KB Financial Group Sustainable Finance Framework

This framework is based on the contents (excerpts, etc.) contained in the ESRM and TCFD Report of KBFG, Corporate Loan Guidelines of KB Kookmin Bank, Sustainability Report, Responsible Investment Guidelines, and Fiduciary Responsibility Principles of KB Asset Management.

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1. Introduction Background

The world is recently facing issues related to environment, social, and governance such as climate change crisis, biodiversity, and human rights. In order to respond to these issues, the role of financial institutions in raising funds in the capital market is important. Financial companies play an essential role as intermediaries, improving the efficiency of the economy by allocating funds to businesses of high production. The financial company plays a crucial role as an intermediary facilitating supply and circulation of diverse funds related to sustainable finance.

KB Financial Group recognizes that financial activities make a decisive contribution to sustainable development and has established the Sustainable Finance Framework to faithfully fulfill its role in finance in a rational and exemplary way.

2. Purpose of the Framework

Through the establishment of the Sustainable Finance Framework, KBFG builds processes that can identify, measure, monitor, and manage sustainability-related risks in financial activities and pre-emptively respond to various risk factors in terms of sustainability to promote sustainable growth of the Group.

3. Scope of Sustainable Finance

(1) Corporate Finance

KB Financial Group evaluates companies and business opportunities that involve environmental and social risks through a risk management process integrating financial and non-financial factors. Transactions with high risk levels may be restricted or terminated.

To incorporate ESG considerations, the Group has established ESRM Guidelines, which serve as a reference in corporate finance review and approval processes. Industries and activities excluded from financial support are specified in the relevant sections of the ESRM.

(2) Consumer Finance

The Group provides financial support to financially vulnerable individuals based on income, credit scores, and family circumstances. It also offers ESG-aligned retail financial services, including loans, leases, and installment plans for eco-friendly vehicles, and preferential interest rates for investments in energy-efficient facilities.

KB Financial Group plans to expand sustainable finance for individual customers by gradually incorporating ESG criteria into product planning and review processes.

(3) Project Financing

KB Kookmin Bank joined the Equator Principles in 2021 and has ceased financing large-scale projects associated with environmental degradation or human rights violations.

The Equator Principles are applied as part of credit and risk management policies for large-scale projects. The Group publishes an annual Equator Principles Implementation Report, disclosing the number of projects reviewed, approved, or rejected.

Dedicated personnel oversee compliance, and independent third-party monitoring is conducted when necessary. An implementation manual ensures proper classification and adherence to procedures, supported by external verification when required.

(4) Investment

KB Financial Group integrates ESG factors into its investment and review processes by internalizing the ESRM policy and considering environmental and social risks. Investments may be declined or terminated based on ESG risk assessments. Excluded industries and activities are explicitly defined in the ESRM guidelines.

(5) Asset Management

The Group incorporates ESG considerations into advisory services, including asset management and financial product brokerage.

Asset management subsidiaries apply stewardship codes to fulfill their fiduciary responsibilities. They actively engage with investee companies to improve ESG performance and exercise voting rights in alignment with ESG principles.

4. Implementation Framework

KBFG Sustainable Finance Framework is a guideline that applies to the financial activities[1)] of the Group, and specifically, realizes the sustainability of financial activities through the following framework.

ESG Integration policy, exclusion area management, guidelines for areas of attention / support, environmental and social risk review for large-scale projects, ESG investment process

(1) ESG Integration Policy

KBFG comprehensively and systematically reflects the ESG-related certification, analysis, assessment results to the credit rating and loan-related decisions. ESG checklist inspection is carried out for borrowers and the ESG activity assessment results (A to E rating) is managed in the Industrial Credit Rating System.

❍ ESG Factors

KBFG reflects ESG factors, such as climate change adaptation, work condition improvement, human rights, the composition and activities of the Board of Directors, to loan-related decisions. In addition, through the assessment reflecting ESG factors, the ratings assigned to each stock are reflected in the universe management and MP management process of the fund to which responsible investment is applied.

Environmental	Social	Governance
● Adaptation to climate change ● Air pollution ● Water resource use ● Resource recycling ● Greenhouse gas reduction ● Biodiversity	● Improve work conditions ● Workplace safety ● Diversity ● Human rights ● Promote health・safety・security of local community	● Shareholder return ● Composition and activities of Board of Directors ● BOD compensation ● Business ethics

1) Corporate finance, consumer finance, investment, project financing, asset management

(2) Exclusion Area Management

KBFG will not provide any financial support to the below areas that cause material negative impact environmentally and socially.

