## Purpose of Establishing the Framework

### Sustainable Finance Framework

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Hana Financial Group is a financial institution that supports the growth of the various sectors of our society, including the household, public and private sectors while considering the Environmental (E), Social (S) and Governance (G) elements throughout its entire business. In addition, Hana Financial Group considers sustainability as one of its top priorities in using its accumulated capabilities and synergies in each field of finance to provide various financial products and services for the happiness of all stakeholders.

To this end, Hana Financial Group selected ‘Social value creation’ as one of its key strategies for NEXT 2030. ‘ESG and sustainable finance’ is the key element to create social value. Hana Financial Group established a mid to long-term strategy to strengthen its ‘ESG Finance’ at the group level by setting goals of KRW 60 trillion corporate credit and investment in the green and sustainability areas by 2030 (2030 & 60) and achieving carbon neutrality at business sites while exiting coal project financing by 2050 (ZERO & ZERO).

Sustainable Finance Framework of Hana Financial Group was established to manage such objectives openly and transparently communicate with stakeholders. Another major reason for the development of the Sustainable Finance Framework was the increased need to consider environmental and social impact of corporate credit and investment decisions, as well as climate change and increased demand for corporate social responsibilities.

Hana Financial Group’s Sustainable Finance Framework is designated as a guideline that is applicable to all products and services provided by Hana Financial Group. Taking the establishment of the framework as an opportunity, Hana Financial Group promises to communicate with the various stakeholders and incorporate environmental and social demands into the financial-decision making process. We will overcome the various challenges facing our society such as climate change and will be a global financial group that contributes to the sustainable development and economic growth for the healthy and happy living for all and the future.

July 22, 2021
Hana Financial Group

1) Corporation, investment banking (IB), project financing (PF), asset management, private banking (PB), retail
1. Introduction

In 2019, Hana Financial Group adopted a new slogan “The One Goal—Happiness for All” and established a value system that was a sustainable finance policy focusing on the stakeholders.

As a leading financial institution in Korea, Hana Financial Group is committed to ESG management. In order to apply ESG management to all of its financial products and services, Hana Financial Group defines sustainable finance as ‘finance that shares happiness with all stakeholders by contributing to solving environmental and social problems’. It intends to fulfill its responsibility as a financial institution by providing sustainable finance to its customers based on its ‘Principles of ESG Response’.

Specific implementation frameworks are needed to expand sustainable financing using limited resources. Hana Financial Group selected Sector Policy, Taxonomy, Environmental & Social Risk Management (ESRM) and ESG Integration as the implementation framework for the group.

Hana Financial Group has completely reorganized and restructured its governing and operating systems to strengthen ESG management in order to execute the implementation framework effectively and is committed to thoroughly managing its sustainable financial performance.

2. Principles of ESG Response

Hana Financial Group established four different principles for its ESG Response setting the groundwork for sustainable finance.

**Principle 1. Strengthen consideration of ESG during management process**

ESG is considered throughout the whole process of providing financial products and services. This consideration is not only limited to the direct environmental impact, such as the use of resources (electricity, water, paper, use of fuel for vehicle operation, etc.) in the process of creating and providing services. It also considers the wide range of environmental and social impact from large-scale development projects such as project financing in the local community and the allocation of national resources to implement the transition to new and renewable energy.

- We will preemptively manage potential risks by strengthening the system for recognizing and evaluating the impact of the group’s financial service on the environment and society.
- We will reduce greenhouse gas emissions at our business sites and increase the share of renewable energy use.
- We will apply scientific and quantitative methods to manage our group asset portfolio for reducing greenhouse gas emissions internally.
Principle 2. Development of products and services that contributes to the environment and society

We aim to develop various financial products and services that can help our society shift to a sustainable economy. Products and services that can contribute to the environment and society includes the issuance and management of Green Bonds used for eco-friendly funds, Sustainability Bonds used for environmental and social purpose projects, microfinance for low-income and marginalized groups, credit for SMEs, ESG fund and asset management for investing in excellent ESG companies and assets, and ESG integration to incorporate the ESG performance into the corporate credit execution and bond issuance.

- We will expand the development of products and services to resolve ESG issues and strengthen financing and investment for projects intended to resolve ESG issues.
- We will consider sustainable financing as designated by Hana Financial Group when developing products and services, business financing and investment decision-making.

