin. Under the current Medium-Term Management Plan that began in fiscal 2016, Norinchukin established the Food and Agriculture Business. Redefining the entire flow of agriculture and food from production, processing, distribution to sales as "the food and agriculture value chain," Norinchukin launched initiatives to enhance its contribution at each stage of the value chain. In the two years since the launch, our staff has accomplished not only growth in agricultural loans (see page 45), but also paprika, fresh fish and frozen fried rice mentioned above (see the table to the right).

Mr. Ohira, Representative Director, A-and-S

Norinchukin and a Local JA Jointly Support an Agricultural Corporation

Among such foodstuffs and food-related products, the cabbage and onions for cut vegetables and the onions for tartar sauce are produced by **A-and-S Co., Ltd.** (hereafter "A-and-S"), in Okayama Prefecture. This agricultural corporation conducts thorough analyses of climate and soil at its 70-hectare farm on reclaimed land in Kasaoka-shi, in southwest Okayama, and conducts large-scale horticulture with a focus on cabbage, onions and pumpkins. Food business professionals highly evaluate the company's strong production capabilities that enable the consistent supply of high-quality, well-grown produce (e.g., one onion weighing more than one kilogram).

From a management perspective, A-and-S features selection and concentration. While harnessing horticultural techniques, securing vast agricultural land to increase yields, and pursuing aggressively cost reduction and efficiency, A-and-S commissions shipping and sales management operations to the local JA Kurashiki Kasaya and JA Zen-Noh Okayama. To address its funding needs, JA Kurashiki Kasaya and Norinchukin cooperate with A-and-S.

Agricultural producers' funding needs are covered by the three tiers—the local JA, the Prefectural Banking Federations of Agricultural Cooperatives (JA Shinnoren) and Norinchukin, depending on the scale of their funding needs. In Okayama, however, because the prefectural JA Shinnoren already has been integrated into Norinchukin, such needs are covered by JA Kurashiki Kasaya and Norinchukin, each having predetermined roles.

To secure large-scale agricultural equipment in fiscal 2015, A-and-S utilized the Agri-Seed Lease provided by Norinchukin, via the JA's referral. At the end of fiscal 2015, A-and-S also received a capital investment utilizing the Agri-Seed Fund (see page 33) facility.

When A-and-S applied for an Agriculture, Forestry and Fisheries Safety Net Loan provided by Japan Finance Corporation to cope with the huge damage to onion seedlings caused by torrential rain that occurred in July 2016, the JA and Norinchukin jointly intermediated the application process and helped realize a quick crisis response. Moreover, in fiscal 2017, A-and-S received an additional capital investment from a fund related to Norinchukin. With this help, the company has realized the enhancement of agricultural equipment and the relocation and expansion of a company building and warehouses.

Takayuki Ohira, Representative Director of A-and-S, reveals his honest feelings:

"It is easy to talk with people like JA and Norinchukin, who know and understand agriculture. It is helpful that they don't hesitate to say good things are good and bad are bad and to address our funding needs. JA and Norinchukin together listen to me most of the time, which makes me feel that they are unified, but if I talk about a difference between them, JA covers my concerns on a daily basis, staying close by, and Norin-

Sato, Staff, Okayama Branch, Norinchukin

A-and-S
[Okayama]

Large cabbage with tightly layered leaves stays intact, even when heads of cabbage are stuck on top of each other.

Onions cultivated by A-and-S are heavy. At harvesting, one onion weighs more than 1 kg.

chukin covers large issues at each milestone, even though staying a little distant."

Kazuya Sato, Staff at the Okayama branch of Norinchukin, who had been in charge of A-and-S for three years through fiscal 2017, says, "A-and-S has frank requests and questions for JA and Norinchukin. In close cooperation with JA Kurashiki Kasaya, I strove to make optimal proposals to best address their requests as a good consultant of JA Bank, which resulted in making loans and capital investments. A-and-S has a warm heart toward its staff and is making efforts to contribute to increasing agricultural income and revitalizing the community. With such good company as a partner pursuing the same goal as Norinchukin, I am truly happy to have had a deep relationship with A-and-S."

Connecting Vegetable/Fruit Retail Business with Production and Consumption

In a different framework than that of A-and-S, **Agrigate Co., Ltd.** (hereafter "Agrigate") received a capital investment from Norinchukin. Agrigate is a venture enterprise developing chain "new-style vegetable shops" within Tokyo. At a "Shunpachi Fruit and Vegetable Shop" operated by Agrigate, we can find juicy and inexpensive cucumbers in the peak season, albeit curved a little too much.

Ito, Manager, Food & Agri Banking Business, Norinchukin

Without having to adhere to shipping criteria that disqualifies curved cucumbers, Agrigate conducts procurement on its own and sells seasonal vegetables and fruits that are superior in freshness and pricing. Recently, Agrigate opened "Shunpachi Kitchen," which sells ready-to-eat food products made from such vegetables and fruits and has started bulk delivery of vegetables and fruits to restaurants for their salad bars.

In fiscal 2017, Agrigate planned to increase capital, aiming to further expand its store network. Norinchukin responded to Agrigate's plan and made a capital investment utilizing the F&A (Food and Agri) Growth Industry Investment Facility totaling 50 billion yen, which was established under the current Medium-Term Management Plan. Go Ito, Manager of the Food & Agri Business Planning Division of the Food & Agri Banking Business, has positioned Norinchukin's business to help Agrigate as a "business offering a sales channel that helps create value for produce that does not meet the shipping cri-

Table Examples of the Food and Agriculture Business

	Partner	Outline of project
Ventures and newly established companies	A-and-S Co., Ltd.	Lease/lending (including intermediation)/capital investment in a business with sophisticated initiatives toward large-scale production of commercial-use vegetables
	Farmnote Holdings Inc.	Joint capital investments with JA Zen-Noh in a business with technologies that contribute to energy saving and an increase in income for livestock and dairy farms Also introducing sales channels
	Agrigate Co., Ltd.	Capital investment in a business for unique procurement of vegetables and fruits and retail sales development Introducing vegetable suppliers and expanded financing for the company's business partners
	Haneda Ichiba Co., Ltd. [Tokyo]	Capital investment in a business to air-transport fresh fish directly from fishery cooperatives and deliver such fish to restaurants and retail stores within the day when the fish was landed
	Nileworks Inc. [Tokyo]	Capital investment in a business for technologies to develop drones used for rice cultivation, soil analysis and spraying pesticides, fertilizers and other agricultural chemicals
	Newly established fishing company	Capital investments/lending in a business to consolidate multiple existing fishing companies to launch a new corporation
Major companies	Fuji Electric Co., Ltd.	Lending to HOKKAIDO SALADPAPRIKA Co., LTD., in Hokkaido, Fuji Electric's affiliated agricultural corporation with strength in paprika production technology
	Major seasonings manufacturer	Lending to cover funding needs after establishing an agricultural corporation (to produce vegetables as raw materials for the company's products)
	Major transportation company	Lending and introduction of farmers when the company set up an agricultural corporation Implementing an alliance with a local JA to establish farmers' markets
	Major frozen foods manufacturer	Realizing business matching to make an OEM (Original Equipment Manufacturing) contract of frozen fried rice with a JA subsidiary handling frozen foods
	Major milk and foods maker	Introducing a major supermarket chain in Singapore as a sales channel for cheese produced in Indonesia
Foreign and foreign-capital companies	SFG HOLDINGS LIMITED [U.K.]	Joint capital investment with JA Zen-Noh in a wholesaler of Asian and ethnic foodstuffs, aiming to expand exports of Japanese agricultural produce
	Eat Japan Co., Ltd. [Hong Kong capital company]	Capital investment in a Japanese company newly established by a major fresh fish import and wholesale company in Hong Kong Aiming to expand exports of Japanese fishery produce
	HYAKUNOUSHA HOLDINGS LIMITED[Hong Kong]	Capital investment in a business for an Asia-wide rice ball retail chain using made-in-Japan rice

Agrigate Co., Ltd.
[Tokyo]

The number of "New-style vegetable shops" is increasing in Tokyo. They procure and sell vegetables and fruits that do not meet traditional shipping criteria. Fresh and low-priced.

teria, which currently has no value for farmers." Ito explains the significance of the capital investment in Agrigate as follows:

"Yoshinori Sakon, President of Agrigate, thanked me, saying that 'farmers have opened up and become receptive to what I say when I mentioned that Norinchukin invested in us.' In addition to capital investment, in cooperation with our branches nationwide, we can help increase the number of producers who ship produce to Agrigate. Likewise, there are many ways that we can leverage Norinchukin's strength of being close to the production sites. Therefore, I am always thinking about what kind of options I can propose."

The career history of Ito includes work in China. There, he witnessed Coöperatieve Rabobank U.A. in the Netherlands—a business partner of Norinchukin—being appreciated by Chinese major food companies for providing multifaceted support for their overseas business development and expansion. Ito wanted to engage in similar activities at Norinchukin and requested a transfer to the Food and Agriculture Business. When Agrigate concluded an agreement to deliver vegetables and fruits to a partner company of Norinchukin, Ito also expanded Norinchukin's business by making a loan to that company. "I would like to create a mechanism of growing together, in line with each stage of the growth of a corporation," said Ito.

Supporting ICT that Changes Livestock Farming via Capital Contributions

Within the food and agriculture value chain, Agrigate conducts sales and processing, whereas A-and-S conducts production. In terms of roles within the value chain, **Farmnote Holdings Inc.** (hereafter "Farmnote") in Obihiro-shi, Hokkaido, achieves improved productivity of dairy and livestock farming via Agtech (Agri + Technology) and supports the food and agriculture value chain.

