

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit rating.

## **National Mutual Insurance Federation of Agricultural Cooperatives (security code: -)**

<Assignment>

Subordinated Loan: Preliminary AA-

### *Rationale*

<Issuer's Profile>

National Mutual Insurance Federation of Agricultural Cooperatives ("Zenkyoren") is a cooperative insurance organization of the JA (Japan Agricultural Cooperatives) Group. With its strength in operations of both life and non-life insurance businesses, Zenkyoren supports the livelihoods of JA members and policyholders nationwide by providing a wide range of security based on the philosophy of mutual aid. The JA Insurance business is managed together with nationwide Agricultural Cooperatives (JAs), and Zenkyoren is responsible for various planning, development of schemes (product development), asset management operations, accumulation of reserves for future mutual aid insurance payments, and so forth. Insurance Business Act does not apply to the JA Insurance business, but Agricultural Cooperatives Act, etc. impose the same level of regulation as the Insurance Business Act.

Zenkyoren's issuer credit rating reflects the creditworthiness of the JA Kyosai Group, which includes The Kyoei Fire and Marine Insurance Company, Limited under its umbrella and others, and JCR values it as equivalent to "AA+" based on factors including the solid business foundation, stable earnings capacity, prudent risk-taking policy, and high level of capital relative to risks. While the presence of JA Group has a positive effect on Zenkyoren in terms of the wide customer base, as JCR does not take into consideration a possibility of financial or other support from JA Group, JCR does not consider that JA Group's creditworthiness will directly affect Zenkyoren's issuer credit rating.

<Rationale for Rating on Loans>

JCR preliminarily rated the Subordinated Loan at a level two notches below the long-term issuer rating for Zenkyoren.

In rating hybrid securities, JCR sees: (i) probability of deferral of interest or dividend payments in accordance with the deferral clause (probability of deferral) is usually higher than the probability of an issuer's falling into default (probability of default); and (ii) ranking of claims at the time of bankruptcy is subordinated to the ranking of claims to ordinary debts, and as a result, probability of recovery is lower (subordination property).

Ranking of claims to the Subordinated Loan at the time of Zenkyoren's bankruptcy is subordinated to all debts (excluding the Subordinated Loan and the subordinated debts ranking pari passu with the Subordinated Loan, etc.). Furthermore, mandatory interest suspension and optional interest suspension clauses are stipulated for the interest payments, and it is also provided that the principal repayment will be deferred if and when certain requirements are not satisfied (repayment requirements). JCR views that the probability of the actual suspension of the interest payments and that of the deferral of principal repayment are low at the moment, taking into account, among others, Zenkyoren's financial conditions. JCR decided the notching from the long-term issuer rating in light of such subordination property and deferral clause for the principal and interest payments.

<Assessment of Equity Content of Loans and Rationale>

JCR determined equity content of the Subordinated Loan at "low" or "25" (against 100 of a stock).

JCR takes into account that "there is no obligation to redeem principal or no maturity," "there is no obligation to pay dividends" and "ranking of claims at the time of bankruptcy is subordinated" when assessing the equity content of hybrid securities.

While the period to maturity is as long as 30 years, it is still significantly short as compared with ultralong-term products JCR evaluates as such, which is reflected in the equity content assessment.

