

Shinhan Financial Group 2022 ESG Report

# SPECIAL REPORT

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#### COVER STORY

The cover of Shinhan Financial Group's 2022 ESG Report and the separately published ESG Highlights cover and key page designs were created by artists from THISABLED, an agency for artists with developmental disabilities and a sponsor of Shinhan Squarebridge.



This report has been published as an interactive PDF with features such as navigation to related pages within the report and links to related webpages and sites.



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# INTRODUCTION

## To our stakeholders

### From Climate Change to Climate Crisis

With extreme weather events such as heat waves, droughts, wildfires, and floods sweeping the globe, 2022 was a year in which the "climate crisis by the numbers" became more apparent than ever. According to the World Meteorological Organization (WMO), an agency of the United Nations, the global average temperature in 2022 was about 1.15°C above pre-industrial (1850-1900) levels, and the Copernicus climate change service (C3S), a climate change watchdog under the European Commission, reported that the global annual average temperature in 2022 was the fifth highest since observations began.

With temperatures rising by more than 1 degree Celsius above pre-industrial levels for the eighth consecutive year since 2015, the world is experiencing the effects of an unprecedented climate crisis, and these effects are predicted to worsen. In March 2023, the United Nations Intergovernmental Panel on Climate Change (IPCC) approved its Sixth Assessment Report at its 58th General Assembly, warning that it is difficult to prevent global temperatures from rising by 1.5 degrees before 2040. The World Meteorological Organization (WMO) announced a 66% probability of global average temperatures crossing the 1.5°C threshold in 2027, reiterating the seriousness of the climate crisis and the need for a global commitment to net zero.

### The Role of Finance in the Face of the Climate Crisis

What role can finance play in the climate crisis? Financial firms can play a role in financing the transition to a low-carbon economy and supporting companies that are struggling to make the transition. These firms can also anticipate domestic and international risks to climate change and communicate financial institutions' perspectives on preparing for them. Financial firms have more stakeholders than any other industry, and this year, many of our clients are responding to policies that are being enacted around the world to address the climate crisis, including national cap-and-trade programs, the EU's Carbon Border Tax, the SEC's climate disclosures, and the IFRS Foundation's sustainability and climate disclosures. Financial companies should be the first to analyze and respond to these policies, and act as a "helper" to help Korean companies grow.

According to a report by McKinsey (The Net Zero Transition), a total of \$275 trillion is needed to get the world to "Net Zero" in 2050. A lot of the financing for this transition is not an expense, but perhaps an investment. Finance needs to play a role as a 'Coordinator' to help the low-carbon transition so that everyone in the world can live in a 'good' environment.

### Shinhan Financial Group's TCFD Report

Shinhan will disclose the "role of finance" in a transparent and detailed manner through Shinhan Financial Group's TCFD Report for 2022. In 2020, Shinhan Financial Group became the first financial group in East Asia to declare the 'Zero Carbon Drive', pledging its sincere efforts to achieve carbon neutrality, and is drawing a blueprint for green growth with 2022 as the year to achieve the Zero Carbon Drive. In particular, Shinhan Financial Group will provide useful information to many stakeholders on practical activities to implement carbon reduction, such as developing the first financial emission measurement system for domestic financial groups, obtaining approval of the Science Based Target Initiative (SBTi) for scope 1-3 carbon reduction targets, and joining RE100 to reduce internal carbon emissions.

The coexistence of the present and future generations can be placed on the shoulders of the current generation. Under that heavy responsibility, I will fulfill the role given to Shinhan.

[Introduction to 2022 Shinhan Green Blueprint](#)

“  
 Humanity is on thin ice — and  
 that ice is melting fast. Our  
 world needs climate action  
 on all fronts — everything,  
 everywhere, all at once.