Shinya Kobayashi, President of Farmnote, was an ICT engineer. His hometown Obihiro has many dairy farms. Mr. Kobayashi is from a family that operated agricultural farms until his grandparent's generation. With such a background, he developed the "Farmnote" system, which helps improve the managerial efficiency of dairy and livestock farming.

With the "Farmnote"—literally "notebook for a farm"—, AI linked to a collar-shaped "Farmnote Color" sensor attached to each cow analyzes her activity information and allows real-time monitoring of such data on smartphones. As this system also helps improve the accuracy in capturing the estrus of cows, it becomes possible to make them pregnant at the right timing to produce more calves.

To disseminate Agtech in the fields of dairy and livestock farming, President Kobayashi believes that the alliance with the JA Group is indispensable for development targeting not only large-scale agricultural corporations but also medium- to small-scale producers including family-operated farms. In fiscal 2016, Norinchukin made capital investments jointly with the National Federation of Agricultural Cooperative Associations (JA Zen-Noh) and others, utilizing the F&A (Food and Agri) Growth Industry Investment Facility.

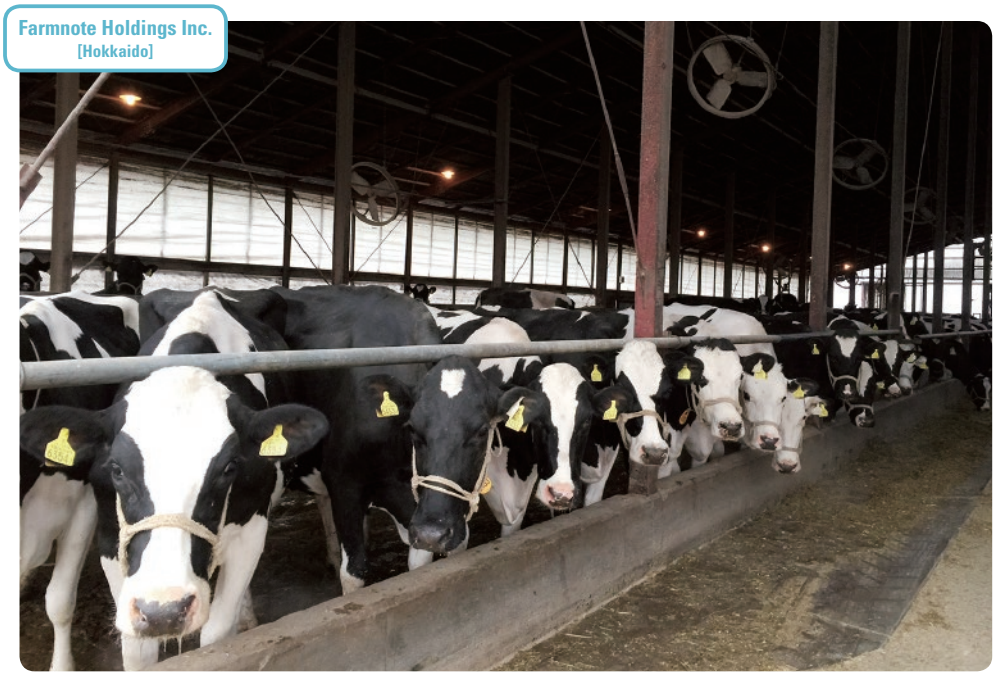
Yusuke Tazawa, Senior Manager of the Corporate Business Division III of the Food & Agri Banking Business, in charge of Farmnote, discusses Norinchukin's process of evaluating a capital investment in Farmnote as follows:

"The increase in production volume of calves directly links to the increase in income of dairy and livestock farms. We have a shortage of calves nationally. Norinchukin's support for the production of calves as a member of the JA Group by investing in a technology company is consistent with the goals of Norinchukin—to turn the agriculture, fishery and forestry industries into growth industries and improve the income of producers. Therefore, I thought that we should engage in this project as the responsibility of a financial institution involved in the agriculture, fishery and forestry industries and foods."

"It was difficult to realize the investment in an early stage technology startup company because Norinchukin had no precedent for that. However, I made detailed explanations about the producers' economic merit to be achieved by the

Tazawa, Senior Manager, Food & Agri Banking Business, Norinchukin

Farmnote Holdings Inc.
[Hokkaido]



Inputting information using a dedicated smartphone app makes cattle management easy. Using collar-shaped sensors, the farmer can detect changes in health condition to improve the accuracy in capturing each cow's estrus.

Farmnote technology, which, I believe, have helped obtain internal understanding. As investment projects in technology companies continued following our investment in Farmnote, I believe that it was a breakthrough."

The capital investment in Farmnote also has helped expand the solutions offered by Norinchukin because it created an additional flow of services that Norinchukin can provide—not only financial services for producers but also proposals for solutions to managerial issues utilizing Agtech. A case emerged in Kyushu where a Norinchukin staff person, with the enhanced proposal quality gained through the investment in Farmnote, offered to provide livestock farms with solutions using the Farmnote services and even covered their funding need to adopt the Farmnote system.

Tazawa says, "While continuing to accumulate knowledge on customers' products and services, we would like to be a financial institution with the characteristics of an information *shosha*—a company that covers financial needs while connecting agricultural producers with corporations or intermediating between corporations to help solve their issues."

To Become a Reliable Bank to Which a Firm That Newly Enters the Agricultural Industry Reaches Out First

Although the aforementioned activities of Norinchukin help young enterprises, small companies and foods- and agriculture-centered companies, our Food and Agriculture Business is more expansive. Agricultural farmers and fishermen nationwide with a long relationship with the JA Group, companies with a long history, large-scale companies, and companies with their main business other than food and agriculture are also indispensable business partners for Norinchukin's Food and Agriculture Business.

HOKKAIDO SALADPAPRIKA Co., LTD. (hereafter "SALADPAPRIKA"), which operates a large-scale greenhouse for the horticulture of paprika in Kushiro-shi, Hokkaido, is an affiliate of **Fuji Electric Co., Ltd.** (hereafter "Fuji Electric"), a major producer of heavy electric machinery.

Fuji Electric has participated in capital investments in SALADPAPRIKA to verify the know-how of building and managing a "plant factory" to cultivate vegetables, fruits and flowering plants in an environment with temperatures, humidity and lighting controlled by a sophisticated method and accumulate related data.

Ninety percent of the paprika in Japan's domestic markets is imported mainly from South Korea, the Netherlands and New Zealand. Although domestic consumption of paprika is growing as its popularity rises, the necessary know-how for greenhouse horticulture has yet to be disseminated in Japan. Lots of paprika is produced in South Korea because South Korea has been quick to adopt related technologies from the Netherlands, an advanced country in the horticulture of paprika.

Fuji Electric invited Yutaka Kobayashi, President of Salad Garden Co., Ltd., which has also been successful in growing paprika in Nagano Prefecture by adopting technologies from the Netherlands, to become president of a new company, thereby establishing SALADPAPRIKA in 2015. The paprika produced by SALADPAPRIKA is shipped not only throughout Hokkaido but also to the Tokyo metropolitan area. If you see paprika labeled "Produce made in Hokkaido" at a supermarket, it is most likely produce from SALADPAPRIKA.

At SALADPAPRIKA, in 2017 after the start of operation, changes in the production equipment were required. When Fuji Electric sought funding for that purpose, Norinchukin covered that funding need. Although Fuji Electric and Norinchukin already had a long business relationship, this was their first agriculture-related transaction. Nevertheless, because Fuji Electric had a notion "to ask Norinchukin for agriculture-related finances," Fuji Electric reached out first to Norinchukin for help.

"Within a limited period of about one month, Norinchukin covered our funding need efficiently and smoothly. At a hearing regarding our business, to learn about our paprika production capability, Norinchukin staff simply glanced at our data—for example, yields per square meter—and quickly understood our level of

Mr. Mochizuki, Manager, Finance Dept., Corporate Finance Office, Corporate Management Planning Headquarters, Fuji Electric

Fuji Electric Co., Ltd.
[Tokyo]

HOKKAIDO SALADPAPRIKA in Kushiro-shi, Hokkaido, has integrated equipment/system technology for a "plant factory" and paprika horticulture technology. Paprika produced in a highly controlled environment has been shipped not only throughout Hokkaido but also to the Tokyo metropolitan area.

horticulture, which I realized was possible only with Norinchukin." (Yasuhiro Mochizuki, Manager, Finance Dept., Corporate Finance Office, Corporate Management Planning Headquarters of Fuji Electric)

Takeshi Munemasa, Manager of the Corporate Business Division III of the Food & Agri Banking Business of Norinchukin, who covers Fuji Electric and SALADPAPRIKA, says, "Ordinarily, I cover customers mainly in the electric machine and information communications sectors. Though I did not have experience financing a plant factory, we worked as a team including persons with related knowledge from various sections to cover their need." He also said that internal study meetings were held to learn about differences in productivity between paprika horticulture in the Netherlands and in Japan and to evaluate domestic case studies before determining whether to make a loan.

"'Who would take care of this opportunity unless Norinchukin does?' That was our spirit then. In the due diligence process before making loans, although we tend to focus on the track record (past performance) for major companies, regarding SALADPAPRIKA, we focused on the forward-looking performance evaluation (projection of future profitability), in a similar way as we review agricultural corporations and ventures." (Munemasa)

Munemasa, Manager, Food & Agri Banking Business, Norinchukin

Having received the funding, Fuji Electric is now expecting Norinchukin to provide solutions other than financial services. We have issues in sales of paprika due to its small distribution volume and lack of shipping criteria, meaning there is no price index. While Norinchukin has already introduced us some sales channels, it would be helpful if we could receive support regarding sales strategies as well," said Hiroyuki Mizobuchi, Chief Expert, Business Management Division, Business Management Dept., Power Electronics Systems Business Group of Fuji Electric (and the Auditor of SALADPAPRIKA).