Principle 3. Strengthening communication with stakeholders

One of the most important principles in the implementation of sustainable finance is continuous communication with stakeholders. Environmental, social and governance issues continuously change by nature, based on the industry, time and place. It is necessary to have a system that can identify the various factors required by stakeholders and incorporate such factors into the decision-making process. To this end, Hana Financial Group established the ‘Sustainable Management Committee’ within the Board of Directors of the holding company, the highest level decision-making body, which, in order to manage stakeholders relations monitors environmental and social issues.

- We will actively communicate with stakeholders including customers, employees, partner companies, national government, local government, shareholders, investors, and local communities, recognizing that the strengthening of Hana Financial Group’s ESG component is of key importance for sustainable growth.
- Hana Financial Group will exercise its voting rights in a direction that can improve or strengthen the ESG of investment target companies, such as establishing a sound governance structure, establishing sustainable management strategies, responding to climate change and promoting ethical management. We will do our best to maximize customer value by actively conducting shareholder engagement activities.

Principle 4. Participation in global ESG partnership

There are limitations for a single organization to generate social and environmental positive impact. Hana Financial Group will maximize its positive impact by actively participating in various domestic and overseas ESG initiatives and support in global initiatives such as the UN Principles for Responsible Banking (UN PRB) for implementing sustainable finance, Equator Principles that reviews the environmental and social risk of large-scale loans, including project financing, and the Task Force on Climate-related Financial Disclosures (TCFD) for climate based economic transition.
3. Implementation Frameworks

Hana Financial Group will implement the following four frameworks for sustainable finance.

- Sector Policy
- Taxonomy
- Environmental & Social Risk Management (ESRM) system
- ESG Integration Policy

3-1. Sector Policy

Sector policy for sustainable finance is the policy to manage climate change risks related to loan and investment.

3-1-1. Industry specific management policy

Hana Financial Group may take consideration and account of the impacts made by the industry listed below if necessary for the loan and investment screening process.
A. Agriculture, fisheries and food

Hana Financial Group primarily considers the following impacts for the agriculture, fisheries and food industries.

- Introduction of an Environmental Management System
- Soil and Surface Water Contamination: water and wastewater, waste
- Work Environment: human rights/labor standards and practices, prohibition of child labor and forced labor throughout the supply chain
- Food Safety, Health and Nutrition
- Biodiversity and Land Use

In particular, fisheries with impact on biodiversity, are encouraged to follow ‘Accepted good practices’ published by the International Finance Corporation (IFC), and/or obtain international certifications such as from the Aquaculture Stewardship Council (ASC) or BAP (BAP).

B. Forestry

Hana Financial Group primarily considers the following impacts for the forestry industry.

- Introduction of an Environmental Management System
- Greenhouse Gas Emissions Impact: Particularly, climate impacts from deforestation
- Soil and Surface Water Contamination: water and wastewater, waste
- Human rights and labor practices, supply chain human rights and labor standards
- Health and Safety
- Biodiversity and Land Use: particularly, deforestation, local conservation, and the rights of local people

It is encouraged, especially for forestry businesses that have an impact on deforestation, to obtain international certifications such as from the Forest Stewardship Council (FSC).

C. Mining

Hana Financial Group primarily considers the following impacts for the mining of metals and minerals.

- Introduction of an Environmental Management System
- Soil and Surface Water Contamination: water and wastewater, waste
- Biodiversity and Land Use: loss of biodiversity particularly by mining, conservation of local areas
- Work Environment: human rights/labor standards and practices, prohibition of child labor and forced labor throughout the supply chain
- Health and Safety
D. Oil and gas

Hana Financial Group primarily considers the following impacts for the oil and gas industries.

- Greenhouse Gas Emission Impact: coal-fired power generation, oil refining and gas are industries subject to major climate impact management recommended by the Task Force on Climate-related Financial Disclosures (TCFD). Industries with high risk are managed according to the 3–1–2 Sector Policy Guide for restricting sectors that produces large amount of greenhouse gas emissions.
- Water and Wastewater: use of water in refining and in the gas utility supply process
- Air Quality: SOx (sulfur oxide) and NOx (nitrogen oxide) emissions from oil refining and gas utility supply
- Work Environment: human rights/labor standards and practices, human rights and labor standards in the supply chain
- Workplace Safety

E. Transportation (Air and Sea)

Hana Financial Group primarily considers the following impacts for the transport (air and sea) industry.