”

UN Secretary-General António Guterres during a press conference on the IPCC's Sixth Assessment Report, March 2023



# Governance

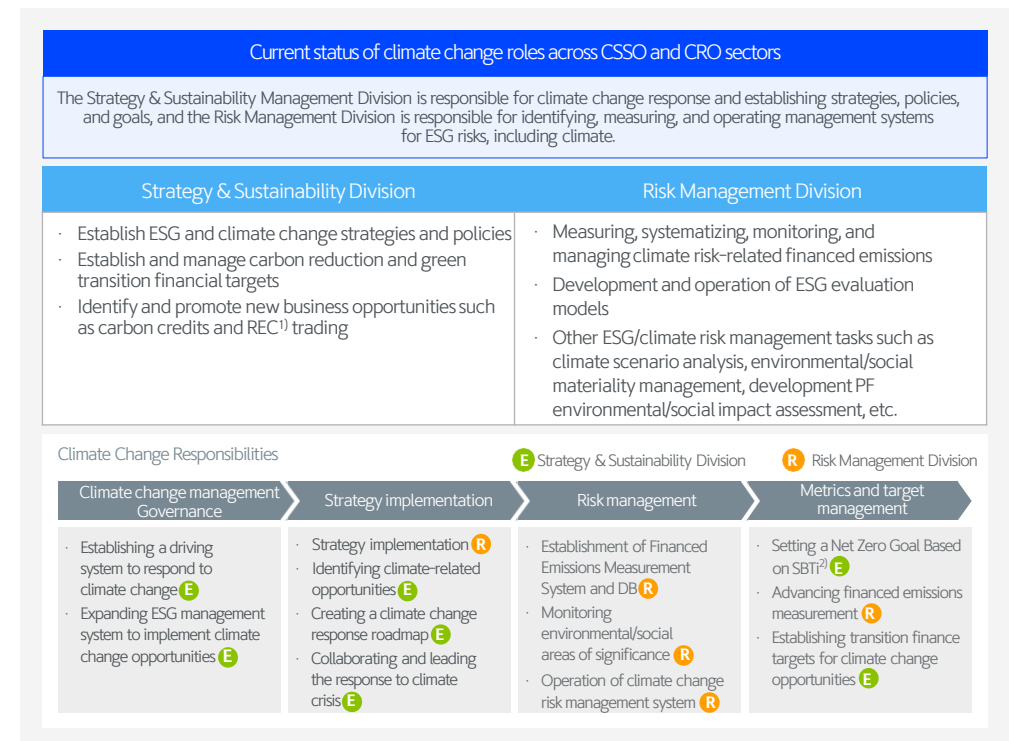
## Governance to Respond to Climate Change

Shinhan Financial Group establishes a transparent and reasonable governance structure to respond to risks related to climate change and create business opportunities, thereby delivering sustainable value to stakeholders.

	Opportunities of climate change	Risks of climate change	Key roles in detail
BOD sub-committees	<b>ESG Strategy Committee</b> Regularly report 4-6 times a year	<b>Risk Management Committee</b> Report 8-10 times a year Regularly report 4 times a year	<ul style="list-style-type: none"> <li>Deliberate climate change strategy and risk-related agenda</li> <li>Decide on key policies/businesses/regulations related to climate change</li> </ul>
CEO council	<b>Group ESG Implementation Committee</b> Regularly report every month		<ul style="list-style-type: none"> <li>Implement and monitor climate change-related strategies</li> </ul>
Employees in charge	<b>GCSO</b> (Group Chief Strategy and Sustainability Officer)	<b>GCRO</b> (Group Chief Risk Officer)	
Group subsidiary council	Group ESG CSO Council	Group Risk Council	<ul style="list-style-type: none"> <li>Discuss the direction of executing strategic tasks and countermeasures for relevant common issues of the Group</li> <li>Execute climate change risk management under the Risk Management Committee</li> </ul>
Working group	Group ESG Working Group	Group Climate Risk Working Group	<ul style="list-style-type: none"> <li>Identify climate change response tasks</li> <li>Analyze climate change-related trends and monitor risks</li> </ul>
Subsidiaries	All 16 group companies, including Shinhan Financial Holding Company		<p>Separate organizations</p> <p><b>Green IB Execution Lab</b> Investing in green businesses and technologies</p> <p><b>ESG Global Desk</b> Building a global network related to climate finance and discovering relevant new businesses</p>