Early repayment is possible after the lapse of 10 years from the loan execution. In addition, early repayment, etc. as a result of occurrence of Regulation Events, Tax Events owing to Zenkyoren or an issuer (Zenkyoren 1st Subordinated Loan Securitization Company Limited) of bonds to be issued with this loan receivable as underlying asset (the “Bonds”), Rating Events owing to changes in assessment of equity content by a credit rating agency or other events are also possible. As the interest rate will be 5-year JGB interest rate plus certain spreads including 1% step-up interest rate after the lapse of 10 years from the loan execution, the incentives for early repayment are high. As conditions for early repayment, however, Zenkyoren is required to maintain a satisfactory regulatory capital ratio or raise funds through capital instruments in the amount exceeding the repayment amount. Moreover, Zenkyoren has strong incentives to maintain and strengthen the capital base for the Group from the viewpoint of business characteristics and remaining competitive. JCR thus considers it is extremely unlikely that Zenkyoren will make early repayment that will impair the financial bases of the Group and itself and factored this view into the assessment of the effective repayment obligation and maturity. This judgment reflects, along with other factors, the following: (i) JCR, based on hearing from Zenkyoren, was able to ascertain Zenkyoren’s future financial management policy including the position of the Subordinated Loan; and (ii) Zenkyoren has been winning confidence of investors and creditors by maintaining good relations with them in the financial market for a long period of time.

As for the interest, despite the provision of the mandatory interest suspension clause, conditions for activation of this clause are far from the ones that can surely stop the interest payments prior to bankruptcy. However, the optional interest suspension clause provides a mechanism whereby the interest payments can be suspended as a whole in a stressful situation. For the assessment of the equity content, JCR took into consideration other factors including the ranking of claims to the Subordinated Loan being subordinated to that of claims to the senior obligations of Zenkyoren at the time of bankruptcy in addition to these mechanisms for maturities and interest suspension.

Given that, after the lapse of 10 years from the loan execution, the remaining period will be less than 20 years, JCR will consider lowering the assessment of the equity content to a debt level.

Kiichi Sugiura, Tomohiro Miyao and Seito Achiha for Issuer  
Kiichi Sugiura, Akira Minamisawa for Hybrid Securities

## Rating

Issuer: National Mutual Insurance Federation of Agricultural Cooperatives

### <Assignment>

Issue	Amount (bn)	Execution Date	Repayment Date	Interest Rate	Preliminary Rating
Subordinated Loan	JPY 80 (scheduled)	Oct. 25, 2021	(Note 1)	(Note 2)	AA-
(Note 1):	3rd business day prior to Oct. 25, 2051				
(Note 2):	Fixed rate until Oct. 25, 2031 (10-year JGB interest rate + initial spread). It will switch to 5-year JGB interest rate + initial spread + 1.00% every 5 years after Oct. 25, 2031.				
Early Repayment:	Repayment after the lapse of 10 years from the loan execution Repayment upon occurrence of Regulation Events, Tax Events, Rating Events or Gross-up Events Repayment upon buy-back of the Bonds				
Replacement:	No replacement language in the contract, etc., but repayment requirements, including maintenance of solvency margin ratio, must be satisfied for repayment.				
Optional Interest Suspension:	Zenkyoren may suspend interest payment at its discretion.				
Mandatory Interest Suspension:	In cases where there is shortage of regulatory capital or prompt corrective action by authority				
Accumulation/Non-Accumulation:	Accumulation				
Ranking of Claims:	The Subordinated Loan is subordinated to all debts (excluding the Subordinated Loan and the subordinated debts ranking pari passu with the Subordinated Loan, etc).				

### <Reference>

Long-term Issuer Rating: AA+      Outlook: Stable

Rating Assignment Date: September 7, 2021

The assumptions for the credit ratings and the definitions of the rating symbols are published as "Types of Credit Ratings and Definitions of Rating Symbols" (January 6, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

Outline of the rating methodology is shown as "JCR's Rating Methodology" (November 7, 2014), "Life Insurance" (July 1, 2013), "Non-Life Insurance" (July 1, 2013), "Ratings of Hybrid Securities" (September 10, 2012), "Rating Methodology for Assessment of Hybrid Securities' Equity Content" (July 27, 2017) and "Rating Methodology for Financial Institutions' Capital and TLAC Instruments" (April 27, 2017) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

**Glossary:**

A preliminary rating is a credit rating assigned as a preliminary evaluation while material terms for issue to be rated are not yet finalized. When the issuing terms are finalized, JCR will confirm them and will assign a credit rating anew. The rating level of the final rating may be different from that of the preliminary rating, depending on the final content of the terms, etc.

