

Shinhan Bank

Sustainable Development Goals Financing Framework

March 2022



Introduction

Founded in 1982, Shinhan Bank (“Shinhan” or the “Bank”) is the first bank in the country to be founded solely with private capital, and in today, is one of the leading commercial banks in South Korea, with assets over KRW 467,435 bn as of the end of December 2021. Its holding company, Shinhan Financial Group (The “Group”) was established in 2001, with a vision of becoming a world class financial services company. The Group provides products and services across banking and non-banking business, and carries the strategic initiatives of “Fundamental”, “Resilience”, “Ecosystem”, “Sustainability”, and “Human-talent” 2020s (FRESH 2020s), aiming to deliver number one customer’s investment return, focus on shareholder return value, and optimal growth from non-bank, non-interest, matrix within the Group. The key initiatives include “Optimal Growth”, “Global Connect & Expand”. “Digital Transformation”, and “Sustainability Management”.

As the core part of the Group, Shinhan Bank is at the forefront in the implementation of sustainability. The key strategies of Shinhan Bank in 2021 includes “Establishment of ESG Framework”, “Strengthening Response to Climate Change”, “ESG Risk Management”, and “Digital Finance Transformation”. Under the mission of “creating a better world through finance”, Shinhan is united in its efforts to promote ESG management and increase value to its customers and society to form a virtuous circle of affirmation. In 2021, Shinhan Bank published its first standalone ESG report under the “Finance”, “Influence”, “Network”, and “Ecosystem” (F.I.N.E.) strategy and looks forward to vigorously building the bank’s ESG management further.

Commitment to 2050 Carbon Neutrality

Shinhan is a member of the Value Balancing Alliance since March 2021 and has joined the Net-Zero Banking Alliance in April 2021. Having joined the Science Based Target Initiative (SBTi) in November 2020, Shinhan has set targets based on SBTi methodologies to reduce carbon emissions per the 1.5°C scenario of the Paris Agreement. In 2021 Shinhan measured the carbon emissions of the group lending/investment/PF portfolio. Based on the outcome and the objectivity of climate finance goals, Shinhan is submitting and receiving recognition of the SBTi targets. Shinhan is wholeheartedly committed to reaching the goal of Carbon Neutrality by 2050 as part of South Korea’s national decarbonization agenda.

Shinhan has committed to Net Zero in Financial Emissions (Scope 3) Management by 2050. Shinhan is vigilant in accurately measuring financed emissions generated in the asset portfolio, which is used to classify and determine asset classes that require priority investment and support. While Shinhan provides financial support to asset groups such as fossil fuel power plant, steel, cement businesses, which have intensive emissions relative to their business scale, Shinhan is cognizant of the higher emission omitting nature of these sectors. While recognizing the needs for funding in order for these hard-to-abate sectors to transition towards a low carbon economy, Shinhan actively encourages clients in these sectors to implement their sustainability initiatives. In addition, The bank also re-organizes portfolios by shifting focus to eco-friendly assets to achieve its Net Zero goal.

Shinhan is also committed to Net Zero in Internal carbon emissions (Scope 1, 2) Management by 2050. Shinhan has implemented energy saving measures at the Bank's headquarters by installing more energy-efficient heating and cooling facilities, thereby reducing energy consumption by 5% every year since 2017. replacing gas-powered business cars with emission-free cars and plan to purchase renewable energy certificates (REC) or pay green premiums to achieve internal carbon reduction targets.

Shinhan Financial Group-wide ESG Strategies

The Group has set out 3 ESG Strategic Directions with 5 Impact Tasks. Under "Green Management", initiative includes Zero Carbon Drive, aiming to achieve zero carbon by cutting down carbon emissions and expanding green investments. Shinhan set a plan to achieve carbon neutrality aligned with two degree scenario in accordance with SDA set by SBTi. Under "Win-win Management", the Triple-K initiative create an innovative ecosystem by discovering and fostering startups. The Hope Together SFG campaign provide inclusive finance as a financial company. Under "Trust Management", Pursuit of Social Diversity initiative reduce social inequality by fostering female leader and supporting handicapped/multi-cultural families. The Strengthening of Customer Protection Management programme strengthen product governance and offer financial education.

