

Dialogue With Experts



To reach higher levels of sustainability management, the Norinchukin Bank engages in dialogues with experts every year.

In the third dialogue held in April 2021, two experts joined with our President and CEO and other directors for a dialogue. These experts engaged in a practical discussion of “the global environmental crisis and the future of agriculture” and “the trends in sustainable finance and impact investing”. We will utilize the knowledge gained from this dialogue in steadily advancing our sustainability management.

Participants

Sustainability Experts

Mr. WAKUI Shiro

Distinguished Professor,
Tokyo City University

Mr. IKEDA Satoshi

Chief Sustainable
Finance Officer,
Japan Financial Services
Agency

The Norinchukin Bank Participants

OKU Kazuto
Representative Director and President, Chief Executive Officer

YAGI Masanobu
Representative Director and Managing Executive Officer

YUDA Hiroshi
Director and Managing Executive Officer

AKIYOSHI Ryo
Director and Managing Executive Officer

ITO Yoshihiro
Director and Managing Executive Officer

YOSHIDA Hikaru
Director and Managing Executive Officer

FUJISAKI Kei
Director and Managing Executive Officer

IWASO Satoshi
Managing Executive Officer

UMEDA Yasuhiro
Managing Executive Officer

KITA Masakazu
Managing Executive Officer

KAWAMOTO Shin
Managing Executive Officer

KAWADA Junji
Managing Executive Officer

UTSUMI Tomoe
Managing Executive Officer

KITABAYASHI Taro
Managing Executive Officer

MIYACHI Shigeo
Audit and Supervisory Board

ITO Akiko
Audit and Supervisory Board

(MC)

NODA Haruo
Deputy General Manager, Sustainability Management
Department, Corporate Planning Division

Expert Lecture #1

Mr. WAKUI Shiro

After studying at the Department of Landscape Architecture at the Faculty of Agriculture at Tokyo University of Agriculture, Mr. WAKUI has worked in a variety of landscape planning roles as a landscape architect, including as a general producer for the Expo 2005 Aichi Japan venue. He has served as the Acting Chairman of the Japan Committee of the United Nations Decade on Biodiversity, as a member of the selection committee for the New National Stadium, and on many other national and local public organizations and committees. Mr. WAKUI has served in a number of roles over his career, including distinguished professor, Tokyo City University; president of Gifu Academy of Forest Science and Culture; president of Nagoya Open University of the Environment; specially appointed professor of the Faculty of Economics, Aichi Gakuin University; visiting professor of the Chubu Institute for Advanced Studies, Chubu University; and visiting professor of the Faculty of Regional Environmental Science, Tokyo University of Agriculture.



The Global Environmental Crisis and the Future of Agriculture

The current loss of biodiversity is at crisis levels, and is a topic of worldwide discussions. This sense of crisis originates in our belief that while the earth is a planet replete with life, we fail to fully understand that the areas on our vast planet richest in life are limited. Since the time of the Industrial Revolution, humanity has been using natural resources as if they were inexhaustible.

One possible way to solve this problem is through coexistence with nature. Since ancient times, the Japanese have managed to live in harmony with nature by classifying nature into two types—nature governed by the gods and nature created by humans. The people of Japan have been using community forest systems such as *satoyama* to achieve circular production for human prosperity and biodiversity. Behind this is the significant impact of frequent natural disasters. The AFF industries have significant value in creating social immunity to natural disasters and contributing to disaster prevention. At the same time, the AFF industries, which produce goods while managing national lands, are coming under increasingly stringent scrutiny.

Throughout world history, pandemics have been followed by civilizational shifts. We are seeing major social transformations as a result of COVID-19, not least of which is the popularization of remote working. In such times of transition, we can reaffirm the importance of Public Interest Capitalism—sustainability-conscious social and economic systems—and of maintaining a healthy AFF industries environment. It is my hope that the Norinchukin Bank will use its position as a financial institution to treat nature itself as a type of capital, and promote investment and finance in initiatives that value this function.