- ❍ Production or trade of products/activities that are construed to be illegal according to the respective countries' laws and regulations
- ❍ Productions that exploited child labor
- ❍ Transactions related to illegal gambling and pornography industries
- ❍ Production and trading of, and transactions utilizing radioactive substances whose appropriate protection, management and oversight is deemed unfeasible
- ❍ Support for new coal mining projects or expansion of existing coal mining businesses
- ❍ Support for building of new coal power plants or expansion of existing coal power plants

(3) Guidelines for Areas of Attention and Support

(3.1) Areas of Attention

KBFG categorizes businesses or industries that could inflict negative impact on climate change as Areas for Attention and manage them accordingly. Each subsidiary may designate its own Areas for Attention considering such as the selection criteria of the Group, nature of the business of the respective subsidiary and its major product lines. Measures to manage the Areas for Attention is established by defining a key monitoring checklist based on reasonable objectivity.

- ❍ Selection Criteria
  - KBFG designate s those businesses or industries that accelerate global warming due to high emissions of greenhouse gases and have negative implication to the nature and the living environment as the Areas for Attention. The Areas for Attention can be adjusted in accordance with the direction of global and domestic regulations related to environmental and social risks.
- ❍ Target of Areas for Attention
  - Coal mining (existing exposures are subject to attention; attention is required to continuously reduce the exposure)
  - Coal-fired power generation (existing exposures are subject to attention;

attention is required to continuously reduce the exposure)

- Forestry (logging at plantations; lumbering; primary and secondary processing of forest products; pulp and paper industry)
- Other high-emissions industries[2)] (oil refining, petrochemicals, steel, cement, aluminum)

❍ Management of Areas for Attention

- KBFG develops the management measures to address the Areas for Attention including the key environment monitoring checklist. Greenhouse gas emissions, fluctuation of exposure,
- industry status and so forth will be monitored in line with applicable laws and regulations including global and domestic policies, legislation and guidelines. The scope of monitoring can be expanded going forward in order to strengthen the management.
- Each subsidiary, in consultation with the Group, designates its own Areas for Attention and develop its management measures reflecting the scope of Areas for Attention of the Group and the characteristics of each subsidiary. The progress and the result of monitoring conducted according to the management measures defined for the Areas of Attention will be reported to the Group.
- KBFG increases the suite of financial products, investments and loans required to support the companies subject to attention to implement their low-carbon strategies and achieve carbon neutrality, so as to encourage their transition to a carbon-neutral economy. To this end, preferential benefits can be provided for various financial transactions if a company in the Areas for Attention suffices the "Good ESG Company (tentative title)" criteria or the criteria as prescribed by the respective subsidiaries (e.g. companies setting and seeking to achieve their greenhouse gas reduction goal).

[2)] The list of other high emissions industries subject to attention can be expanded or reduced flexibly considering the direction of global and domestic regulations etc.

(3.2) Areas of Support

KBFG designates and manages those Areas for Support for Green Industries in order to support the global response to climate change and the discovery of new eco-friendly growth engines. Each subsidiary can designate its own Areas for Support considering the criteria for selection of Areas for Support proposed by the Group, characteristics of each subsidiary and the major product lines of the respective subsidiary.

❍ Selection Criteria

- KBFG designates the Areas for Support in consideration of the implications of carbon-neutral and eco-friendly policies on overcoming the climate crisis, and taking account of the possible support for industries related to new eco-friendly growth engines.

❍ Target of Areas for Support

- The activities designated by the K-Taxonomy and Application Guideline[3)] which is being discussed under the leadership of Ministry of Environment

❍ Management of Areas for Support

- KBFG designates the Group-level Areas for Support.
- Each subsidiary can designate its own Areas for Support reflecting the scope of Areas for Support defined by KBFG and the characteristics of each subsidiary, and develop and execute preferential treatment measures for direct and indirect financial support for the selected Areas for Support in connection with the respective subsidiary's existing financial policies.

[3)] Ministry of Environment is developing the K-Taxonomy in consultation with Ministry of Trade, Industry and Energy and Financial Services Commission, and is planning to officially launch it within 2021. K-Taxonomy will be primarily applied to Green Bonds, but the scope will be expanded to diverse green finance products, including Green Loans and Green Funds, services and overall corporate disclosure.

(4) Environmental and Social Risk Review for Large-scale Projects

When dealing with large-scale project financing that has material impact on the environment and the society, KBFG systematically identifies, assesses and manages relevant risks and effects through the environmental and social risk review.

❍ Applied Targets

- The scope of the environmental and social risk review is determined in line with the Equator Principle including large-scale project financing worth USD 10 million or above.
- KB Kookmin Bank as the entity that adopted the Equator Principles conducts the environmental and social risk review according to its internal process that conforms to the Equator Principles.
- Subsidiaries that did not adopt the Equator Principles: review environmental and social risks for the project financing that fall into the Area for Attention, considering the respective subsidiaries' business area, role within the business and the level of infrastructure available for managing environmental risks

❍ Environmental and Social Risk Review Process for Large-scale Projects

- The environmental and social risk review for project financing applies the Equator Principles following the 5 steps, screening, risk categorization, E&S impact assessment, commitment and monitoring.