Shinhan Bank ESG Initiatives

In 2021, Shinhan Bank has newly established ESG Management Committee, with all executives as member and chaired by the CEO. The committee will formulate top level ESG strategy and policy

and guide the bank towards achieving a sustainable future. Shinhan also newly established ESG Steering Committee with ESG implementing departments and teams responsible for executing individual agenda designed by senior management. Furthermore, the bank has expanded its ESG Management framework and expanded ESG strategies and upward standardizing and embedding ESG values across its global network. Shinhan Bank has further strengthened its risk management framework by integrating ESG into risk management. Existing risk management is divided into twelve significant areas where harmful and sensitive effects on environmental or social risks will be segregated out and reviewed comprehensively. The upgraded risk management system has internalized ESG risks and established a credit and investment screening process that reflect significant and material ESG risk factors.

In addition to implementing Group-level ESG strategies and bank-wide initiatives, Shinhan Bank also actively implements and engages its employees in pursuing sustainability objectives. The Energy Target Management Framework expand company-wide energy saving and carbon emission reduction activities with ISO14001 referenced targets, including activities in “energy saving campaign”, “boost energy efficiency”, “VC system introduction”, “building digital office” and “1 ton per 1 day of greenhouse gas reduction”. As a environmentally responsible institution, Shinhan Bank has implemented initiatives such as “ESG Action Building”, “ZERO PAPER culture”, “ESG Community of Practice” to take action towards commitment to green management.

Frequent issuer of ESG Bonds

Shinhan Bank recognizes the important role financial institutions play to form direct and indirect relationships by providing financial support to various companies related to climate change, and has been a frequent issuer of ESG bonds to support eligible green and social projects and promote the advancement towards UN SDGs. After Shinhan Bank established its first SDG Framework in 2018, Shinhan Bank has regularly issued international ESG bonds in various markets including USD, EUR and AUD. Proceeds were used to support green projects in renewable energy, clean transportation, and pollution prevention and control categories. Social projects were under the socioeconomic advancement and empowerment and employment generation categories. The proceeds directly support the UN SDGs 1, 2, 3, 4, 5, 7, 8, 9, 10, 11, 12, 13, 14, 15.

Global Recognitions

As of 2021, Shinhan Bank has been listed in the Dow Jones Sustainability Index World for 9 consecutive years since 2013, the first Korean financial company to do so. Under the GLOBAL100, Shinhan is selected most sustainable corporation for 9 consecutive years since 2012, the longest among any Korean companies. CDP has included Shinhan Bank in the Honors Club for 7 consecutive years since 2014, and named Hall of Fame for 3 consecutive years. Shinhan Bank has maintained a “AA” rating from MSCI for 5 consecutive years since 2021, and was rated “A+” by KCGS for 7 consecutive years in 2020.

As a leading sustainable institution, Shinhan Bank has decided to update its SDG Bond Framework to SDG Financing Framework in accordance to the latest market standards, including but not limited to Green Bond Principles 2021, Social Bond Principles 2021 and Sustainability Bond Guidelines 2021 published by the International Capital Markets Association (“ICMA”), as well as Green Loan Principles 2021 and Social Loan Principles 2021 published by the Loan Market Association (“LMA”). Besides, Shinhan Bank may reference to the Climate Bonds Standard Version 3.0, when applicable.

Shinhan Sustainable Development Goals Financing Framework



In order to finance Shinhan Bank’s diverse activities that are directly supporting the UN Sustainable Development Goals, Shinhan bank has prepared this Sustainable Development Goals Financing Framework (“the Framework”) with an intention of issuing multiple currency Green, Social or Sustainability bonds, loans, asset-backed securities or any other similar debt instruments under this Framework. The Framework is designed in line with the ICMA Green Bond Principles 2021, ICMA Social Bond Principles 2021, the ICMA Sustainability Bond Guidelines 2021, the LMA Green Loan Principles 2021 and the LMA Social Loan Principles 2021 with the following four core components:





1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting



1. Use of Proceeds


100% of the net proceeds of the debt instruments will be used exclusively to finance or refinance eligible Green or Social projects and/or lending to businesses in Green industries and/or lending to businesses facilities to advance into Green industries, in whole or in part, falling within one of the categories detailed in the table below. Herein, whenever projects are mentioned they reference Green, Social and lending projects, unless otherwise defined. The net proceeds can also be used for future potential projects belonging to any of the Green or Social categories outlined in this Framework.