Shinhan Financial Group is the first Korean financial group to establish a climate change governance system that extends to the board of directors, management, executives in charge, and working teams, and is proactively identifying and managing climate change-related risks and opportunities. In particular, we are strengthening our capabilities to respond to climate change across the group through councils involving the CEOs, CSOs, CROs, and managers of each group company.

In particular, we have established a more specialized and advanced climate change response system by separating the corporate strategy/sustainability management area from the risk management area, and for organizationally detailed implementation, we are expanding the ESG organizational structure by establishing the 'Green IB Promotion Lab' and the 'ESG Global Desk' to address climate change-related opportunities in investment and global business expansion.



<sup>1)</sup>REC(Renewable Energy Certificate) : A certificate that certifies that energy is supplied using renewable energy

<sup>2)</sup>SBTi: Science Based Targets initiative

# Governance

## Roles of the BOD

Shinhan Financial Group recognizes the importance of climate-related issues and strives to effectively supervise them and transparently manage the results. To this end, the ESG Strategy Committee and the Risk Management Committee of the Board of Directors are responsible for finalizing and approving climate change response strategies and important issues to implement them.

The ESG Strategy Committee, which was established in 2015 for the first time in a domestic financial company, oversees all major decisions related to ESG and climate change strategies, and held a total of four meetings in 2022. The ESG Strategy Committee, held in May, August, and November 2022, reviewed eco-friendly financial performance, financed emissions, and carbon intensity. In particular, the August ESG Strategy Committee discussed specific tasks to become the best practice for implementing Net Zero through the ESG mid-term strategy. The Risk Management Committee recognizes, measures, monitors, and controls all risks arising from various transactions in a timely manner and discusses issues related to major climate risk factors, and held a total of eight meetings in 2022.

## Strengthening Our Ability in Response to Climate Change

Since the declaration of the Zero Carbon Drive in 2020, Shinhan Financial Group has continued to operate various education and training programs related to climate change by recruiting internal and external experts to strengthen the climate change response capabilities and execution capabilities of the BOD and management.

Date	Contents	Participants	Hours	Attendance rate	Institutions
2020.09.	· Climate change response trends (TCFD, etc.) · Global ESG trends	ESG Strategy Committee (5 persons)	4H	100%	External
2020.11.	· Strategic use of sustainability and ESG	BOD	1H	100%	External
2020.12.	· ESG and climate change risk management	Risk Management Committee (5 persons)	1H	100%	Internal
2021.11.	· Measure and manage financed emissions to manage climate change risk	Risk Management Committee (5 persons)	1H	100%	Internal
2022.03.	· Supply Chain Management and ESG Risk Issues for Financial Companies (Financed Emissions Management)	ESG 'Right, Nimble, Different' Research Society (CEO & Chairman, ESG department heads at group companies) (20 persons)	1H	100%	External
2022.05.	· The state of ESG and climate risk and how the Group is responding · The state of ESG and climate risk and how the Group is responding	Samsun Session(Holding's executives and group company CEOs) (30 persons)	1H	100%	External Internal
2022.08.	· Shinhan Zero Carbon Drive and K-Taxonomy	ESG Implementation Committee (group company CEOs) (16 persons)	1H	100%	External
2022.09.	· Prepare your organization for ISSB disclosures	ESG 'Right, Nimble, Different' Research Society (CEO & Chairman, CSSO of each group company, head of ESG department) (48 persons)	1H	100%	External