Expert Lecture #2

Mr. IKEDA Satoshi

Mr. IKEDA joined the Ministry of Finance in 1996. Since 2008, he has been working at the Financial Services Agency (FSA). In 2019, he became the Chief Sustainable Finance Officer at the Japan FSA. Mr. Ikeda has worked in a wide range of sustainable financing fields, including head of implementation of TCFD recommendations in Japan, and the secretariat of the FSA's SDGs Strategic Initiatives Project Team. He is also the vice-chair of the national advisory board of the Global Steering Group for Impact Investment, a study group on impact investing co-sponsored by the Financial Services Agency (FSA) and the World Bank.



Trends in Sustainable Finance and Impact Investment

Looking back on recent developments in financing and considering the Lehman Shock and the subsequent global financial crisis, we have been searching for ways in which finance can make contributions to the real economy. People are becoming more aware of the negative impact that economic activities can have on the environment and societies. There have been discussions into the functions of finance as a solution. These discussions are influencing global rule making and the way finance is being conducted. Against this background, global discussions have been held regarding sustainability disclosure standards. In particular, active discussions have been held on the disclosure of the impact of environmental and social issues on corporate performance (single materiality), as well as the impact of corporate activities on the environment and society (double materiality). There is a growing consensus that the impact of sustainability issues such as climate change on business can also impact corporate value. A company's environmental and social impact is also considered to have a ripple effect on the company's own corporate value. Given this assumption, financial institutions must factor environmental and social issues into their risk-return assessments.

Impact investment is one way to use finance to solve environmental and social issues. Impact investment evaluates investments and finance by adding the third axis of environmental and social impact to the risk-return assessment. This practice can lead to opportunities for financial institutions to create shared value if the impact investment has a significant impact on sustainability issues important to the financial institution. The Norinchukin Bank has established its own Purpose. Many other companies are moving to define their own purpose, and given the points raised above, financial institutions are being asked to reexamine their own purpose.

Q&A



YAGI We have received explanations about the status of discussions on sustainability disclosures, single materiality, and double materiality, and we are reminded again that are very important matters for discussion. Do you have any advice regarding how we as financial institutions and businesses should adapt and move forward with information disclosure?

IKEDA Regarding information disclosure, merely following global trends is not enough. Financial institutions must look further ahead. We should take into account certain types of public interest and sustainability. When we talk about the public interest in Japan, we tend to focus on entities close to the company, mainly business partners and employees. However, in the future, we will need to talk about public interest and sustainability on a global scale. Put differently, we must implement initiatives that enrich humanity, while also reducing our ecological footprint. I think it is vital to discuss how we disclose these initiatives to ensure they are understood by our stakeholders. We also expect that the development of disclosure standards will continue, a wide range of sustainability issues. I think that the Norinchukin Bank should consider contributing to these efforts.

YUDA The Bank has set a goal of 10 trillion yen in sustainable finance by 2030. This is a significant goal, but substance and quality are also important. Some areas are still in flux, such as the debate on disclosure. I think that it is important to not only keep pace with global trends, but also ask ourselves what will be important in the future, linking these matters to our investment behavior.

IKEDA The first thing we must consider is how to incorporate elements of sustainability effectively into our investment and lending framework. If we incorporate these elements, we must identify how these elements will impact the value of investment and lending, as well as what information to collect and use in evaluating that impact. Regardless of the amount of information collected, investment and finance decisions are ultimately judgment-based



in the end. We can improve the quality of investment and finance decisions by establishing a knowledge base of sustainability factors and developing human resources. Even if the results are not immediate, we should see impactful changes in ten years.

WAKUI Environmental and social issues, or hot spots, such as biodiversity, hunger, and poverty are of particular concern. I think we should use investment and finance that addresses these hot spots directly. Doing so will help us understand how these topics affect society. Naturally, investment and finance in these fields comes with its own risks, so we must ensure some way to follow through. Monitoring these hot spots and reporting results globally on an ongoing basis should give us an advantage when it comes to the process of making rules. I think that the Norinchukin Bank, as an institutional investor, should participate in international discussions about sustainability. Japanese people tend to follow rules, but can show apathy in the rule-creation process. It is important that we commit to this rule-making process.