Mapping Eligible Green and Social Categories to the UN's SDGs



Green Categories	Eligible Projects	UN SDGs
Renewable Energy	<p>Finance construction, production, transmission of renewable energy projects, such as:</p> <ul style="list-style-type: none"> ▪ Solar ▪ Wind ▪ Hydro (run of river facility or small hydro with maximum 25 MW of capacity) ▪ Geothermal (projects with direct emissions above 100 gCO₂ / kWh are excluded). ▪ Fuel Cell (not related to fossil fuel activities) ▪ Biomass, not derived from feedstock suitable for food production ▪ Ocean Energy 	 <p>The icons represent the following Sustainable Development Goals: 3 (Good Health and Well-being), 7 (Affordable and Clean Energy), 8 (Decent Work and Economic Growth), 9 (Industry, Innovation and Infrastructure), 11 (Sustainable Cities and Communities), 12 (Responsible Consumption and Production), and 13 (Climate Action).</p>
Energy Efficiency	Investments to improve energy efficiency by a minimum of 15% compared to its	 <p>The icons represent the following Sustainable Development Goals: 7 (Affordable and Clean Energy), 8 (Decent Work and Economic Growth), and 9 (Industry, Innovation and Infrastructure).</p>

	<p>baseline for buildings, machineries or factories such as:</p> <ul style="list-style-type: none"> ▪ Energy storage systems ▪ Efficient heating, insulation and lighting ▪ Smart Grid 	
Green Buildings	<p>Properties that have received, or expect to receive locally or internationally recognized green certifications such as:</p> <ul style="list-style-type: none"> ▪ LEED Gold certification or above ▪ BREEAM “Excellent” rating or above 	
Pollution Prevention and Control	<p>Projects aimed at reducing or capturing GHG emissions and harmful air particles such as:</p> <ul style="list-style-type: none"> ▪ Air purification units (not related to fossil fuel generation facilities) ▪ Waste-to-energy plants ▪ Recycling of resources ▪ Harmful Matter Monitoring and Environmental Purification (not related to fossil fuel generation facilities) 	
Clean Transportation	<p>Eco-friendly vehicles and infrastructure that promote greener commuting such as:</p> <ul style="list-style-type: none"> ▪ Electric or hybrid cars ▪ Public, rail (not used to transport fossil fuels), non-motorized, multi-modal environmentally friendly transportation ▪ Bicycles 	
Sustainable Water and Wastewater Management	<p>Finance projects associated with water and wastewater infrastructure such as:</p>	

	<ul style="list-style-type: none"> ▪ Sustainable infrastructure for clean and/or drinking water ▪ Waste water treatment ▪ Sustainable land and urban drainage systems (sewage treatment and recycling, waste water recycling and hydro ecological restoration) ▪ River training and other forms of flooding mitigation ▪ Natural disaster response system 	
Climate Change	<ul style="list-style-type: none"> ▪ Climate Change Forecasts and Modeling ▪ Climate Change Impact Evaluation and Adaptation ▪ Weather Observation Equipment/Weather Forecast 	
Terrestrial and Aquatic Biodiversity Conservation	<ul style="list-style-type: none"> ▪ Protection of marine environments 	

Social Categories	Eligible Projects	UN SDGs
Access to Essential Services (e.g. health, education and vocational training, healthcare, financing and financial services)	<ul style="list-style-type: none"> ▪ Support low-income¹ individuals/families in obtaining loans to reduce financial inequalities such as New hope spore loan, Mid-interest rate loan for the working class etc. ▪ Microfinance Support (compliant with the criteria set by the 'Korea Inclusive Finance Agency') 	

¹ Low income individuals are determined by the Korean Ministry of Health and Welfare (MOHW) and Ministry of Education (MOE)'s classification, which is based on household income

Employment Generation	<ul style="list-style-type: none"> Provide financing support for SOHO² (small office and home office, which are enterprises operated by individuals and households) and SMEs³ such as Tech Credit bureau, Loans for the promotion fund of the small entrepreneur market Comprehensive and customized solutions for SMEs 	
Socioeconomic Advancement and Empowerment	<ul style="list-style-type: none"> Support the Shinhan Do Dream Project⁴: funding support to companies with commitment to youth employment and job creation as well as investing in innovative companies 	

Additional detail on social loan products:

New Hope Spore Loan⁵: A product for the working class and customers with low credit ratings and low income.

Mid-interest rate loan for working class: Loans for individuals and businesses with income certificates, backed by Seoul Guarantee Insurance's guarantee as collateral.