- Introduction of an Environmental Management System
- Greenhouse Gas Emission Impact: GHG Emissions due to the total amount of shipping and air transport
- Air Quality: SOx (sulfur oxide) and NOx (nitrogen oxide) emissions from ships and aircraft
- Human Rights/Labor Standards and Practices
- Workplace Safety
- Occupational Diseases
- Ethical Management and Governance

F. Materials

Hana Financial Group primarily considers the following impacts for the material industry.

- Introduction of an Environmental Management System
- Greenhouse Gas Emission Impact: Petrochemical is a major climate impact industry that is recommended for management by the TCFD. High-risk industries are managed according to the 3–1–2 restrictions on industries that emit large amounts of greenhouse gases.
- Pollution Emission: discharge and management of waste, especially designated waste
- Air Quality: SOx (sulfur oxide) and NOx (nitrogen oxide)
3-1-2. Restrictions on industries that produces large amount of greenhouse gas

In contributing to an eco-friendly future, Hana Financial Group applies the following screening criteria for industries that may hinder the progress to a carbon neutral society by emitting large amounts of greenhouse gas.

- Scope : All loans, project financings and direct investments
- Management Method : Applicable to ESG-restricted and ESG-concern industries

In order to implement the Coal Declaration and Climate Finance, Hana Financial Group will identify whether an industry is an ‘ESG-restricted’ or an ‘ESG-concern’ industry during the screening process. ESG-restricted industries are industries that, in principle, are credit and direct investment restricted due to climate change risks, and are prohibited new treatment. Sectors of ESG concern are approved after a comprehensive review of its environmental and social risks. However, in both ESG-restricted and ESG-caution industries, if the purpose of the fund is for the promotion of green activities and social sustainability, the treatment may be considered as an exception and be allowed. In this case, the purpose of the finance must be relevant to ‘Hana Taxonomy’.

A holding company may provide its subsidiaries with guidelines on restrictions on industries that emit large amounts of greenhouse gases, but each subsidiary may establish and apply its own screening criteria in consideration of the unique characteristics of the industry, major business and product areas, etc.

3-1-3. Exclusion of Industries

Hana Financial Group does not handle financial services for industries that have a large environmental impact or may raise obvious social problems.

- Scope : All loans, project financing and direct investments
- Management Method : Applicable to those with significant negative environmental and social impact

A holding company may provide guidance on industry exclusion to its subsidiaries, but each subsidiary may establish and apply its own screening criteria in consideration of the unique characteristics of the industry, major business and product areas, etc.

3-2. Taxonomy

Large-scale funding is required to respond to the climate crisis and achieve sustainable development in the world. Hana Financial Group has established a classification system (hereafter referred to as Hana Taxonomy), which is a standard for identifying green activities and activities for the development of a sustainable society.

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2) It means underwriting bonds and direct holding of stocks, except for collective investment securities such as funds, and products such as ETFs.

3) 3-2. Refer to Taxonomy and Hana Taxonomy Guide.
sustainable society. In a situation where it is urgent to raise funds to increase green activities and social sustainability, Hana Taxonomy supports the discovery and implementation of sustainable economic activities and can also minimize green-washing.

This taxonomy can be applied to all products and services that HFG can classify as environmentally friendly or sustainable assets such as:

- Investment Banking (IB) and Project Financing (PF)
- Issuance of green/sustainable bonds
- Overall loan and investment
- Other financial products that can take advantage of preferential asset policies (green loans, eco-friendly/social themed loans, green investment funds, etc.) can be applied

The holding company provides the Hana Taxonomy Guide to its subsidiaries, and Hana Taxonomy is a standard that is commonly applied to Hana Financial Group.

3-2-1. Hana Taxonomy applicable loans and investments

Hana Financial Group will apply Hana Taxonomy to corporate loans and investments in stages. Depending on the application of Hana Taxonomy, if the financial purpose of the loan and investment is an eco-friendly asset or a sustainable asset according to the Hana Taxonomy classification, preferential treatment may be given in the course of credit and investment handling.

- Scope : Applied to cases of loan and investment review
- Management Method : Applicable to preferential treatment according to Hana Taxonomy

Total amount of preferential loans and investments through the application of Hana Taxonomy is recorded, which can be used as a basis for major achievements in the group’s ESG finance target named as 2030 & 60.

3-2-2. Issuance and arrangement of green/social/sustainable bonds

If it is clear that the funds will be used to create eco-friendly or social benefits, such bonds can be issued as green bonds, social bonds or sustainable bonds.

