

Action Principles towards Climate Change



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1. Background

- ❑ The world today faces the daunting challenge of climate change. Global warming, fuelled by continued emissions of greenhouse gases, is causing extreme weather events such as heat waves, floods, cold spells and many associated hazards. To overcome this, the world jointly established a single climate change response goal and adopted the Paris Agreement in 2015, a new climate treaty for effective implementation. In 2020, South Korea's Carbon Neutrality Declaration was made, and the Glasgow Agreement was signed by nations in 2021 aiming to strengthen the actions to limit the global temperature increase to 1.5°C like before the industrialization.
- ❑ These national and international "carbon neutralization" initiatives facilitating a transition towards the "low-carbon economy" is expected to bring significant impact and changes to the global economy and industries. For example, industries and businesses that rely on coal, oil and natural gas will, at least in the short run, be subject to considerable financial pressure, while those that scale up solutions to mitigate climate change and the transformation to a global green economy will enjoy new opportunities.
- ❑ Transitioning to a low-carbon economy presents new challenges for the financial services sector, which provides diverse forms of funding for many industries. Financial firms are now responsible for properly managing risks associated with climate change while also finding and expanding new opportunities to support the Paris Agreement and a sustainable global economy.
- ❑ As a responsible corporate citizen of the international community, Shinhan Financial Group ("SFG") sets forth the "Action Principles towards Climate Change" to ensure consistent implementation of enhanced Group-wide efforts while reaffirming its commitment to comply with the global framework* on climate change.

* CDP (Carbon Disclosure Project), TCFD (Task Force on Climate related Financial Disclosure), UN PRB (Principles for Responsible Banking), UN PSI(Principles for Sustainable Insurance), Equator Principles, PCAF(Partnership for Carbon Accounting Financials), SBTi(Science Based Targets initiative), NZBA(Net Zero Banking Alliance), NZAMI(Net Zero Asset Managers Initiative), NZIA(Net Zero Insurance Alliance) etc. 2

2. SFG's Approach to Combating Climate Change

- ❑ SFG has long recognized the role and responsibilities of the financial sector in responding to the impacts of climate change as a key requirement for sustainable development. To strengthen our efforts to become a reliable financial partner, the SFG has undertaken activities

Governance Framework

[Board Committees] ESG Strategy Committee, Risk Management Committee

[Executives]) Group ESG Implementation Committee (under Group CEO), Group ESG CSSO Council (Under Group CSO), Group Risk Management Council (under Group CRO)

Business Strategies and Risk Management

- Establishment of carbon-neutral goal supported based on the eco-friendly fund of KRW 30 trillion for the Zero Carbon Drive strategy as well as internal initiatives to reduce the carbon and financial emissions
- SFG selected and has monitored socio-environmental areas of concern, defined activities for which financial assistance will be withheld, and conducted socio-environmental risk reviews based on "SFG's Guidelines for Socio-Environmental Risk Management".
- Systematic control of climate-related risks (e.g., implementation and physical risks) based on SFG's Guidelines for Climate Risk Management

Management and Reduction of Greenhouse Gas Emissions

- SFG implements the government's GHG and Energy Target Management System and environmental management system ISO14001.

3. SFG's Five Climate Action Principles for less than 1.5°C Increase (1/2)

- ❑ SFG will observe five climate action principles to effectively combat climate change.

[Principle 1] Recognize climate change as a key factor in Group management, and establish and pursue Group-wide response strategies.

- Recognize climate change as one of the important issues to be considered in Group management, and establish and execute a comprehensive Group-level strategy to reduce greenhouse gas emissions and transition to a low-carbon economy.
- Join in the collective efforts of the international community, and raise awareness among stakeholders, including customers, clients, regulators, and the local community of the Group's climate change strategy and promote their participation.

[Principle 2] Promote climate financing and green financing for eco-friendly projects.

- Strengthen financial support for assets, projects and businesses related to renewable and highly-efficient energy, and promote financing in the development and transfer of climate friendly technologies through issuance of sustainability bonds such as green bonds and climate bonds.
- Increase eco-friendly financial products and services for each area of financial service, including loans, insurance and funds.

3. SFG's Five Climate Action Principles for Less Than 1.5°C Increase (2/2)

[Principle 3] Proactively identify and manage climate change risks.

- Identify carbon emission of the financial portfolio (financed emission) and conduct stress tests to analyze the potential impact of and sensitivity to different climate change scenarios by industry and asset composition, thereby proactively managing transition and physical risks from climate change.
- Establish and control the enterprise-wide goals and implementation plans to mitigate financial emissions.
- Support and manage the low-carbon transition of high emission industries and enterprises to protect customers and the Group's assets against significant financial losses and asset depreciation from climate change.
- Take part in efforts to reduce investments in coal-fired power plants that cause climate change and particulate matter issues.

[Principle 4] Reduce of GHG emissions and increase the use of renewable energy throughout the Group's business operations.

- Establish and manage goals and implementation plans to reduce GHG emissions from Group's business activities across the portfolio.
- Establish and manage goals and implementation plans to increase use of renewable energy.

[Principle 5] Strengthen governance to manage the risks and opportunities of climate change.

- The ESG Strategy Committee and Risk Management Committee, both sub-committees of the board of directors of the holding company, deliberate and determine climate change and sustainability management strategies and policies, and monitor and supervise progress thereof.
- The management of the holding company and subsidiaries promotes sustainability management including combating climate change, and plans responses to major issues.

4. Execution Scheme (1/2)

❑ Chief Officer

Establish the Group Chief Strategy and Sustainability Officer (GCSO) in the holding company and appoint CSOs in each subsidiary to oversee and support the enterprise-wide implementation of climate principles and sustainability management. In addition, establish the Group Chief Risk Officer (GCRO) and appoint CROs in each subsidiary to oversee the enterprise-wide climate risk management.

❑ Implementation Unit

Establish working groups affiliated to the GCSO/GCRO or CSOs/CROs with detailed action plans and roles and responsibilities stipulated.

❑ Oversight Council

Establish “Group ESG CSO Commission” consisting of GCSO and CSOs from subsidiaries to share and monitor half-year implementation outcomes of the climate action principles and sustainability management initiatives. Also, a working-level consultative body comprising the Group and subsidiary-level units for implementation of Climate Principles will report to the Sustainability Management Council on preparing and executing specific initiatives. The risks associated with climate change are discussed in the Group Risk Management Council, which consists of the GCRO and the subsidiary CROs.

Classification	In Charge of Enterprise-wide Sustainability	In Charge of Climate Risk Management
BOD sub-committees	ESG Strategy Committee	Risk Management Committee
CEO committee	Group ESG Implementation Committee	
Employees in charge	GCSO (Group Chief Strategy and Sustainability Officer)	GCRO (Group Chief Risk Officer)
Group subsidiary council	Group ESG CSO Council	Group Risk Council
Working group	Group ESG Working Group	Group Climate Risk Working Group

4. Execution Scheme (2/2)

□ **Employee Training**

Education and training will be conducted to change the perception of all employees and to help internalize the Climate Action Principles and sustainability management, ensuring it is reflected in employees' everyday actions and decisions.