Munemasa responded, "I would like to continue efforts to make Norinchukin a bank to which customers reach out first for both financial and nonfinancial services. Although we handled business matching and other projects even before the launch of our Food and Agriculture Business, we now aim to become an entity to disseminate and share know-how among different industries—primary, secondary and tertiary—within the food and agriculture value chain to fully utilize such know-how, which I believe will contribute to turn the primary industry into a growth industry."

Food and Agriculture Business Beyond Its Own Field

The Food and Agriculture Business is still a new initiative not only for Norinchukin but also for Japan's agriculture. However, an organization that takes on a comprehensive financial business based on the field of food and agriculture is not extraordinary from a global perspective.

Mr. Mizobuchi, Chief Expert, Business Management Division, Business Management Dept., Power Electronics Systems Business Group, Fuji Electric

For instance, such organizations include Crédit Agricole S.A. in France and Coöperatieve Rabobank U.A. in the Netherlands, a strategic partner of Norinchukin. Their businesses are not limited to traditional financing services but rather have expanded to cover investment banking, trading and consulting.

Although these successful overseas examples are not readily applicable as a business model for Norinchukin, as exemplified in the several cases introduced so far in this report, the Food and Agriculture Business will continue to function to support and connect the whole food and agriculture value chain beyond individual work as Norinchukin, JA Bank and the JA Group.

Norinchukin has long addressed important themes such as ensuring food safety and a consistent food supply as well as the preservation and revitalization of local communities. Today, tackling the challenge of turning agriculture into a growth industry on a business basis through the Food and Agriculture Business also leads to addressing these themes. As the growth of the agriculture, fishery and forestry industries and that of the food and agriculture value chain take shape, the growth of Norinchukin and even Japan will also become visible.

Agriculture

Japan Institute of Agricultural Management

- Turning the agriculture, fishery and forestry industries into sustainable growth industries
- Stable supply of safe and secure food

"Agricultural Business School" nurtures the future leaders of local communities

The Japan Institute of Agricultural Management (Principal: Kenji Horiguchi; former Executive Vice President of Waseda University) opened in Minato-ku, Tokyo, in April 2013, aiming to nurture next-generation managers in agriculture and leaders in local communities to explore the future of agriculture in Japan.

With agricultural technologies being the core of the curriculum at many domestic agricultural schools, the two-year program at the Institute is centered on agricultural management, which is a key characteristic of the school. It is sometimes called as "agricultural business school" because the students learn agriculture as a business and agricultural experience (including training) is emphasized to be eligible to take the school's entrance exam.

During the four years from establishment until fiscal 2017, a total of 61 students graduated (first- to fourth-year graduates) and started farming throughout Japan. In fiscal 2018, a total of 30 freshmen and sophomore students are attending the school. All students live in the school's dormitory in Kawasaki-shi, Kanagawa Prefecture, learning together and living in the same dorm.

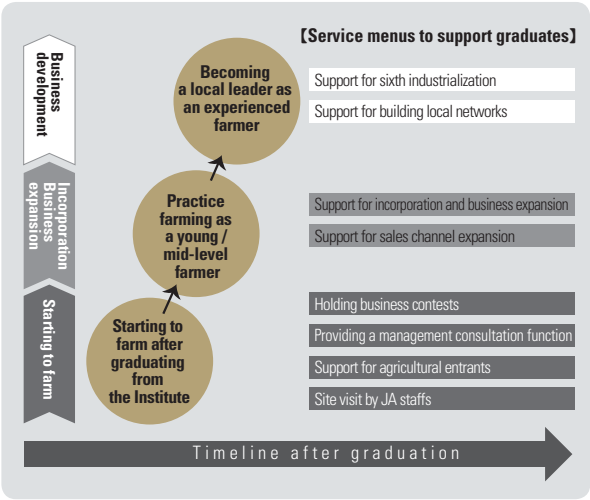
AgriFuture Japan (AFJ) (President: Yutaka Suzuki, also President of Yamashiro Management R&D Institute LTD. and former President of Kewpie Corporation) operates the Institute. AFJ was established in fiscal 2011 by a nationwide alliance among food and agriculture-related Japanese organizations, corporations and educational and research institutes, etc. Norinchukin has been fully cooperative since AFJ's inception and has been a major sponsor of it to date.

Approximately 260 major corporations and organizations are members or supporting members of AFJ. Networking with these members is a feature of the Institute. AFJ member companies' staffs—practicing businesspersons—sometimes offer special classes as lecturers. Meetings and seminars are held where students can interact with such businesspersons. These are rare opportunities, available only to the students and graduates of the Institute, to acquire knowledge and make human connections that are hard to get elsewhere. For AFJ members too, these are precious opportunities to connect with young agricultural producers whom they can work with for many years into the future.

Norinchukin also gains much from the Institute. Tomoo Ueno, Manager, Food & Agri Business Planning Division of Food & Agri Banking Business, states the following:

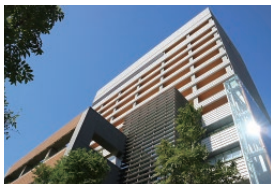
"We are sure that nurturing the future leaders of local agriculture is an essential long-term initiative to improve the sustainability of Japan's agriculture. In addition to supporting the initiative, we provide solutions to the managerial issues of the graduates such as helping build their local community network."

According to Ueno, Norinchukin is focused on promoting the Institute. By advertising not only the school's educational competence, but also the low tuition cost by taking advantage of the scholarship or the "Investment in Next-Generation Human Resources in Agriculture" grants from the Ministry of Agriculture, Forestry and Fisheries (MAFF) of Japan, Norinchukin would like to increase the number of young managers in agriculture who study at the Institute.



At class, an AFJ member company's staff person sometimes teaches as a lecturer.

A student (right) works as an apprentice store clerk at a Japanese confectionary manufacturer.



Classrooms are within a Norinchukin's facility in Tokyo.

Ueno, Manager, Norinchukin

Forestry

JForest Fukuoka Forest Association

- Turning the agriculture, fishery and forestry industries into sustainable growth industries
- Protecting the land and marine environment
- Preserving local diversity

Regain vibrant community-based forestry in Munakata, a commuter town with world heritage sites

Munakata-shi, Fukuoka Prefecture, a historic town that has world heritages sites—Okinoshima island and Munakata Taisha (Grand Shrine)—is also a commuter town located midway between Fukuoka-shi and Kitakyushu-shi. A community-based forest spreads in the southern part of Munakata-shi where many Japanese cedars have been planted.

However, in recent years, several forests in a condition being ready to cut has left unutilized. In addition, the dysfunction of community-based forests which have a wide range of roles such as preserving the local community, the environment and national land has become problematic.

In 2015, Junko Sasaki was assigned as an engineer at Munakata Substation, Fukuoka-kita Branch, JForest Fukuoka Forest Association when she changed her career from a high school science teacher. Ms. Sasaki learned forestry when she was a student. Facing the reality of *Obu-no-mori* forest, about which even its owner lamented its poor condition, Ms. Sasaki sought to acquire assistance from the Norinchukin Forest Rejuvenation Fund.

A serious hurdle for the revitalization of *Obu-no-mori* forest was "roads." According to Tomiko Kajiwara, who served as Chief of the Munakata Substation until fiscal 2017, "*Obu-no-mori* forest has a river and narrow roads. There is no place for a foothold inside the forest, and it is hard to use machines for thinning and shipping out lumber."

Facing this challenge, Ms. Sasaki worked hard to prepare a business plan focused on roads. With that plan, she applied for assistance from the Norinchukin Forest Rejuvenation Fund in June 2016. Her plan, titled "Aiming for a Community-Based Forest with the Symbiosis of Nature and Humans — A Small Challenge in Munakata —," passed the first and second reviews, and in March 2017, the plan was selected as a target project for assistance. The plan's pursuit of revitalization of the various functions of a community-based forest in the long term by introducing machinery and low cost operation was highly evaluated.

The project began in April 2017. It took all fiscal 2017 to build the 3.5-kilometer forest work road and pave the existing forest roads with slag cement, which resulted in realizing the thinning of more than 30 hectares of Japanese cedars and the reforestation of a more than 1-hectare area. The project also conducted clear-cutting and thinning of 1.8-hectare area of bamboo trees for which their invasion into the forest was seen as problematic.

With the completion of the subsidized project, Ms. Sasaki states, "In the forestry industry, a project does not generate instant results. Years of work will produce fruit over many decades. This one-year subsidized project has made huge achievements. We hear many requests from surrounding areas, such as 'My forest needs a similar project too.' We would like to further expand the fruits of our project."

The Norinchukin Forest Rejuvenation Fund supports sustainable development of the forestry industry and local communities

Seventy percent of Japan's national land is covered by forests. Forests are indispensable to the sustainable development of the agriculture, fishery and forestry industries, and the multifaceted functions of forests such as controlling global warming and nurturing water sources are highly appreciated. Nevertheless, 40% of Japan's forests are man-made and were planted in the postwar era. Many of these man-made forests have been neglected due to sluggish lumber prices and the decreased number of forestry workers. To address this situation, Norinchukin established the Forest Rejuvenation Fund (FRONT80) in 2005 and it has continued to assist the forestry industry. Through subsidies and providing advice from experts, Norinchukin works to restore privately owned forests that have been almost ruined, aiming to recover the various roles of forests and the public benefits they can bring.