- Scope : Issuance and arrangement of green/social/sustainable bonds
- Management Method : Referred to when classifying the eco-friendly and pro-social purposes of bonds

Hana Financial Group can arrange the issuance of bonds for the purpose of self-financing and the issuance of bonds by various sub-institutions. In this case, the domestic green bond guidelines and the Green Bond Principles of the International Capital Markets Association (ICMA) (Green Bond Principles), Social Bond Principles (SBP), and Sustainability Bond Guidelines (SBGs) can be used together with Hana Taxonomy.
3-3. Environmental & Social Risk Management (ESRM) System

To identify, evaluate and manage the environmental and social risks of large-scale projects, we applied the Environmental & Social Risk Management (ESRM) in accordance with the Equator Principles and International Financial Corporation (IFC) Performance Standard on Environmental and Social Sustainability.

- **Scope**: Financing projects of over USD 10 million
- **Management Method**: Conduct risk reviews and external verifications for each projects according to designated conditions

The holding company may provide its subsidiaries with a guide on the environmental and social risk management system, but each subsidiary may establish and apply its own screening criteria in consideration of the unique characteristics of the industry, major business and product areas, etc.

3-4. ESG Integration Policy

Hana Financial Group’s ESG integration policy is to incorporate the results of external ESG certifications, investigations, and evaluations in financial decision-making. In order to evaluate the companies with excellent ESG and bonds, Hana Financial Group may refer to data, evaluations, and research results provided by third-party organizations such as global research, evaluation data from rating agencies, and rating data from credit rating agencies.

Hana Financial Group can apply the results of ESG-related external certifications, investigations and evaluations to various financial products and services. The ESG research and evaluation criteria listed below are just a few examples. HFG operates ESG products and services using a much more comprehensive and diverse set of criterias than what is listed below.

- Loan: Specific products/services that reflect the ESG award/certification/evaluation grade of the borrower (Green Loan, etc.)
- Investments: Refer to external sustainability indices, ratings, grading, or underwrite green/ESG bonds
- Products: Financial products such as funds and ETFs that track external sustainability indexes or use ratings and gradings
- Issuance of bonds: Green bonds/social bonds/sustainable bonds, etc, certified by a third party
- ESG ratings provided by credit rating agencies and credit information agencies
- ESG and green related certification system designated by the nation
- Globally recognized evaluation: Dow Jones Sustainability Index (DJSI), MSCI ESG, CDP, etc
4. Organization and Operating Management

Hana Financial Group has the following organizational structure, assigned roles and responsibilities for the implementation of the Sustainable Finance Framework.

A. Establishment of ‘Sustainable Management Committee’ within the Board of Directors
- The highest-level decision making body for matters related to ESG within the group. It is an official committee under the Board of Directors
- Establish and modify sustainable management strategies and policies at the group level
- Composed of at least 3 directors meetings held semi-annually

B. ‘Sustainable Management Steering Committee’, a council of CEO of each company in the group
- Address matters related to the establishment of sustainable management policies of the group
- Address business plans and progress related to the group’s sustainable management
- Semi-annual meetings held at least once, in principle
- Establish and operate ‘Sustainable Management Working Group Committee’ composed of executives in charge of ESG at affiliated companies for the purpose of implementing decisions made at the Sustainable Management Steering Committee and deliberate agendas

C. Dedicated Departments (ESG Planning Team, Hana Financial Holdings)
- Survey major ESG issues, disclose ESG activities and performance to the outside (publication of sustainability report, etc.)
- Respond to external ESG evaluation by investors and research institutes
- Execute stakeholder engagement activities such as Social Value Committee (external advisor)
- Compile and manage ESG performance of each affiliated company

D. Dedicated Department for each Affiliated Companies
- Establish strategies to implement sustainable finance (product development, portfolio check, etc.)
- Dedicated department or person in charge of ESG at each affiliated company such as Hana Bank, Hana Financial Investment and Hana Alternative Asset Management

5. Performance Management

In accordance with the ESG vision proclaimed in 2021, we will provide ESG-related financial support related to ESG worth KRW 60 trillion by 2030 including KRW 25 trillion in bonds, KRW 25 trillion in loans and KRW 10 trillion in investments. The holding company needs to collect and manage implementation performance under the sustainable finance framework at least once semi-annually in order to communicate the results transparently with internal and external stakeholders and subsidiaries.

Precautions should be taken especially to make sure that Hana Financial Group is not exposed to ESG risks
such as greenwashing (conveying false impression or providing misleading information about how a company’s products are more environmentally friendly). To this end, subsidiaries should make continuous efforts to strengthen their management capabilities including training to enhance employee’s understanding of sustainable finance.

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