

# Circulation of Capital and Materiality Management

## (4) Circulation of Capital

The capital needed to execute business operations usually consists of cash, equipment, and other tangible assets that appear on financial statements, as well as intangible assets that do not convert so easily into money, like human resources, know-how, and networks. We must inject both financial and non-financial capital into our businesses and establish a mechanism through which our launching pad for growth is enhanced in a sustained manner by the (1) circulation of capital within our businesses, for example, the generation of profits and development of human resources through business execution, as well as client base expansion, and the (2) circula-

tion of capital outside of our businesses whereby benefits that extend beyond the Group recirculates to the Group in the long term due to the internalization of the external economy. The framework demonstrated by the SuMi TRUST Group to circulate capital through social issue-solving businesses is part of our unique value creation process. It is a platform for incorporating so-called integrated thinking\* into corporate management.

\* The consideration of management from a medium- to long-term perspective utilizing all financial and non-financial capitals that depend on, and are affected by, the business model of the company

Capital	Three areas of value	The SuMi TRUST Group definitions and metrics (March 31, 2021 or FY2020 results)
Financial	Financial	Capital: 9.4% common equity Tier 1 capital ratio (finalized Basel III standards) Total assets: ¥62trn
	Manufactured	Network: 150 offices in Japan, 10 offices overseas (optimally placed network)* SBI Sumishin Net Bank accounts: 4.51mn IT system expenses: ¥47.2bn*
Non-financial	Human	Consolidated employees: 22,139 Diversity & Inclusion: 11.8% weighting of women in section manager or higher positions* (target of at least 12% by March 31, 2023) Employee satisfaction survey: vitality level of 60.4, satisfaction level of 63.2* Employees with certifications: 7,356 registered real estate transaction agents, 44 fellows of the Institute of Actuaries of Japan, 271 financial consultants*
	Intellectual	Total training hours: 4,690; training costs: ¥342mn* Future creation activities (employee-driven ideas on new businesses): 188 applications from 368 applicants
	Society (people)	High-quality business platform: assets under management of ¥122trn, assets under custody of ¥239trn (No. 1 for both among domestic financial institutions), total loan balance of ¥30trn (No. 5 among domestic banks), entrusted balance of securitized real estate of ¥20trn (No. 1 among trust banks), 1,648 client companies in stock transfer agency services business and 29.26mn shareholders under administration (No. 1 for both among trust banks) Potential "best partners": 270,000 individual clients and 620 corporate clients* (see page 27) Corporate brand: backed by Mitsui and Sumitomo's combined 400-year history of contributions to society and relationships of trust with clients Sustainability rating: MSCI ESG Rating of AA (No. 1 among domestic banks), FTSE ESG Rating of 3.6 (No. 2)*
	Environment (earth)	Common social capital is shared by all kinds of people and organizations and forms the basis for the existence of the Group itself and its stakeholders. The definition of natural capital according to the International Integrated Reporting Framework is "air, water, land, minerals and forests, biodiversity, and eco-system health."

\* Asterisk denotes SuMi TRUST Bank only (non-consolidated)

### To Deepen Integrated Thinking

Since adopting the value creation process of the International Integrated Reporting Council (IIRC) in FY2016, every year we have continued to deepen its content by incorporating our own original elements. In FY2017 and 2018 we introduced the concepts of capital circulation and impact considerations, respectively, to clarify the relationship between materiality and capital.

In FY2019 we clearly stated our reason for existence ("Purpose") and summarized the notion of social value by

Step	Topic	Description
Step1	Definition and assessment of capital	Defining and assessing the capital in businesses that create impacts
Step2	Views on impacts and links to social value Circulation of capital	Visualizing what kind of processes create social value
Step3	Enhancement of materiality management	Managing the framework that encourages the social value creation process

At present, we are working on a way to connect the value creation process with our business portfolio analyses. By factoring non-financial capital perspectives into business portfolio

examining the chain of impacts (impact considerations). Now, with the aim of enhancing materiality management, we are defining capital and visualizing the relationship between impacts created and the generation of social value. And in light of the relationship between business circulation and materiality, we are endeavoring to establish a management methodology that includes the setting of KPIs. Specifically, our approach adheres to the following steps.

analysis, we should be able to realize integrated thinking in the true sense.