Cedar and bamboo forests improved by the subsidized project

Ms. Sasaki

Ms. Kajiwara

Fishery

JF Yuikou

- Turning the agriculture, fishery and forestry industries into sustainable growth industries
- Developing the economy through the agriculture, fishery and forestry industries
- Revitalizing the infrastructure in rural areas
- Protecting the land and marine environment

"Resource-managed" fisheries of Sakura shrimp toward the sustainable development of fisheries and the revitalization of local communities

Sakura shrimp, now prized nationwide as a precious foodstuff, is a specialty produce of Suruga Bay. The representative fishery station for Sakura shrimp is Yui fishing port, located in Yui, Shimizu-ku, in central Shizuoka Prefecture. The catch at the Yui fishing port and Oigawa River one in the same prefecture accounts for 100% of the Sakura shrimp catch nationwide.

JF Yuikou, which accounts for 90% of the total value of landings of the Sakura shrimp catch, has taken many ingenious measures to sustain the utilization of marine resources. Especially epoch making was introducing the total pool distribution system. Around 1975, it introduced a system to distribute the total value of landings from the entire Sakura shrimp fishing area equally to each fisherman based on certain rules ("pool distribution") to prevent a decline in natural resources caused by excessive competition among fishermen. This scheme to prevent excessive fishing has helped to preserve marine resources and revitalize sustainable fisheries. As a result, fishermen achieved a stable income, making the business popular among young people, and there is no shortage of successors.

Furthermore, for about 20 years, JF Yuikou has promoted the building of the "Yui Sakura Shrimp" brand. Previously, young fishermen conducted promotional activities on their own such as bringing fresh sashimi Sakura shrimp from Yui to the Tsukiji market, to help make "Yui Sakura Shrimp" a national brand.

In addition, JF Yuikou has contributed to revitalizing the port itself. A significant revenue source for JF Yuikou is *Hamano-Kakiageya*, a seaside restaurant at Yui fishing port that is hugely popular and offers Sakura shrimp dishes (including *kakiage* tempura). Although the opening of this restaurant met with opposition from a local mall, which feared the fierce competition over tourists, Takehiro Unno, Councilor of JF Yuikou, says with a smile, "People gathering at this restaurant have drawn more people to Yui town and helped increase sales at our local stores." In addition, other events held by JF Yuikou such as "Yui Sakuraebi Matsuri (Yui Sakura Shrimp Festival)" have contributed to revitalizing local communities. These activities have drawn attention from fishery cooperatives in other regions, creating horizontal human connections among fishery workers.

"I heard that the JF Shin-Minato in Toyama Prefecture, in collaboration with JF Yuikou, is striving to improve fish prices by adopting a total pool distribution system for the Japanese glass shrimp fishery," said Mr. Unno. Despite such aggressive engagement of JF Yuikou in resource-managed fisheries, the declining trend of the overall catch has been an issue in recent years. To address this issue, the fishery cooperative is making further efforts including continuing investigation regarding the volumes of eggs laid and its own initiative to acquire a Marine Eco-Label* certification for further branding of the "Yui Sakura Shrimp" brand to ensure stable income for fishery workers despite the decline in the overall catch. Receiving the attention of fishery workers nationwide, JF Yuikou continues to tackle challenges toward developing resource-managed fisheries.

*The Marine Eco-Label is a certification scheme to protect marine resources and support sea-friendly fishery businesses. Certified products can be distributed with the Marine Eco-Label logo.

Fishery Entrants Support Program

Norinchukin is conducting the "Fishery Entrants Support Program," which contributes subsidies up to 500 million yen for three years from fiscal 2016. This program provides monetary assistance for young relatives who inherit their family business operating in the fishery industry so that they can be accepted as trainees, aiming to help increase the number of new fishery entrants, maintain the production infrastructure and turn the fishery industry into a growth industry.

Statue of Sakura shrimp at Yui fishing port

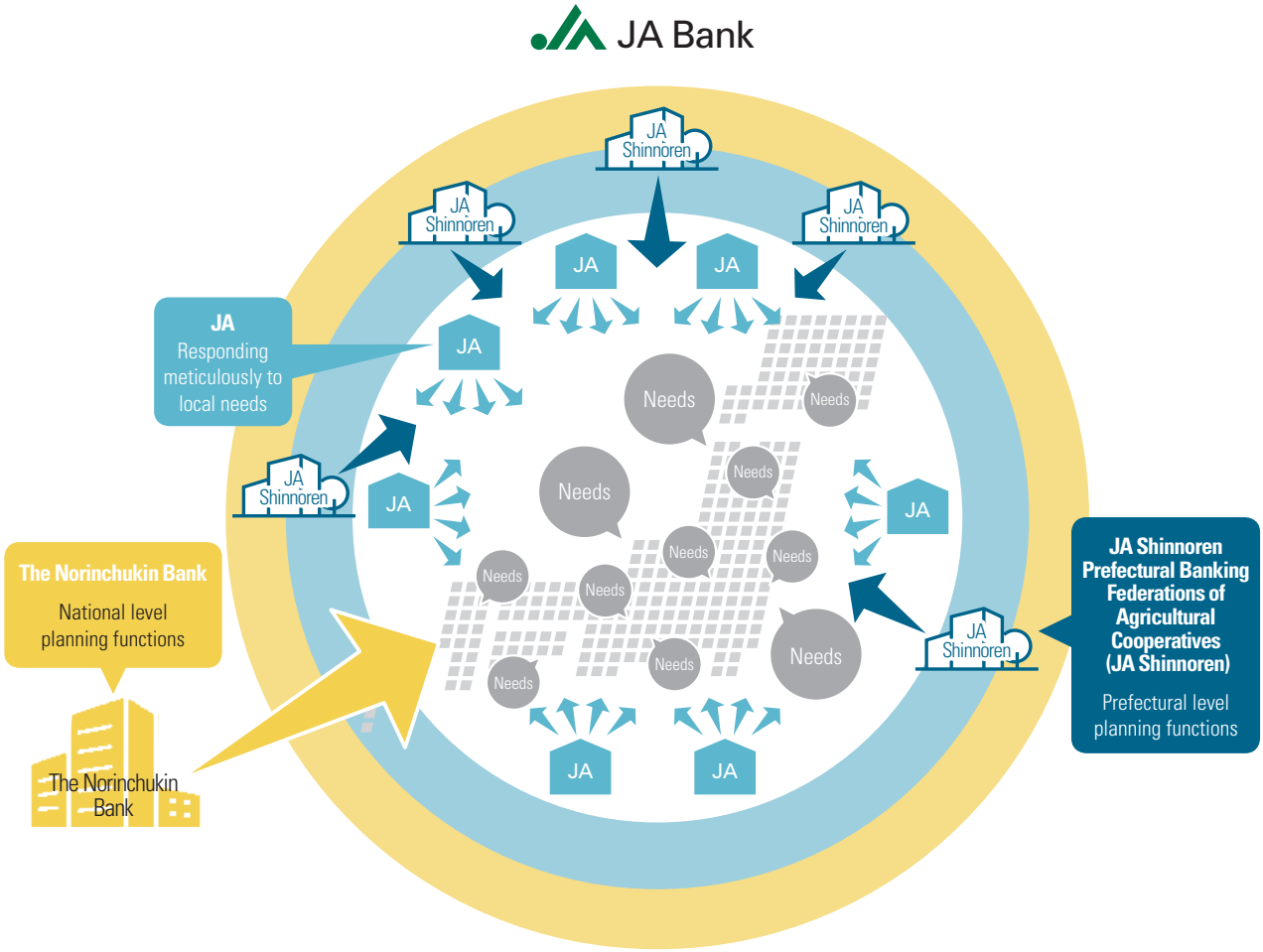
Hamano-Kakiageya restaurant with a long line of customers at lunchtime

Sakura shrimp *kakiage* tempura and *Okizuke-don* (rice covered with pickled seafood)

Fishing boat anchored during the daytime. Fishing occurs at night.

2 Retail Business

Providing a range of financial functions
as a member of JA Bank and JF Marine Bank



Common functions and functions leveraging economies of scale

- Development and operation of infrastructure systems, such as ATMs
- Centralized investment in securities
- Designing of nationwide uniform financial products and services
- Guidance to improve the soundness of JA's management
- Advertisement including television commercials

JA Shinnoren | The Norinchukin Bank

JF Marine Bank

JF Marine Bank provides a wide range of financial services with a similar division of roles among JF, JF Shingyoren and The Norinchukin Bank.

Meeting needs in each region while achieving efficient management

JA and JF in regions all around the country, as well as JA Shinnoren and JF Shingyoren, provide meticulous financial services meeting diverse financial needs varying in each region as independent financial institutions.

To provide these services more efficiently, JA Shinnoren and JF Shingyoren are responsible for common functions and functions leveraging economies of scale such as the design of financial products, system development, centralized investment in securities and advertisement including television commercials at the prefectural level, whereas The Norinchukin Bank is responsible for these functions at the national level.