  ① Screening: to check whether the target project for investment is in line with the environmental and social risk management policy pursued by the Group. Process designed to understand whether the project is in the scope of the Equator Principles, the type and the purpose of the project, etc. The potential borrower needs to submit [Appendix 3] Preliminary Checklist for Environmental and Social Risks.

  ② Risk Categorization: to categorize the project by risk grade according to the level of environmental and social risk and impact. Risks will be categorized into the following grades in compliance with the preliminary environmental and social risk grading process of the Equator Principles.

  A) Category A: the project entails materially negative environmental and social risk, of which scope is broad and the recovery is either difficult or unprecedented

B) Category B: the project entails limited negative environmental and social risk, of which the scope is limited to the business site and the mitigation or recovery is easy

C) Category C: the project entails zero or minimal negative environmental and social risk

③ E&S Impact Assessment: to evaluate the risk and the impact in detail for all grade A projects and those grade B projects whose environmental and social risk and effect are deemed sizable. If necessary, due diligence or other actions can be taken.

④ Commitment: to reflect requirements such as development and maintenance of environmental and social risk management system, stakeholder engagement, establishment of complaint handling mechanism and so forth in the terms and conditions of the financing agreement so that the customer can minimize the identified risks and take necessary measures for the remaining impact. Supplementary measures is requested in the case the customer does not abide by the agreed terms and conditions; in the event the supplementation is not made within the agreed grace period, if necessary, rights pertaining to relief measures including declaration of default may be exercised. In the event a subsidiary that did not adopt the Equator Principles is conducting the environmental and social risk review, the commitment phase may be optionally applied, as it is a process required by the Equator Principles.

⑤ Monitoring: to monitor and disclose the outcome of the implementation of the mitigation measures designed to minimize the environmental and social impact and the present environmental and social issues periodically (at least once a year); the method of monitoring is determined through consultation between the borrower and the lender.

ESG Investment Process

KBFG comprehensively considers the financial factors and the non-financial factors that can affect investment targets and results such as the environment, social, and governance, in the investment decision-making process.

[Domestic Stock ESG Management Strategy]

ESG integrated process	Sustainable themed investment process	ESG monitoring process	Voting rights process
Build a KB ESG universe[4] through the ESG integrated process, and establish a model portfolio based on this	Actively incorporate 'growth companies that improve the society and environment' into the portfolio through sustainable themed investment process	Manage ESG of the portfolio and utilize ESG fluctuation in investment opportunities through ESG monitoring process	Monitor issues based on the materials provided voluntarily by the company or a third person Exercise voting rights by considering and reflecting the concerned issue at the general shareholders' meeting

[4] When choosing universe stocks of funds that adhere to responsible investment, both financial factors and ESG ratings are taken into account, and low-rated stocks (D or E grade) are included on a limited basis.

[Domestic Bonds ESG Management Strategy]

ESG integration	Screening	Corporate involvement	Themed
Convergence of ESG factors in the financial analysis process for investment decision-making	Select and invest in companies that show relatively superior ESG performance compared to the comparison group of the same industry Exclude industries and companies with negative evaluation based on specific ESG standards	Exercise active influence for corporate management that meet the responsible investment standards	Invest in ESG certified bonds with ESG objectives

[Index Quant ESG Management Strategy [5)]]

Form the first universe	Filter / screening	**Combine ESG criteria**	Final portfolio
Generally, the broad market index forms the first universe (liquidity and market price criteria applied) Ex) S&P 1500 index	Select candidate stocks for portfolio through filtering・screening based on fund investment style and management purpose Ex) Dividend increase for at least 20 years	Combine ESG criteria suitable with the fund's ESG scope Ex) Negative screening 1) Exclude sub-categories of S&P DJSI ESG Score 2) Exclude specific type of business / product 3) Exclude sub-categories of UNGC Score	Establish final portfolio after combining ESG filter / screening and ESG criteria

5. Implementation of Stewardship Code

Through the Stewardship Code, KB Financial Group actively fulfills the responsibility as a trustee that manages customers' assets. In order to fulfill trustee responsibilities, active engagement activities based on continuous observation and expansion of shareholder value are carried out. Also, various methods such as written inquiries, data requests, meeting with the Board of Directors or management, delivery of opinions, and voting rights are exercised with the aim to improve customer rights and increase corporate value. In this case, for management to meet the responsible investment criteria, active influence is exerted in consideration of sustainability and non-financial ESG factors considering the financial aspects of the company. Details regarding shareholder involvement activities apply correspondingly to the 'Trustee Responsibility Activities Guidelines', and regarding exercising of voting rights, the 'Guidelines for Exercising Voting Rights' is followed.