² SOHO refers to individual business operators or companies with a total asset size of KRW 2 billion or less

³ SMEs are defined in accordance with Article 2 of the Enforcement Decree of the Framework Act on Small and Medium Businesses. a) a business that employs less than 1000 full time workers, b) a business whose total assets are less than 500bn Won, c) a business with less than 100bn Won of equity capital, d) a business whose average sales during the immediately preceeding three business years is less than 150bn, 100bn, 80bn, 60bn depending on borrower industry classification

⁴ DoDream Project includes loan products for job creation companies which are certified by or receive guarantee from the government or government related entities, including but not limited to the Ministry of Employment and Labor, Ministry of SMEs and Startups, and Korea Technology Finance Corporation

⁵ The criteria for borrowers of this loan are set by Korea Inclusive Finance Agency. The borrower should be 1) those with annual income of KRW 35 million or below / or 2) those with annual income of KRW 45million or below with credit rating of 6 or below

Microfinance Support: Shinhan Bank's Microfinance business complies with the criteria set by "Korea Inclusive Finance Agency". Please see below for the target groups;

1. Those with a credit rating of 6 and below (Including those with no credit rating)
2. Recipient of national basic livelihood guarantees (the lowest income class) or those classified as 2nd lowest income class (those who live within 120% of the minimum cost of living)
3. Those that fulfill requirements for employment subsidies

Tech Credit bureau: Technology financing product that supports small and medium sized businesses with advanced technologies and substantial growth potentials based on evaluation on technology, competitiveness and commercialization capabilities.

Loans for the promotion fund of the small entrepreneur market: Loans for small business owners with certificates for 'eligible companies for policy fund' from Small Enterprise and Market Service, as defined by the Ministry of SMEs and Startups.

Comprehensive and Customized Solutions for SMEs⁶: Financing support and consulting services to SMEs according to the stages of corporate life cycles through business agreements with external agencies. Financing supports that are tailored to the purposes of job creation, companies engaging in new growth engine industries, ones with outstanding technologies, and the ones creating social and economic values in order to encourage their growth.

All designated green and social projects should provide clear environmental and social benefits, which will be assessed and, where feasible, quantified by Shinhan Bank.

The eligible Green and Social projects are not limited to this list. Any project contributing explicitly to the eligible categories and SDGs above is considered eligible for Shinhan Bank's Green / Social / Sustainability debt instruments. Involvement in the following activities or industries are excluded from consideration for eligibility:

- Child Labour
- Adult Entertainment

⁶ SMEs are defined in accordance with Article 2 of the Enforcement Decree of the Framework Act on Small and Medium Businesses

- Weapons/Arms
- Alcohol
- Tobacco
- Fossil Fuel generation and transportation of fossil fuels
- Biomass derived from feedstock suitable for food production
- Nuclear Power Generation
- Large-scale hydro-power projects with a generating capacity of over 25 megawatts which has yet to be constructed

2. Process for Project Evaluation and Selection

Project evaluation and selection is a key process in ensuring that the projects financed by the Green / Social / Sustainability debt instruments meet the criteria in Shinhan Bank's SDG Financing Framework.

Eligible green and social projects will be sourced from the various business units, and will be selected by the Treasury Department following this Framework. Once selected, all members of the SDG working group will cooperate in reviewing the projects to ensure they demonstrate clear environmental and social benefits, in line with the Framework.

Shinhan Bank has combined ESG with risk management. To recognize ESG risk of loans and investments, Shinhan Bank has adopted the ESRM (Environment & Social Risk Management Policy framework) and established the Sector Policy to select and manage environmentally important and controversial areas. We are also conducting target selection, risk rating and ESRP (Environmental & Social Risk Review Procedure) based on the Equator Principles.

SDG Financing Working Group (SFWG)

In order to effectively manage sustainability debt instruments, Shinhan Bank is launching a SDG Financing Working Group ("SFWG") with senior representatives from below departments, coordinated by the Treasury Department:

- Treasury Department (자금부)
- ESG Strategy Office (ESG 전략실)

- Corporate Social Responsibility Department (사회공헌부)
- Retail Banking Department (개인고객부)
- Corporate Banking Department (기업고객부)
- Infrastructure Project Financing Department (인프라금융부)
- Energy Project Financing Department (에너지금융부)
- Real Estate Financing Department (부동산금융부)
- Investment Banking Department (투자금융부)
- Strategic & Financial Planning Department (종합기획부)
- Business Innovation Office (경영혁신실)

The SFWG will be responsible for validating project selection and the post-issuance reporting. The SFWG will review projects annually and projects will be signed off by all members.