Main bank for livelihoods of members and everyone in the community

JA Bank by numbers

Introducing the performance and initiatives of JA Bank
(JA, JA Shinnoren, The Norinchukin Bank)

Number of members in JA Bank

JA 652 JA Shinnoren 32 The Norinchukin Bank 1

685 groups operate business in an integrated manner (March 31, 2018)

(Source) The Norinchukin Bank research

Number of JA cooperative members

10.37 million (March 31, 2016)

(Source) Comprehensive Agricultural Cooperatives Statistical Tables (2015), Ministry of Agriculture, Forestry and Fisheries

Total number of branches nationwide*

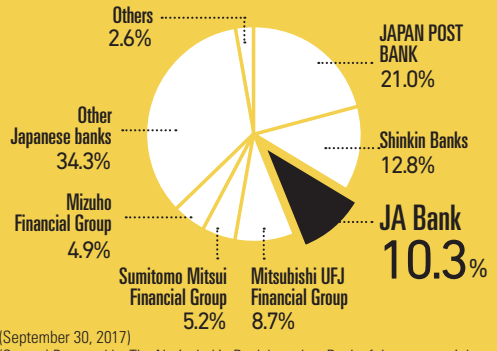
No. 2 in Japan (7,963 branches nationwide, 14.6% domestic share)

* The numbers of JAs and their branches are those of JAs and branches handling domestic exchange (March 31, 2017).

(Source) The Financial Journal Special Edition

JA Bank's share of deposits from individuals

No. 3 in Japan



(September 30, 2017)
(Source) Prepared by The Norinchukin Bank based on Bank of Japan materials and results briefing materials of each financial institution
(The total does not equal 100% due to rounding.)

JA Bank savings balance

101.3 trillion yen

(March 31, 2018)

The number of mobile branches introduced

47 vehicles

(March 31, 2018)

COLUMN

Mutual funds to meet the asset building and management needs of JA Bank customers

Given the ongoing ultra-low interest rates, we aim to diversify our service menus for the medium- to long-term asset building and management of JA Bank customers. In fiscal 2017, we newly established the JA Bank System Asset Building Division within the Retail Banking Business to start offering JA Bank customers mutual funds in addition to existing savings products. In April 2018, some JA branches started to sell the "Norinchukin (Partners) Japan-US 6 Asset Allocation Fund" mutual fund.

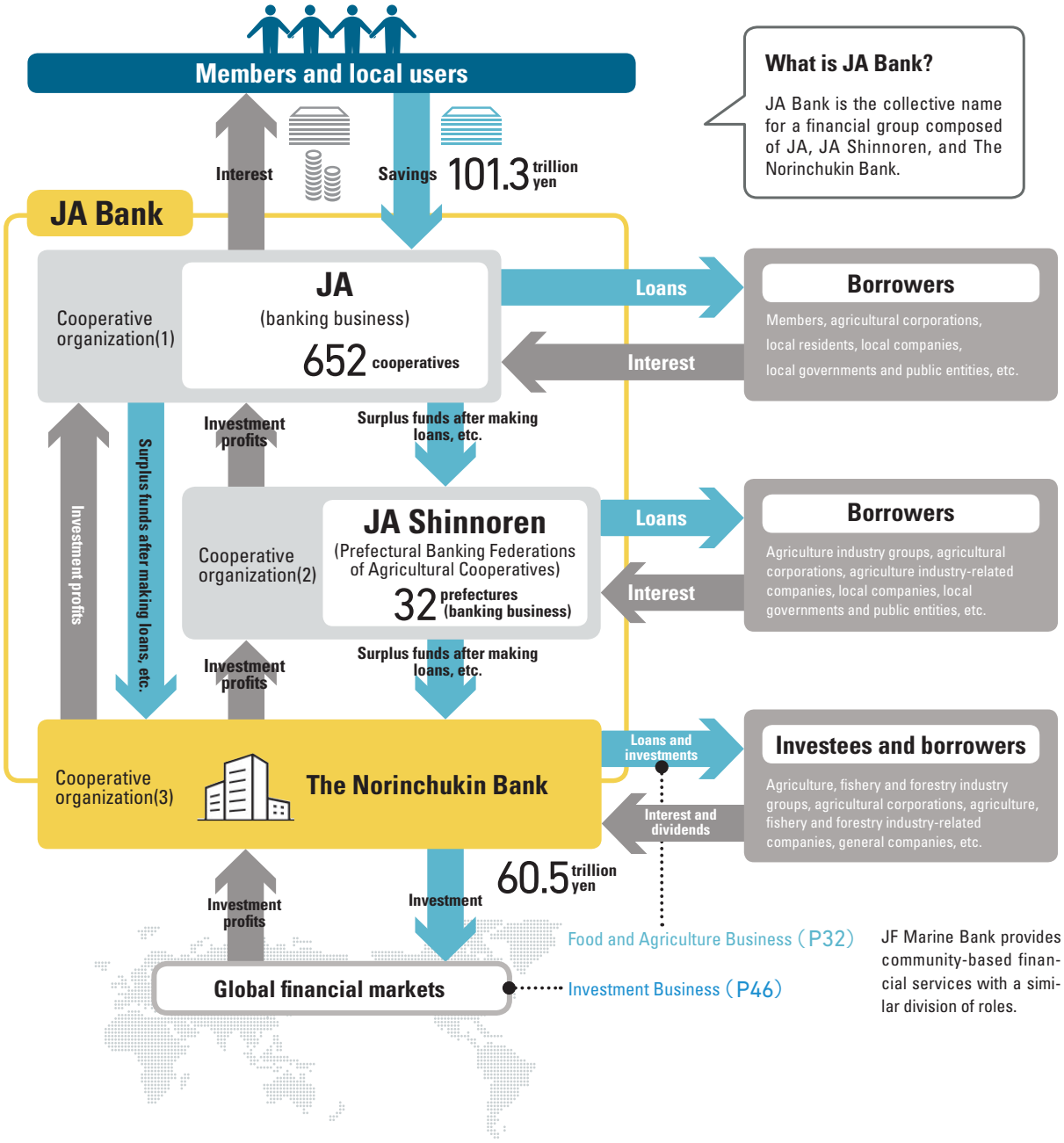
This fund is managed by Norinchukin Zenkyoren Asset Management Co., Ltd., our group company, and is sold exclusively at JA branches.

This fund consists of two products: "Core 6 Seed" to meet the need to build assets and "Core 6 Ever," which aims for stable asset management; both include six asset types—stocks, bonds and REITs (Real Estate Investment Trusts) in Japanese and U.S. markets. Providing two different asset allocations to these assets, these products can meet the need to build assets by focusing more on return and the need for stable asset management by controlling risks.

Teppei Sumitomo, Senior Manager, who heads the mutual fund business in the General Affairs and Asset Building Strategy Group under the JA Bank System Asset Building Division, says, "Against the backdrop of ongoing ultra-low interest rates, customers are seeking some places to put their savings. While mutual funds have been sold at some JA branches, they were not so customer friendly to purchase. To better address customers' needs, we are optimizing the product line of mutual funds handled by JA Bank and this move has started with the Core 6 products."

The Norinchukin Bank will reinforce the product lineup incorporating its know-how of globally diversified investments accumulated over many years. From a sales perspective, an initiative was started to hire experienced salespersons from securities companies and dispatch them to JA branches, which handle sales of mutual funds. We will promote consulting sales to provide appropriate solutions for asset building and management based on an accurate understanding of asset situations and the financial needs of customers, while working to expand the number of JA branches handling such products.

Flow of funds at JA Bank



Managing funds effectively as JA Bank and JF Marine Bank, while meticulously addressing the funding needs of each region

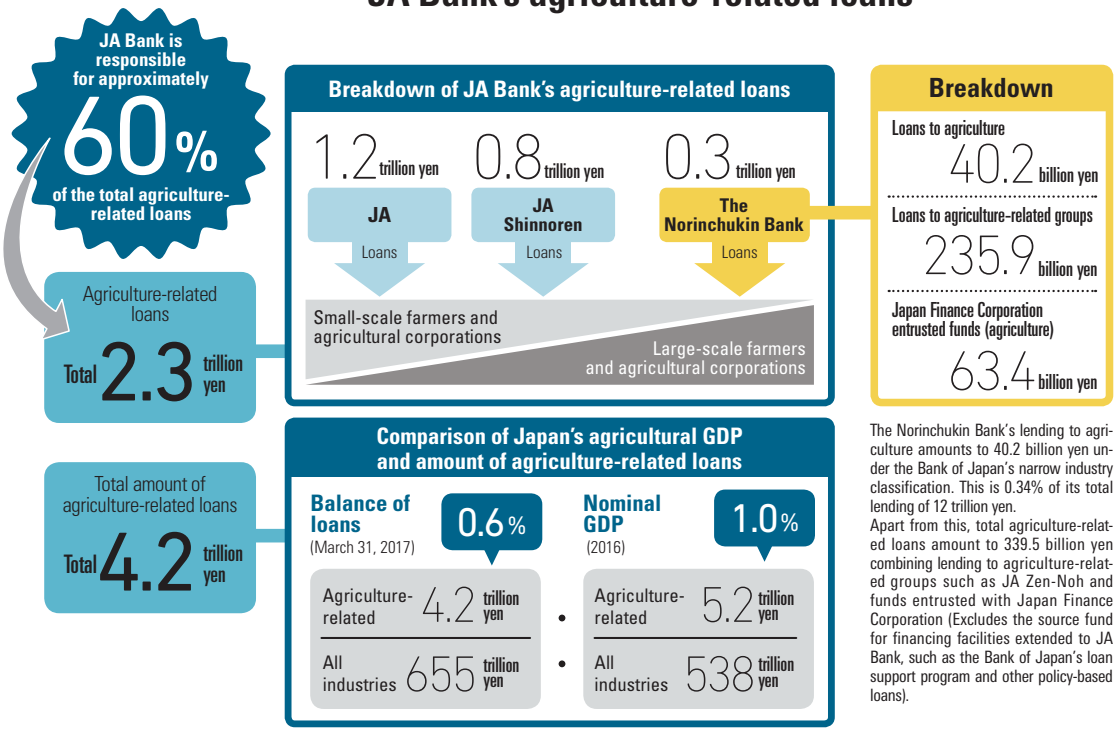
In the Retail Business, The Norinchukin Bank, together with each region's JA and JA Shinnoren, forms a financial group, "JA Bank."