## Roles of the Management

In 2021, Shinhan Financial Group established the ESG Implementation Committee, which is attended by all CEOs of group companies, to establish a driving system for promoting a unified ESG and climate change strategy at the group level along with the existing Group ESG CSSO Council<sup>1)</sup> and Group Risk Council. In addition, GCSO and GCRO, who are in charge of task execution, have been assigned to oversee the overall ESG driving system and climate risk management, respectively, to strengthen their leadership and expertise in responding to climate change, and report on major issues to the ESG Strategy Committee and Risk Management Committee. In particular, from 2022, Shinhan will reflect climate change issues in the CEO evaluation in three areas: green financial performance, internal emissions (Scope1,2), and financed emissions (Scope3). The three areas are part of the 'Creating Sustainable Performance' area, which accounts for a total of 15% of the CEO's evaluation weight, and are categorized as one of the seven tasks of the group's overall management plan. In particular, green finance is categorized as a long-term growth issue for the group, and the evaluation system is organized to help the entire group expand green finance in the long term. This matter is resolved by the Remuneration Committee, a committee within the BOD of Shinhan Financial Holding Company, and is directly linked to the CEO's incentives.

The evaluation of the Group CEO is also linked to the evaluation of the CEOs of the group companies, and a responsible performance management system has been established by reflecting the amount of green finance and carbon emission reduction within the KPIs of all group companies.

Classification	Incorporating climate-related items into strategic tasks	Total
Shinhan Financial Group (Creating Sustainable Performance)	Green Finance Track Record	15%
	Reducing carbon emissions (financial carbon footprint, Scope 3)	
	Reduce carbon emissions (internal carbon emissions, Scope 1,2)	

<sup>1)</sup> In 2019, we became the first financial company to appoint a Chief Strategy & Sustainability Officer (CSSO) for all group companies and designate a Head of ESG Practice to run the council.

# Governance

## Shinhan Financial Group's Climate Change Response Governance Operations in 2022

Date	Conference Name	Participants	Discussion topic
2022. 01. 27	January ESG Implementation Committee	Group CEO & Chairman, CEOs of group companies (16 persons)	<ul style="list-style-type: none"> <li>ESG Strategy Framework Branding (Proposal)</li> <li>ESG Promotion Status (Dashboard)</li> </ul>
2022. 02. 09	ESG CSSO Council and Working Group Council	Group CSSO & Chairman, CSSOs of group companies, officers (65 persons)	<ul style="list-style-type: none"> <li>Shared the Group's ESG promotion direction for 2022</li> </ul>
15	February ESG Implementation Committee	Group CEO & Chairman, CEOs of group companies (16 persons)	<ul style="list-style-type: none"> <li>ESG Goals for '22 ESG Implementation Status</li> </ul>
22	ESG Research Society	Group CEO & Chairman, Heads of ESG departments at major group companies (20 persons)	<ul style="list-style-type: none"> <li>Carbon Emission Reduction TF Operation Plan</li> <li>Report on the development of financial emission measurement system</li> </ul>
2022. 03. 16	March ESG Implementation Committee	Group CEO & Chairman, CEOs of group companies (16 persons)	<ul style="list-style-type: none"> <li>ESG Progress Status (Dashboard)</li> </ul>
21	March ESG Working Group Council	ESG officers of group companies (49 persons)	<ul style="list-style-type: none"> <li>Environmental Data Training for ESG Disclosures</li> </ul>
22	ESG Research Society	Group CEO & Chairman, Heads of ESG departments at major group companies (20 persons)	<ul style="list-style-type: none"> <li>Internal discussion: Strengthening ESG investments and becoming a climate innovator</li> </ul>
2022. 04. 18	ESG Research Society	Group CEO & Chairman, Heads of ESG departments at major group companies (20 persons)	<ul style="list-style-type: none"> <li>K-Taxonomy Enabling green finance through understanding</li> </ul>
29	April ESG Implementation Committee	Group CEO & Chairman, CEOs of group companies (16 persons)	<ul style="list-style-type: none"> <li>ESG Progress Status (Dashboard)</li> </ul>
2022. 05. 18	May CSSOs and Working Group Councils	Group CSSO & Chairman, CSSOs of group companies, officers (65 persons)	<ul style="list-style-type: none"> <li>ESG Dashboard and Progress on ESG Strategy Tasks</li> </ul>
19	May ESG Implementation Committee	Group CEO & Chairman, CEOs of group companies (16 persons)	<ul style="list-style-type: none"> <li>ESG Strategic Tasks Dashboard</li> <li>ESG Progress Status (Dashboard)</li> </ul>
30	ESG Research Society	Group CEO & Chairman, Heads of ESG departments at major group companies (20 persons)	<ul style="list-style-type: none"> <li>Drive differentiated ESG management based on digital</li> </ul>
2022. 06. 15	June ESG Implementation Committee	Group CEO & Chairman, CEOs of group companies (16 persons)	<ul style="list-style-type: none"> <li>ESG Progress Status (Dashboard)</li> </ul>
2022. 07. 07	July ESG Working Group Council	ESG officers (49 persons)	<ul style="list-style-type: none"> <li>Shared Proposal to Build a Group ESG Data Platform</li> </ul>
18	July ESG Working Group Council	ESG division head, department heads and officers at major group companies (20 persons)	<ul style="list-style-type: none"> <li>[Holding] Shinhan Financial Group's ESG Mid-term Strategy</li> <li>Report on the results of the '21 Social Value Measurement Project and directions for improvement</li> </ul>
29	July ESG Implementation Committee	Group CEO & Chairman, CEOs of group companies (16 persons)	<ul style="list-style-type: none"> <li>ESG Progress Status (Dashboard)</li> </ul>