## (5) Materiality Management

### Materiality Identification Process

We consider materiality to be an event that has a significant impact on the process of improving the ability to generate value sustainably through the accumulation of financial and non-financial capital and to be comprised of factors that either inhibit (bad cholesterol) or promote (good cholesterol) the circulation of capital.

The Company identified materiality in FY2015 and conducted a materiality review in FY2019. In the FY2015 identification process, the Executive Committee confirmed 14 items which had been selected from a list of 28 items that were considered highly important to a banking group after interviewing external directors, external experts, and relevant internal

### Three Materiality Categories

Discussions about how to approach materiality are gaining momentum worldwide. Considering this trend, in FY2020 we incorporated the unified concept of materiality outlined in some of the leading international standards (GRI, SASB, IIRC, CDP, CDSB) for information disclosure and classified our materiality into three categories. To be more precise, we categorized the SuMi TRUST Group's materiality as either "impact materiality" (the positive or negative impacts our corporate activities have on the economy, society, and the environment), "governance and management foundation

departments about their medium- to long-term impact on the Group's enterprise value and the Group's impact on stakeholders. In FY2019, we placed seven top risks selected as financial risk events that have a significant impact on management alongside the original 14 issues of materiality and sorted out those that overlapped or were very similar. We changed the names of some as required and then added five new ones, including climate change and financial inclusion. That gave us a total of 17 issues, as shown in the table below. All issues were discussed by the Executive Committee, advisory committees, and the management team before being approved by the Board of Directors.

materiality" (the issues that impact the core elements of our value creation), or "financial materiality" (the issues that directly affect financial performance). We have also identified which kind of capital each materiality issue is mostly connected to in terms of the circulation of capital, and in addition to understanding the significance of, and managing, materiality as part of the value creation process, we make use of internal engagement (see page 41) and other methods to ensure we manage materiality appropriately.

Type	Materiality	Risk	Opportunity	Main relevant capital
Impact Materiality	Pursuing sustainability-themed business opportunities		●	Intellectual capital
	Considering impacts on society and the business environment of companies to whom we extend investments and loans	●		Social and Relationship capital
	Financial inclusion		●	Social and Relationship capital
	Population decline and super-aged society issues	●	●	Social and Relationship capital
	Climate change	●	●	Natural capital
Management Foundation Materiality	Technological (digital) innovation	●	●	Intellectual capital
	Corporate governance	●	●	All capital
	Risk management and resilience	●		Financial capital
	Systems maintenance and combatting cyber attacks	●		Manufactured capital
	Bolstering human resources and developing workplace environments	●	●	Human capital
	Protecting personal information and client data	●		Intellectual capital
	Safety of financial instruments	●		Intellectual capital
	Compliance	●		Social and Relationship capital
	Client-orientated approach / fiduciary duty	●	●	Social and Relationship capital
	Stability of financial system	●		Financial capital
Financial Materiality	Preserving financial capital	●		Financial capital
	Acquiring sustained earnings	●		Financial capital

Reporting issues that reflect the organization's significant impact on the economy, environment, and people

Materiality from a stakeholder's viewpoint

Aimed at a wide range of users with various objectives seeking to understand the company's positive and negative contributions to sustainable development

Reporting all material sustainability topics for the purpose of the organization's value creation

Materiality from an investor's viewpoint

Aimed at users mainly seeking to engage in more suitable economic decision-making

Already disclosed reports in the form of financial accounts\*

\* Including assumptions and cash flow forecasts

Key accounting issues