At JA Bank, JA, JA Shinnoren and The Norinchukin Bank share responsibilities for implementing the efficient management of funds. The savings deposited by members and local users are first used by JA itself to meet local funding needs. Specifically, JA provides loans for local farmers, agricultural corporations and users. Surplus funds after making loans at JA are deposited with JA Shinnoren at the prefectural level and used to make loans to large scale farmers and agricultural corporations and companies within the prefecture. Surplus funds after that are deposited with us.

As the ultimate manager of these deposited funds, we make loans to and investments in agriculture, fishery and forestry industry groups, agricultural corporations, and agriculture, fishery and forestry industry-related companies in addition to investing in global financial markets to return profit to JA and JA Shinnoren.

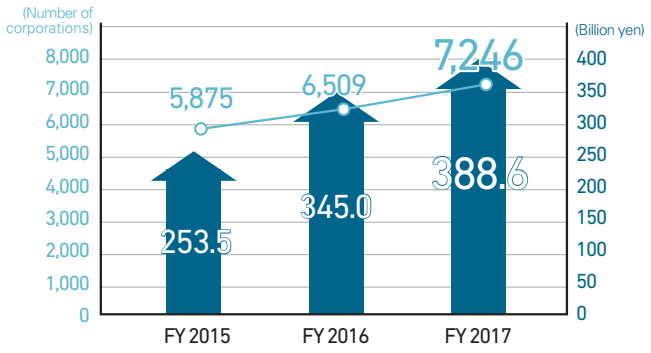
Also, in the fishery field, JF, JF Shingyoren and The Norinchukin Bank share roles as "JF Marine Bank" in a similar way to JA Bank to ensure efficient fund management.

JA Bank's agriculture-related loans

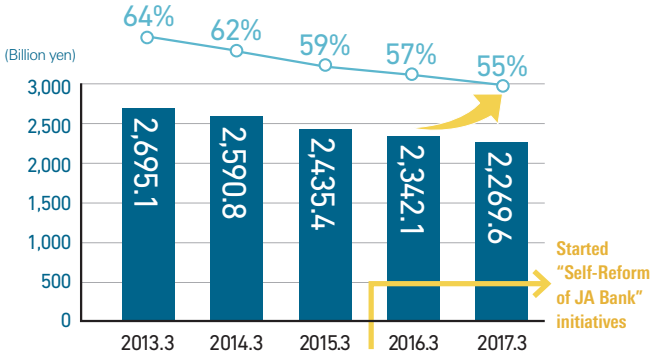


The Norinchukin Bank's lending to agriculture amounts to 40.2 billion yen under the Bank of Japan's narrow industry classification. This is 0.34% of its total lending of 12 trillion yen.
Apart from this, total agriculture-related loans amount to 339.5 billion yen combining lending to agriculture-related groups such as JA Zen-Noh and funds entrusted with Japan Finance Corporation (Excludes the source fund for financing facilities extended to JA Bank, such as the Bank of Japan's loan support program and other policy-based loans).

Trends in the amount of new agricultural loans executed and the number of agricultural corporations as business partners



Trends in the balance of agriculture-related loans and market share



Japan's biggest lender in the "Agriculture" field JA Bank continues to be the main bank for the agriculture industry

JA, JA Shinnoren and The Norinchukin Bank are responsible for different responsibilities at JA Bank with regard to agricultural loans. JA meets the funding needs of small-scale family farmers and agricultural corporations in each region while JA Shinnoren and The Norinchukin Bank play a central role in meeting funding needs for farmers and agricultural corporations running large-scale operations.

As a result, JA Bank's agriculture-related loans total 2.3 trillion yen (including loans facilitated by JA Bank on commission for Japan Finance Corporation) with 1.2 trillion yen at JA, 0.8 trillion yen at JA Shinnoren and 0.3 trillion yen at The Norinchukin Bank, making JA Bank the largest lender accounting for approximately 60% of the total amount of agriculture-related loans (4.2 trillion yen).

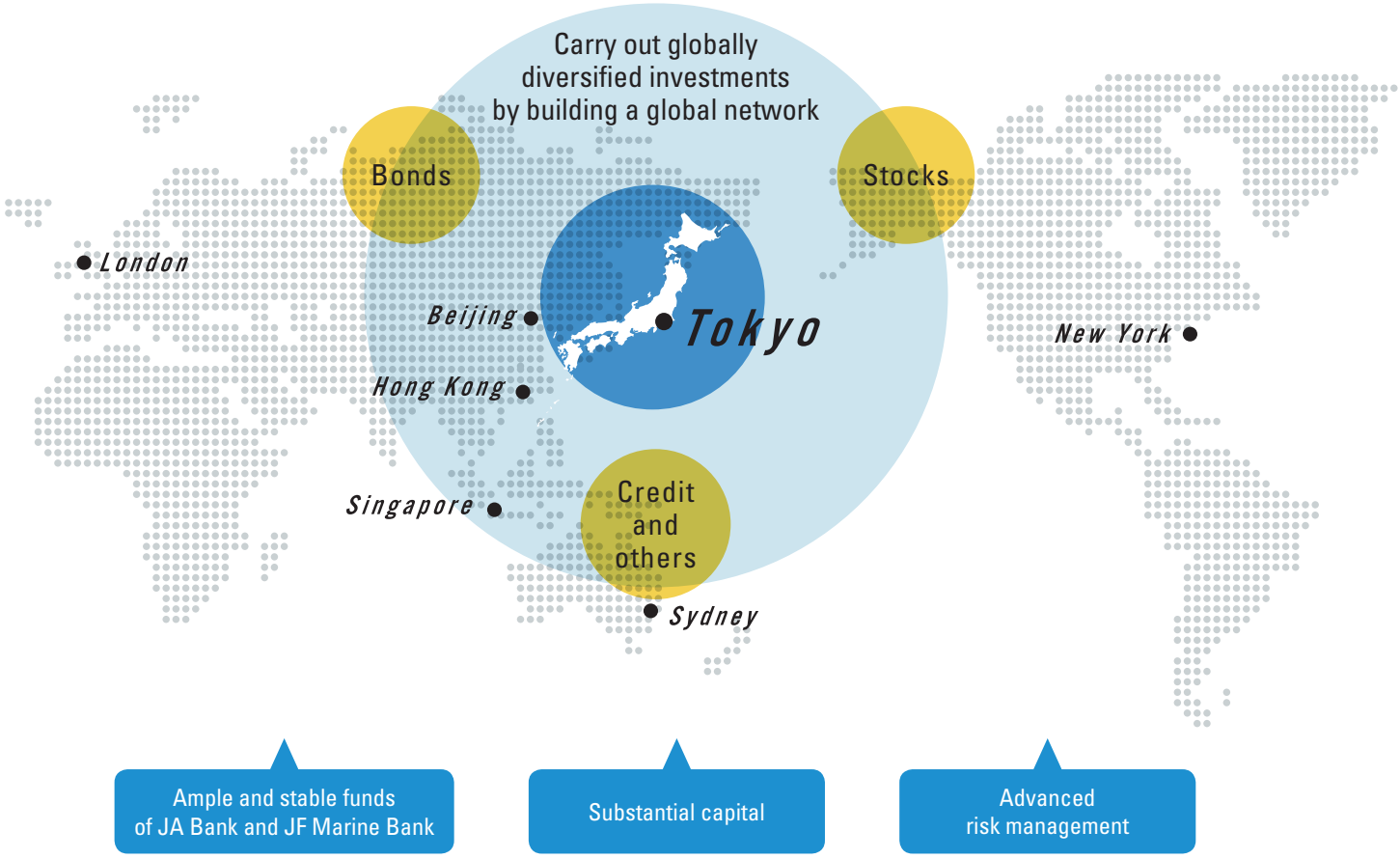
Although a slight decline occurred in the balance of agriculture-related loans of JA Bank for some time past, the balance shifted to an increase on a year-on-year basis as of March 31, 2017, due to an aggressive approach to agricultural corporations. In addition, the amounts of newly made agricultural loans for fiscal 2016 surged 36% from the previous fiscal year, and this increasing trend continued in fiscal 2017.

The growth in JA Bank's agricultural loans comes from efforts by JA, JA Shinnoren and The Norinchukin Bank separately or in alliance to commit to provide funds to agriculture-related fields. A good example is a loan to A-and-S Co., Ltd., an agricultural corporation in Kasaoka-shi, Okayama Prefecture. That story is outlined in "Food and Agriculture Business Supports and Connects the Entire Food and Agriculture Value Chain" on pages 34–38 of this report. JA Kurashiki Kasaya and The Norinchukin Bank, together as JA Bank, provide various financial services to address the needs of the company.

JA Bank will continue to be "the main bank for agriculture" to fully meet the funding needs associated with the expansion of the agriculture industry.