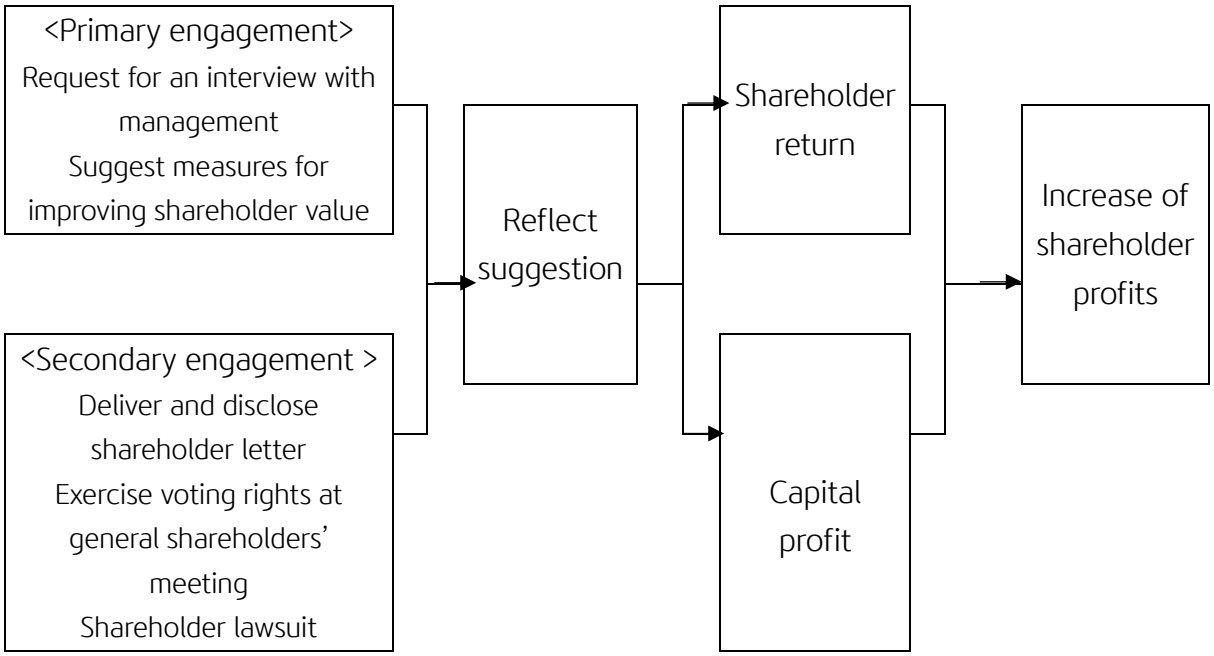
5) Applied to the 'US ESG dividend return', which is a fund based on ESH strategy of the Index Quant headquarters, and will be expanded to monitor stocks, strategies, and new product development by benchmarking the process and methodology of the representative global ESG strategy index

❍ Shareholder Engagement Process

- When the investment target company is inadequate in responding to shareholder value, shareholder value improvement through involvement strategies is promoted

  ⇒ Measures to increase shareholder returns (friendly dividend policy, buyback / retirement of treasury stock, etc.)

  Measures to enhance capital gains (management efficiency, preparation of mid-to long-term growth strategy, ESG response, etc.)



❍ Exercising Voting Rights Process

1) Confirm information of general shareholders' meeting (convocation notice, check exercise of corporate voting rights, etc.)
2) Prepare relevant material (confirm agenda, write power of attorney to exercise voting rights, etc.)
3) Analyze meeting agenda (request consulting company to analyze the agenda, etc.)
4) Determine opinion on the exercise of voting rights (prepare and submit instructions, reasons, and supporting materials for exercising voting rights)
5) Exercise voting rights (electronic voting / deliver power of attorney, announce details of the exercising exchange (every year) and website (quarterly))

6. Customer Due Diligence

KB Financial Group collects information regarding customers through the customer due diligence policy and prevents transactions and services provided by KBFG from causing environmental and social risks. We implement 'Customer Due Diligence (CDD)' by determining environmental and social risks for all financial transaction parties, including the customer or the representative. In case the environmental or social risks are deemed high, 'Enhanced Due Diligence (EDD)' is carried out. Refusal to confirm by a customer may result in rejection of new transactions, and transaction may be discontinued when a transactional relationship has been already established.

7. Engagement with Stakeholders

KB Financial Group endeavors to actively communicate with corporate customers regarding risks and opportunities linked to sustainability, assisting customers in responding to changes in the ESG management environment. We continuously evaluate customers' ESG activities through 'ESG Self- Self-Assessment Tool', and provide ratings (grades 1 to 7) and ESG evaluation reports that reflect each company's ESG management level depending on the evaluation results. We also offer ESG consulting services to customers with limited capabilities in ESG management and response in order to assist them in responding to changes in the ESG management environment.