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Action Principles towards Climate Change

Shinhan Financial Group



1. Background

2. SFG's Approach to Combating Climate Change

3. SFG's Five Climate Action Principles for less than 1.5°C Increase

4. Execution Scheme

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. In response, the international community adopted the Paris Agreement in December 2015 to set a common goal of combating climate change under a new climate regime and to ensure effective implementation of its framework of action.
- ❑ Transitioning to a low-carbon economy in accordance with the Paris Agreement presents both a significant opportunity and an enormous challenge 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.

※ The United Nations’ PRB (Principles for Responsible Banking), TCFD (Task Force on Climate related Financial Disclosure), CDP (Carbon Disclosure Project), UN Global Compact, etc.

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 such as:

Governance Framework

[Board Committees] CSR Committee, Risk Management Committee
[Executives]) Group CSR Council (under Group CEO),
Group Risk Management Council (under Group CRO)

Business Strategies and Risk Management

- Under its ECO Transformation 20·20 Strategy, SFG plans to provide KRW 20 trillion in investment and support for green industries while cutting back on its own GHG emissions by 20%.
- 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".

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

- ❑ 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 green, social and sustainability 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

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

- Identify carbon intensity of the financial portfolio 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.
- 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 CSR 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

❑ Chief Officer

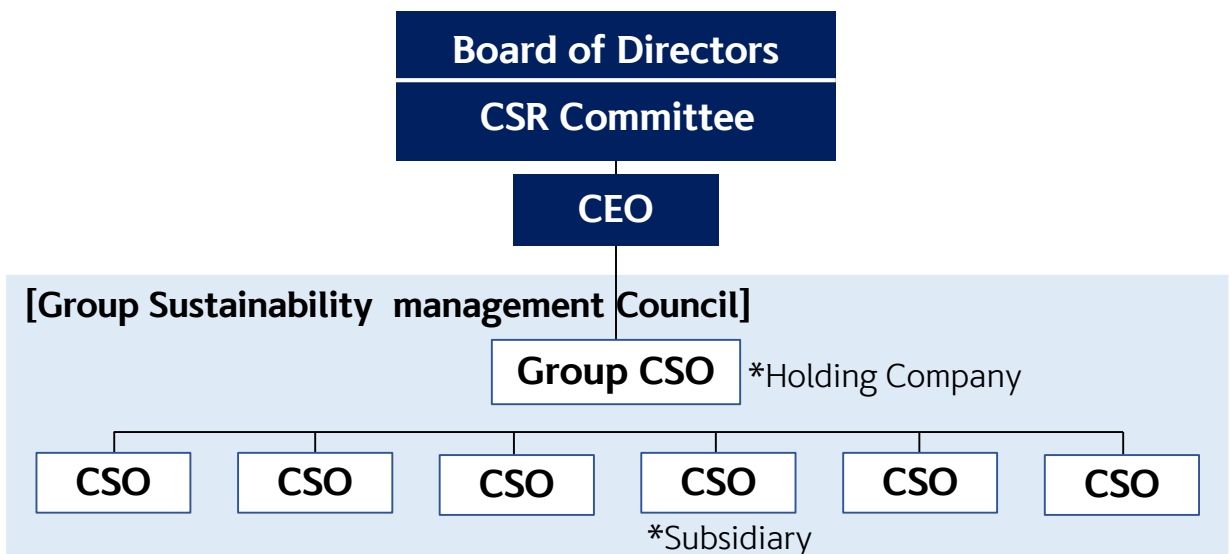
The holding company will designate a Group Chief Sustainability Officer (CSO) to oversee and support implementation of Group-level climate action principles and sustainability management. Each subsidiary will also have its own CSO.

❑ Implementation Unit

The Group CSO and subsidiary CSOs will each head units and establish rules on functions and roles to formulate and execute specific action plans.

❑ Oversight Council

A “Group Sustainability Management Council” with the Group and subsidiary CSOs will share and monitor 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 Group CRO and the subsidiary CROs.



4. Execution Scheme

□ **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.