3 Investment Business

Pursuing stable profit as the ultimate manager of funds for JA Bank and JF Marine Bank



Ensuring stable profit over the medium to long term through globally diversified investments based on advanced risk management

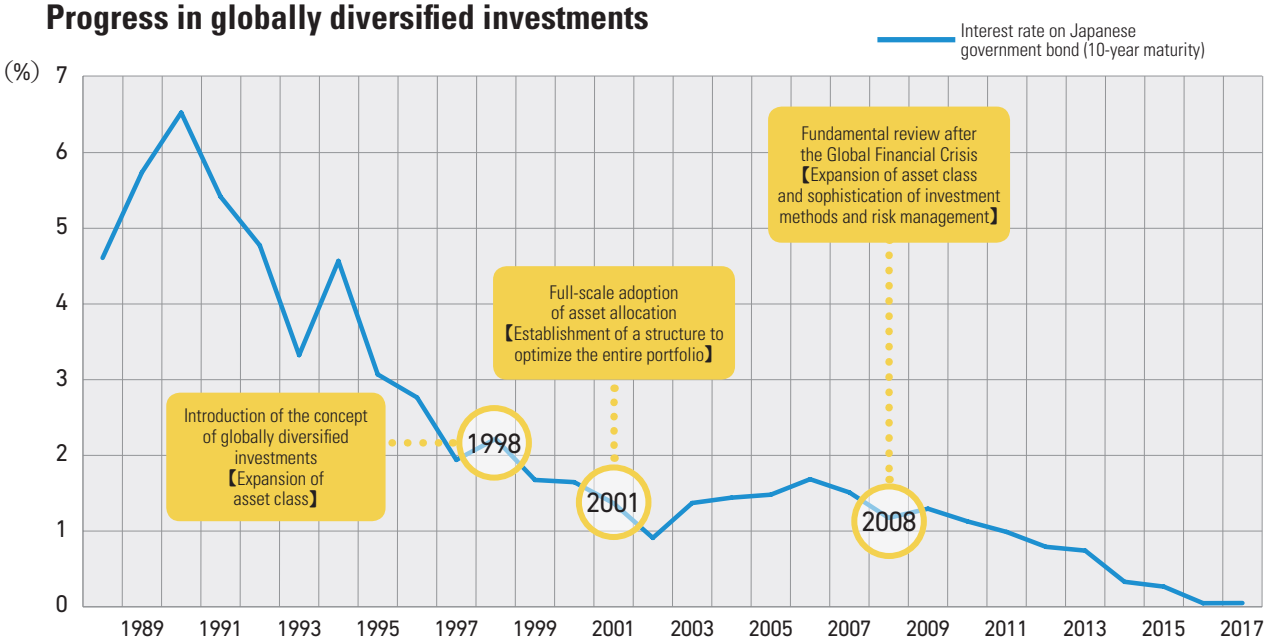
We play a role as the ultimate manager of funds entrusted with JA Bank and JF Marine Bank. To fulfill this role, the Investment Business engages in efficient management taking advantage of economies of scale while continuing to ensure stable profit over the medium to long term and return it to our members as the ultimate objective.

Aiming to achieve this objective, given the era of low-interest rates that began some 20 years ago in Japan, the Investment Business has worked on "globally diversified investments" at an early stage in the global financial markets. We have built a global network using overseas sites including New York, London, Singapore, Hong Kong, Beijing and Sydney. We control the risks of our overall portfolio by conducting due diligence with ample information and diversifying our investments in assets with different risk-return characteristics rather than concentrating investments in limited asset classes.

In particular, we utilize hedging for the risk of exchange rates, which fluctuate considerably, as much as possible for investment in foreign currency denominated assets.

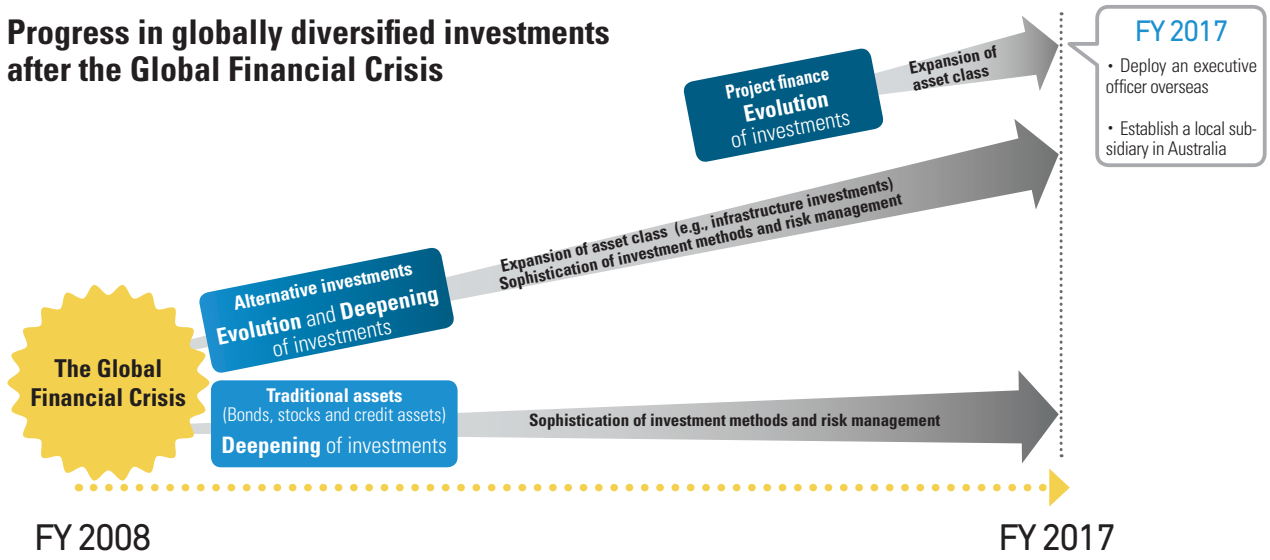
To pursue the utmost stability of profits, we constantly review our investment methods and risk management and will continue taking on the challenge of upgrading our globally diversified investments.

Progress in globally diversified investments



(Figure is based on year-end data.)

Progress in globally diversified investments after the Global Financial Crisis



Evolution and deepening of globally diversified investments to deal with changes in market environments quickly and appropriately

It was 20 years ago—fiscal 1998—when we introduced the concept of "globally diversified investments" amid the prolonged recession after the bubble burst with low interest rates and intensified competition in investments and loans domestically. Given such a harsh environment, we expanded asset class to enhance our asset management capability.

Subsequently, in fiscal 2001, we introduced the concept of asset allocation on a full scale and established an asset management structure to optimize our entire portfolio.

In fiscal 2008, Lehman Brothers collapsed, and we were hit by the impact of the incident. To get through this difficult time, while maintaining the basic concept of globally diversified investments, we made a fundamental review of the asset classes, aiming to ensure the stable return of profits from asset management to our members such as JA, JF and JForest. We strove to establish a sturdy portfolio with low volatility (changes in prices) and resistant to the impact of a plunge in asset prices.

Afterward, we aggressively engaged in the evolution of investments (expansion of asset class) and the deepening of investments (sophistication of investment methods and risk management) as well as structural improvement. Not limited to traditional investments, we entered project finance business and other investments. For global-scale information collection and management, in fiscal 2017, we started to deploy an executive officer overseas and established a local corporation in Australia, striving to reinforce its asset management structure.

Today's globally diversified investments by Norinchukin

It has been 20 years since the introduction of the concept of globally diversified investments and 10 years since the collapse of Lehman Brothers. During that time, our globally diversified investments have continued to evolve and deepen, which is reflected in our current portfolio.

The portfolio is consisted of roughly four kinds of asset classes—bonds, stocks, credit assets and alternative investments—each with different investment targets, which are described below.

In line with the expansion of asset class, the exploration for investment opportunities is also expanding. Our directors and staff in charge of Global Investments have visited as many as 59 countries/regions worldwide for investigation and the number of such locations is expected to increase going forward.

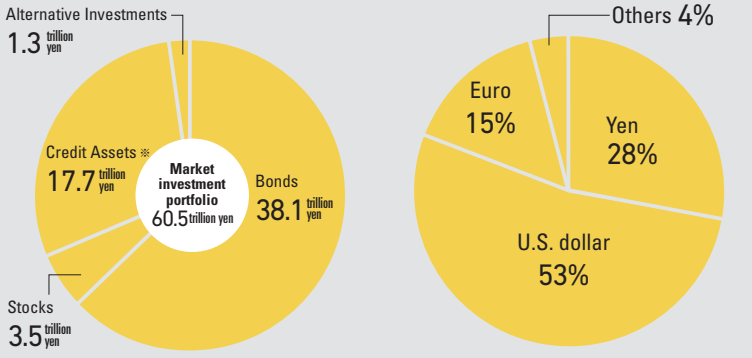
● Bonds
Investment in high-rating bonds such as the government bonds of Japan, the United States and Europe, aiming at stable interest income

● Stocks
Investment in listed stocks to acquire capital gains

● Credit Assets
Investment in securitized products backed by U.S. or European corporate bonds or corporate or retail loans, and conduct project finance to turn credit risks into profits

● Alternative Investments
Investment in real estate, infrastructure, private equities and hedge funds, etc., which are different from traditional assets, aiming to expand the profit base by diversifying investment assets

