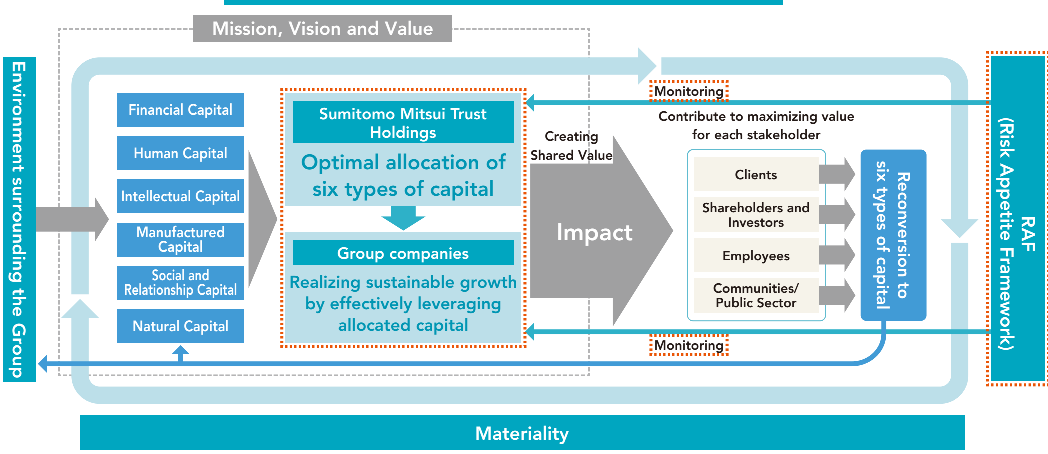
Materiality Management for Creating Shared Value at the SuMi TRUST Group

Materiality (priority issues) refers to events that have a material impact on a company's value creation process. The SuMi TRUST Group promotes materiality management that identifies materiality issues to be addressed as priorities from a medium- to long-term viewpoint and dealt with at the top level of management.

Our Group's policy is to push ahead with a growth strategy that balances the pursuit of both economic and social value. More specifically, we aim to conduct business by making efficient use of the six capitals that underpin our management foundation within a risk appetite framework (RAF) and seek profits by maximizing the positive impacts surrounding our stakeholders. Maximizing the positive impacts that surround our stakeholders means pursuing the enhancement of stakeholder value, but at the same time, it also leads to an improvement in value of the Group itself (return on the six capitals and creation of shared value).

The items that significantly impact this kind of medium- to long-term value creation process constitute what is known as materiality. Materiality comprises financial risk items that traditionally investors attach importance to, as well as non-financial items that ESG (environmental, social, and governance) investors and other stakeholders consider important. The optimal management of materiality combining both financial and non-financial elements holds the key to a business model that strikes the right balance between the pursuit of economic value and social value.

The SuMi TRUST Group's Value Creation Process



Related capitals	Materiality
Financial Capital	Preserving financial capital
	Acquiring sustained earnings
Human Capital	Nurturing employees and maintaining workplace environments
Intellectual Capital	Protecting personal information and client data
	Safety of financial products
	Pursuing sustainability-themed business opportunities
	Technological (digital) innovation
Manufactured Capital	Systems maintenance and combatting cyber attacks
Social and Relationship Capital	Corporate governance
	Compliance
	Client-orientated approach / fiduciary duty
	Considering impacts on society and the environment of investees and borrowers
	Stability of financial system
	Risk management and resilience
	Financial inclusion
	Population decline and issues of a super-aged society
Natural Capital	Climate change

Reviewing Materiality

Thus far our materiality management* practices were mainly focused on non-financial items. At the same time, we identified and managed top risks as high-level risk events (assumed losses of ¥10bn or more) likely to have a significant impact on management. However, we now believe that integrating these two approaches is indispensable (see below) if we are to execute a growth strategy that balances the pursuit of both economic and social value.

In October 2019 a new materiality plan determined by the Executive Committee was deliberated on by the Risk Committee (advisory body to the Board of Directors) and then approved by the Board of Directors.

* Previous materiality management: In 2015 non-financial items thought to have a serious impact on the value creation process were identified by the Executive Committee and reported to the Board of Directors. As part of the identification process, the Executive Committee took into account both the Group's impact on society and the impact on the Group's corporate value over the medium to long term.

Previous top risks (7 items) + Previous materiality (14 items) ▶ New materiality (17 items)

1 Sort out duplicate or similar items
2 Review names if necessary
3 Add latest items

(1) Technological innovation; (2) Population decline and issues of a super-aged society; (3) Financial inclusion; (4) Pursuing sustainability-themed business opportunities; and (5) Climate change

Areas covered under new materiality	Financial perspectives		Non-financial perspectives
Opportunities	Growth strategy that balances the pursuit of both economic and social value	Earnings feasibility	Business seeds that contribute to solving ESG issues (achieving SDGs)
Risks	Top risks		Risks peculiar to ESG

*Blue background represents new materiality

Internal Engagement

Owing to the introduction of Japan's Stewardship Code in 2014, active engagement (purposeful dialogue) between institutional investors and investee companies has been commonplace. That said, the topics of such engagement usually revolve around financial matters and there are not many opportunities for parties to engage in dialogue about wide-ranging non-financial topics.

Accordingly, our Sustainability Management Office of the Corporate Planning Department engages in dialogue (internal engagement) with relevant departments with respect to the non-financial materiality topics in the finance sector that ESG investors are most interested in and for which the Group's initiatives may face challenges in order to improve our approaches and enhance information disclosure. The details of such dialogue and how improvements have been made are reported once a year to the Board of Directors.

Engagement in FY2019 (as of end-November 2019)

- Corporate governance
- Information security risk management
- Enhancement of information disclosure pertaining to human capital