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JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case that it takes time to translate rating rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publicize the summary version in English.)

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## INFORMATION DISCLOSURE FORM

Japan Credit Rating Agency, Ltd.

### Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

Issuer:	National Mutual Insurance Federation of Agricultural Cooperatives
Rating Publication Date:	September 10, 2021

**1** The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

- Please see the news release. If the credit rating is a private rating, please see the report for private rating.

**2** The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

- Please see the news release. If the credit rating is a private rating, please see the report for private rating.

**3** The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

- The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer's condition and business environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees.
- The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

**A) Business Bases**

The likelihood of a given debt payment is highly conditional to its issuer's business bases - how they can be maintained/ expanded into the future and thereby secure earnings and cash flows in adequacy and in a sustainable way.

**B) Financial Grounds and Asset Quality**

The likelihood of debt payment is highly dependent on the degree of the issuer's indebtedness and loss absorption capacity in terms of equity capital. Also notable is that a financial institution might see a significant loss of financial grounds as a result of changes in value of the assets under its possession.

**C) Liquidity Positions**

The likelihood of debt payment is highly dependent on the adequacy of the issuer's cash and other sources of repayment (liquidity positions).

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The likelihood of debt payment is affected one way or the other by the issuer's related parties such as parent company, subsidiary, guarantor, and the government of the issuer's business domicile, etc. - by their own conditions and/ or position of support/ assistance for the issuer.

E) Order of Seniority in Debt Payment

The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuer's discretion, and/ or its rank relative to other debts of the same issuer in the order of seniority in principal/ interest payment which is determined by design as financial product or by laws, etc.

4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.
- The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/ or circumstances which include regulatory environment, and hence subject to possible alteration.

5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

- The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

- There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

- There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule 17g-7

- The information posted in the below, which includes data, is used for the determination of the credit rating herewith presented.

- A) Audited financial statements presented by the rating stakeholders
- B) Explanations of business performance, management plans, etc. presented by the rating stakeholders
- C) Documentation of the rated financial product presented by the rating stakeholders

## 9 Overall assessment of the Quality of Information Available and Considered in Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

- JCR holds its basic policies for securing the quality of information as a base of due diligence for the determination of credit ratings. The information used as a base for the determination of credit rating herewith presented satisfies such policies, which include the audit by an independent auditor, the warranty made by the issuer, the publication by the issuer, some independent media or, otherwise, JCR analyst's scrutiny, etc.
- JCR sees no particular weakness in the quality of information used for the determination of the credit rating herewith presented as compared to the information used in other cases of the credit rating for comparable issuers or ratable objects.
- If the credit rating is an Indication, please see the report for Indication.

## 10 Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

- JCR receives payment of compensation for the determination of the credit rating herewith presented from either one of those parties who are issuer, underwriter, depositor or sponsor.
- JCR received in the last fiscal year in the past payment of compensation from the same party for any kind of JCR's service other than the determination of public or private credit rating, such as one in the ancillary business.

## 11 Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7

### A) Business Bases

The credit rating is subject to alteration if there is improvement or deterioration of the issuer's business bases, since its revenue, etc. may improve or deteriorate by the change in its business management policies, clients' preferences, competitive situation, or a technological innovation. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the business bases is large.

### B) Financial Grounds and Asset Quality

The credit rating is subject to alteration if the issuer increases/ decreases its debt/ capital or vice versa and thereby makes its individual debt payment liability less or more bearable and its loss absorption capacity into the future decreased or increased. Also, the changes in the quality of asset under the issuer's holding may affect the credit rating, since such changes could raise or lower the likelihood of future loss of the issuer's financial grounds. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the financial grounds and/ or asset quality is large.