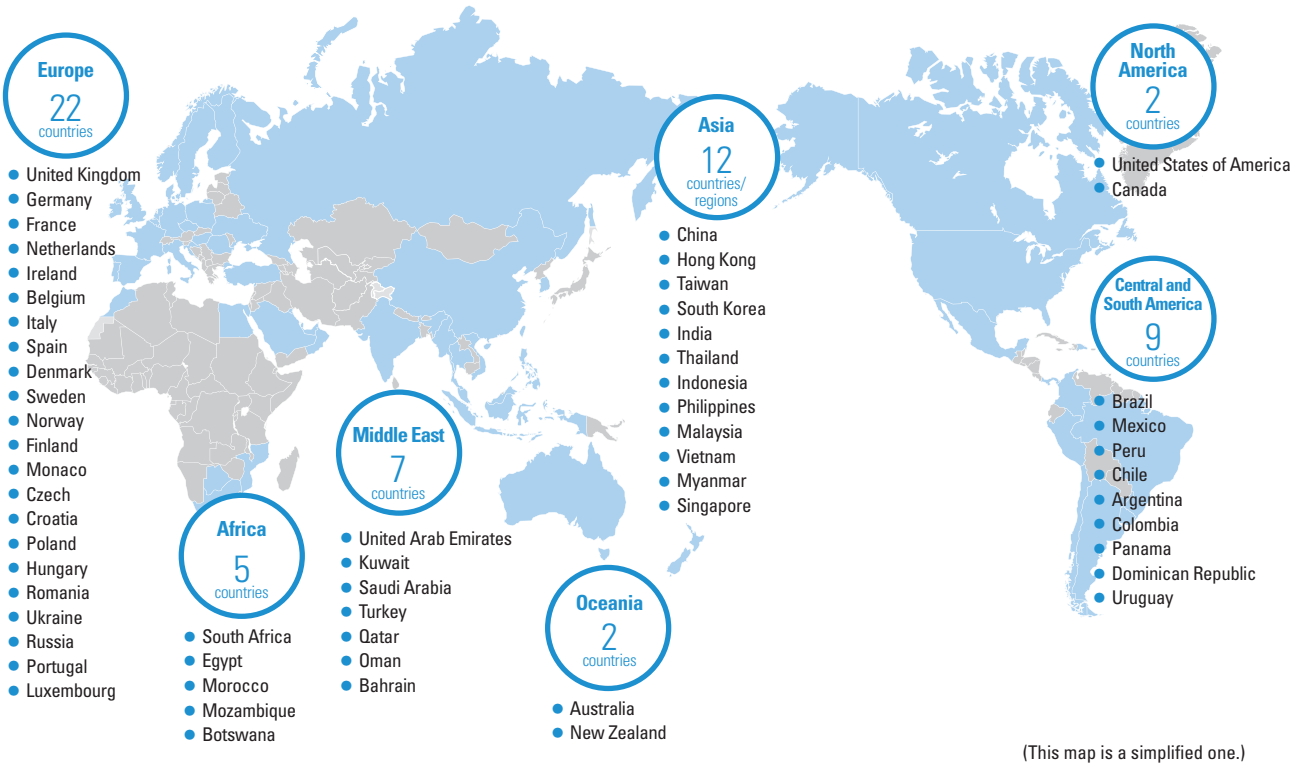
Establishment of a portfolio based on the characteristics of assets



Note: Credit Assets and Alternative Investments are sometimes combined and indicated as "Credit and others."
(The total might not equal the sum of each value due to rounding.)
(March 31, 2018)

Search for investment opportunities

Countries and regions visited by Global Investments staff for investigation and/or negotiations for investment projects



(This map is a simplified one.)

COLUMN

Making globally diversified investments even broader and deeper via project finance

In the Investment Business, we have engaged in project finance on a full scale since fiscal 2014. In fiscal 2015, we newly established the Project and Asset Finance Division.

Unlike corporate finance providing loans according to the creditworthiness of a corporation as a borrower, project finance is a loan to be made after evaluating the profitability of a specific project. If you finance a project with high profitability, you can expect a good profit.

Our project finance portfolio has grown with the number of deals increased to 120 and the outstanding balance advancing to 1 trillion yen. Among them, overseas projects account for 950 billion yen (as of March 31, 2018).

The key to project finance is to see the project. It is indispensable to visit the sites. The staffs in charge have traveled to the United States, Europe, the Middle East, Africa and elsewhere. Because there is also a progress check on the project after financing, the number of overseas business trips is 30-40 annually although there are only around 30 staff members in the Project and Asset Finance Division.

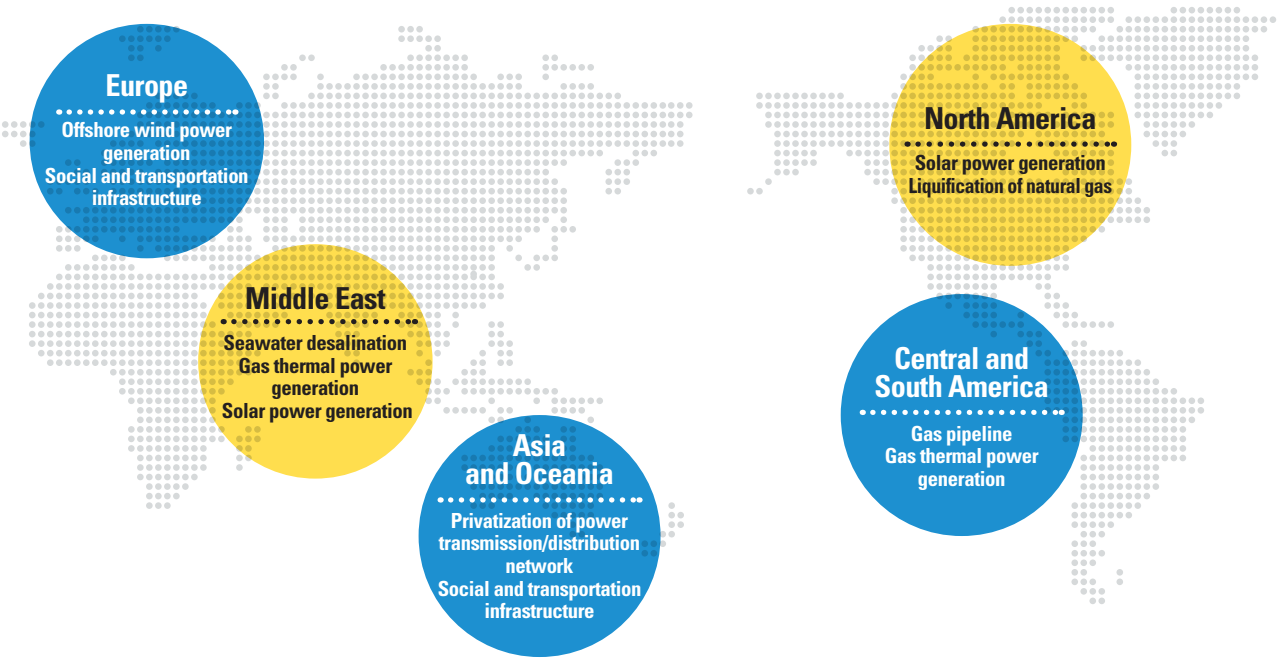
The "Sweihan PV Power Project," which has been progressing in Abu Dhabi Emirate of the United Arab Emirates (UAE), is a project in which we decided to make loans at the end of FY 2016. Marubeni Corporation, Jinko Solar Holding Co., Ltd., a solar panel giant in China, and Abu Dhabi Water and Electricity Authority have been building a world-class solar power plant over two years with 3 million solar panels, generating maximum output of 1,170 megawatts in a desert site of 8 square kilometers to be sold for 25 years. Of the total US $ 670 million in loans necessary for this project, we finance US $ 150 million.

Even in the project finance for this Sweihan project, our investment continues to deepen. Hidetoshi Hasegawa, Deputy Head of the Project and Asset Finance Division of Global Investments who has taken charge, says,

"For us, it was our first investment as one of the main players in a project with high importance in the Middle East, so we focused on gathering information in the local area and neighboring countries. We have been visiting the Middle East again and again for a year. In addition, to understand the panel production, we visited the factory of Jinko Solar Holding Co., Ltd. in China. The financial analysis such as the cash flow analysis is the same as the conventional investment analysis, but the evaluation of the technology is hard. There have been many discussions with business operators since the buildup stage of the project. It is a long and repetitive "seeing is believing" process that involves meeting the business operators, meeting the experts, and visiting the sites."

Such project financing will extend further and evolve our globally diversified investments. We aim to further strengthen such investment from now on.

Project finance deals worldwide in which Norinchukin is involved



Corporate Data

Consolidated financial results highlights

	Fiscal 2015	Fiscal 2016	Fiscal 2017
Ordinary Profits	324.9 billion yen	214.0 billion yen	171.0 billion yen
Profit Attributable to Owners of Parent	271.2 billion yen	206.1 billion yen	147.6 billion yen
Net Assets	7,186.7 billion yen	7,008.8 billion yen	6,746.0 billion yen
Common Equity Tier 1 Capital Ratio	18.94%	19.31%	19.02%
Tier 1 Capital Ratio	18.99%	19.34%	19.02%
Total Capital Ratio	25.07%	24.39%	23.50%

Name		The Norinchukin Bank
Role		A national financial institution of cooperative organizations whose members include agricultural, fishery and forestry cooperatives which contributes to the advancement of Japan's agriculture, fishery and forestry industries
Date of establishment		December 20, 1923
Representative		President & Chief Executive Officer: Kazuto Oku
Paid-in capital		¥3,480.4 billion (As of March 31, 2018)
Total assets (On a consolidated basis)		¥104,927.7 billion (As of March 31, 2018)
Members (Shareholders)	3,585 groups	Japan Agricultural Cooperatives (JA), Japan Fishery Cooperatives (JF), Japan Forestry Cooperatives (JForest), and related federations, as well as other agricultural, fishery and forestry cooperative organizations that have invested in the Bank (As of March 31, 2018)
Number of employees	3,608 people	(As of March 31, 2018)
Number of business locations	42 sites	(In Japan) Head office: 1 Branch: 19 Office: 17 (Overseas) Branch: 3 Representative office:2 (As of March 31, 2018)

Departments and titles of persons appearing in this report are those as of the time of each interview, in principle.

The Norinchukin Bank
VALUE REPORT 2018
Published in August 2018 by the Corporate Planning Division

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