ITO When financial institutions try to improve the practice of sustainable finance and the quality of their engagement with companies, there is a limit to the amount of risk assets they can use. This could result in unintended divestments. During transitional periods, certain national policies or transitional measures may be necessary. What is your opinion about how changes to the industrial structure should proceed?

IKEDA One solution to the issue you pointed out is transition finance. The final determination on investment and financing hinges upon whether companies with a large carbon footprint can create a transitional roadmap toward something consistent with 2050 carbon-neutrality targets by combining existing low-carbon technologies and technological innovations.

There will of course be in place policies to support initiatives by companies to create roadmaps charting a course consistent with carbon neutrality. I think the role of Japanese financial institutions is to use these initiatives and to finance such companies to aid in

making these changes. As you touched on when talking about risk assets, encouraging a shift in investment and finance clients will lead to reductions in risk. While divestments may lower portfolio risk in the short term, divestments do not reduce the environmental and social risks themselves. These risks may have a negative impact on the portfolio at some point.



KITABAYASHI In France, farmers raise cows suited to the terrain, and farmers make cheeses using local bacteria. Many consumers with whom these values resonate purchase these cheeses, even if they are a little more expensive. When reflecting on how to promote this type of food culture in Japan, what changes must occur, including changes in consumer behavior?

WAKUI In France, the concept of terroir in the world of wine is well known. Terroir is the flavor of the land. Japan already has an established culture of enjoying foods only available in certain areas. Japan's *Michi-no-Eki* (Roadside Stations) are a perfect example of this. When people serve food to their families, many use ingredients offering peace of mind and safety, even if these ingredients cost more. We need to understand how the actions of every one of us impact the environment. We need to push steadily toward changing our activities on an individual level.

KAWAMOTO You mentioned the significance of the multifaceted value of the AFF industries. However, I don't think the general public is fully aware of this value. Do you have any effective approaches or ideas to encourage more people to understand and resonate with this sense of value?



WAKUI Creativity is important. We need to understand that the biodiversity created from the AFF industries is not merely forms of life, but also diversity of cultures. It is important to think about what we can create. One example is a

business started to grow *warabi* bracken in areas previously deforested and neglected. Changing our outlook may well provide business opportunities in this space that had been overlooked in the past.

IKEDA From a financial perspective, financial institutions have an incentive to engage in investment activities that contribute to solving the environmental and social problems that form the basis of these investments and loans to protect the value of the entire investment and lending portfolio. The Norinchukin Bank is an institutional investor with based in the AFF industries. In the context of increasing the value in this space, the Bank can play a role by using financing to solve environmental and social issues.



Summary of Dialogue: OKU Kazuto, President and Chief Executive Officer



Thank you all for today's very worthwhile discussions.

The Norinchukin Bank has defined our Purpose, and we have set the Medium/Long-Term Goals to achieve this purpose by the year 2030. One goal is to be carbon-free. Another is to increase the income of people engaged in the AFF industries. At present, we are still in discussions as to how to define some of these goals and how to put them into practice specifically. Today's thought-provoking talks and the opinions expressed will be factored into future discussions because we are in the practical phase. I want to incorporate the following three points in particular.

- ① How to achieve coexistence with nature? In particular, how we should approach and work on food culture and biodiversity in solving issues?
- ② Initiatives should be tailored to the characteristics of each space, such as mountainous or urban areas. Given these characteristics, we should consider initiatives for the public good, such as carbon free and disaster prevention, as well as initiatives to attract people back to sparsely populated areas.
- ③ How do we confront sustainability as a financial institution and investor? How do we create impact through not only risk and return, but also through an awareness of time horizon? I want to return to our Purpose and think about what we can achieve through finance.

Although we have just finished setting goals, we intend to confront these challenges proactively. I welcome your continued guidance and support.