### C) Liquidity Positions

The credit rating is subject to alteration if there is a change in the issuer's financial management policy or in the relations with fund procurement sources and the change thereby makes its liquidity

positions improve or deteriorate. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

**D) Related Parties' Status and Stance of Support/ Assistance for the Issuer**

The credit rating is subject to alteration if there is a change in the issuer's parent company or subsidiary, guarantor or other provider of credit enhancement, or the government of the issuer's business domicile, or other related parties' own conditions and/ or position of support/ assistance for the issuer, and the change thereby makes its business bases, financial grounds and/ or liquidity positions improve or deteriorate, and/ or making the effectiveness of guarantee and other credit enhancement improve or deteriorate. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

**E) Order of Seniority in Debt Payment and Non-Payment Forgiven by Contract**

The credit rating is subject to alteration if there is a change in the rated debt's status in the order of seniority relative to other debts caused by the improvement/ deterioration of the issuer's financial condition. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large. Also, in case of the financial products for which non-payment of interest/ principal is contractually permissible, the credit rating is subject to alteration if and when the likelihood of such non-payment is projected to increase or decrease. The resultant alteration of the credit rating could be by a notch but often as much as a few notches.

**F) Rise and Fall in General Economy and Markets**

The credit rating is subject to alteration if there is a rise/ fall in the general economy and/ or the markets inducing the issuer's revenues/ expenses to increase/ decrease and vice versa, etc. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is exceptionally large.

**G) Various Events**

The credit rating is subject to alteration on occurrence of various events, such as change in the issuer's major shareholders, M&A and other organizational change, accident, violation of the law, litigation, legal/ regulatory change, natural disaster, etc., which are unforeseeable at the time when the credit rating is determined, causing a significant change on the issuer's business bases, financial grounds, etc. The resultant alteration of the credit rating could be by a notch but more often than not as much as a few notches.

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Information on the Content of the Credit Rating, Including the Historical Performance of the Credit Rating and the Expected Probability of Default and the Expected Loss in the Event of Default as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- Facts of the probability of default are posted as Form NRSRO Exhibit 1 on the JCR website under the URL:

<https://www.jcr.co.jp/en/service/company/regu/nrsro/>

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Information on the Sensitivity of the Credit Rating to Assumptions Made as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

**A) Business Bases**

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's business bases and powers of earning or cash flow generation, etc. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's business bases on some drastic change in the operational environments, etc.

B) Financial Grounds and Asset Quality

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's financial grounds and asset quality. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's financial grounds and/ or asset quality on some drastic change in its business bases.

C) Liquidity Risks

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's liquidity positions. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's liquidity positions on some drastic change in its financial management policy or relations with fund procurement sources, etc.

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's parent company or subsidiaries, guarantor or other providers of credit enhancement, the government of the issuer's business domicile or other related parties' status and stance of support/ assistance for the issuer. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if there is a major change on the part of related parties, such as replacement, disappearance, some drastic improvement/ deterioration of financial grounds/ balances, etc.

E) Order of Seniority in Debt Payment and Non-Payment Forgiven by Contract

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the order of seniority in repayment of interests and principal. JCR assumes the resultant change of the credit rating is most likely by a notch. The change could be as much as a few notches if the issuer's financial structure differs so much and thereby the balance between debts shifted so greatly. Rating change is also possible in case of the financial products for which non-payment of interest/ principal is contractually permissible, if and when the assumptions made at the time of its determination turns out to be inaccurate. The change of the credit rating is assumed to be by a notch but often as much as a few notches.

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Information on the Representations, Warranties, and Enforcement Mechanisms of an Asset-backed Security as Required by Paragraph (a)(1)(ii)(N) of rule 17g-7

- The credit rating herewith presented is not for an ABS product, and hence no relevant issue.

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## Attestation Required by Paragraph (a)(1)(iii) of Rule 17g-7

I, Shozo Matsumura, have responsibility to this Rating Action and to the best of my knowledge:

- A) No part of the credit rating was influenced by any other business activities.
- B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated.
- C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

松村省三

Shozo Matsumura

General Manager of Financial Institution Rating Department

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