Loan Evaluation and Selection

Shinhan Bank determines whether the business can be considered operating in green industries by identifying the main products/services of the business. The businesses do not have to currently operate in Green industries, but loans to these companies can be issued to fund facilities to advance into Green industries.

Target loan borrowers are corporates and individual businesses that:

1. Operate in Green and/or Social industries
2. Seek to advance into Green and/or Social industries; and,
3. Produce and service items that are essential for operating in Green and/or Social industries

Shinhan Bank has an internal loan committee that selects the relevant targets based on the criteria above which comprises of the following departments, i) Credit Analysis and Assessment, ii) Risk Management, iii) Treasury Departments, iv) and other related project teams. All departments mentioned above are involved in the loan review process, which includes an identification, analysis, selection and approval workflow process. The final approval of loans is made by an executive member.

3. Management of Proceeds

The net proceeds of all the SDG debt instruments, or an amount equal to these net proceeds from the debt instruments will be allocated to eligible green and/or social projects only. As long as the issuance is outstanding, the Treasury Department will manage the project register through its internal information system, and the balance of the tracked proceeds will be monitored annually.

If there is any unallocated amount, it will be invested in cash or cash equivalent following Shinhan bank's usual liquidity management policy.

In case of divestments or if an eligible project no longer meets eligible criteria (as defined above), the funds will be re-allocated to other eligible projects, following the above described Project Selection Process.

4. Reporting

Following the first issuance anniversary, and every year thereafter until full allocation of the issuance, Shinhan bank will update investors on how the proceeds are allocated and share information on projects financed by the issuance, as an integral part of its annual report. Reporting on loans will be produced on the relevant Green and/or Social category level basis.

The report will include the below information, and it will be readily available on the corporate website.

4.1 Allocation reporting

- Complete list of Green and Social projects and brief description of each project [date, location, category and progress / it could be no-name basis for confidentiality reason, for smaller Green and Social projects, aggregate information can work as well]
- Amount allocated to each project and how they are managed
- Weighted average of the project being financed or refinanced by the issuance
- Portion of financing and refinancing (and the list of Green and Social projects that are re-financed)

4.2 Impact Reporting

Shinhan Bank will also report on relevant environmental and social impact metrics where feasible, and it will transparently disclose measurement methodology for quantitative indicators. Where possible and subject to data availability and confidentiality, reporting of environmental or social impact of the projects will use relevant indicators as suggested in the ICMA Harmonized Framework for Impact Reporting.

Below are examples of impact indicators to be reported:

Green Categories Examples

Categories	Example of Impact Indicators
Energy Efficiency	Annual energy conserved (MWh or GJ) Annual GHG emissions reduced/avoided (metric tonnes of CO ₂ equivalent)
Renewable Energy	Annual renewable energy generation (MWh or GJ) Annual GHG emissions reduced/avoided (metric tonnes of CO ₂ equivalent)
Green Buildings	Number of green buildings funded Annual energy conserved (MWh or GJ)
Circular Economy Adapted Products, Production and Processes	Annual waste reduced/avoided/prevented (tonnes) Annual number of circular economy materials/components/products designed or introduced
Clean Transportation	Number and type of clean transportation assets acquired Annual GHG emissions reduced/avoided (tonnes of CO ₂ equivalent)

Social Categories Examples

Categories	Example of Impact Indicators
Access to Essential Services	Number of SME loans granted Number of beneficiaries

Employment Generation	Number of SME loans granted Number of beneficiaries Number of loans granted to healthcare industry participants
Socioeconomic Advancement and Empowerment	Number of SME loans granted Number of beneficiaries

5. External review

Shinhan Bank has engaged with Sustainalytics for the external review of this SDG Financing Framework. This Framework and the Second Party Opinion will be uploaded on our company's website ahead of the SDG issuance.

6. Amendments to the Framework

The SFWG will review this Framework on a regular basis, including its alignment to updated versions of the Principles as and when they are released, with the aim of adhering to best practices in the market. Such review may result in this Framework being updated and amended. The updates, if not minor in nature, will be subject to the prior approval of the Group and a credible external reviewer. Any future updated version of this Framework that may exist will either keep or improve the current levels of transparency and reporting disclosures, including the corresponding review by an external reviewer. The updated Framework, if any, will be published on our website and will replace this Framework.