Date	Conference Name	Participants	Discussion topic
2022. 08. 17	August ESG Implementation Committee	Group CEO & Chairman, CEOs of group companies (16 persons)	<ul style="list-style-type: none"> <li>ESG progress in the first half</li> <li>Key activities of group companies</li> </ul>
22	August ESG Working Group Council	ESG officers at major group companies (10 persons)	<ul style="list-style-type: none"> <li>Promote Group RE100 (Proposed)</li> </ul>
2022. 09. 12	September ESG Implementation Committee	Group CEO & Chairman, CEOs of group companies (16 persons)	<ul style="list-style-type: none"> <li>ESG Progress Status (Dashboard)</li> </ul>
19	September CSSO Council	CEO & Chairman, CSSO of group companies, department heads (32 persons)	<ul style="list-style-type: none"> <li>ESG Dashboard and Progress on ESG Strategy Tasks</li> </ul>
30	September ESG Working Group Council	Officers at major group companies (40 persons)	<ul style="list-style-type: none"> <li>Analyze key global voluntary market carbon credit price trends</li> <li>Post-COP 26 carbon market policy changes and related efforts by global market participants, market trends, and outlook for the global carbon credit market</li> <li>Shinhan Financial Group's business opportunities based on market trends</li> </ul>
2022. 10. 13	October ESG Working Group Council	ESG division head, Green IB Execution Lab, ESG department heads at major group companies (50 persons)	<ul style="list-style-type: none"> <li>Final Reporting of REC Research Contracts</li> </ul>
30	October ESG Implementation Committee	Group CEO & Chairman, CEOs of group companies (16 persons)	<ul style="list-style-type: none"> <li>ESG Progress Status (Dashboard)</li> <li>Analyzing ESG implementation performance</li> </ul>
2022. 11. 17	November ESG Implementation Committee	Group CEO & Chairman, CEOs of group companies (16 persons)	<ul style="list-style-type: none"> <li>Group carbon reduction progress</li> <li>Financed emissions status and actions</li> </ul>
21	November ESG Working Group Council	ESG division head, ESG officers and secretariats of major group companies (50 persons)	<ul style="list-style-type: none"> <li>Analyzing and applying the 'Corporate Renewable Energy Procurement Guidelines' (Korea Socially Responsible Investment Forum)</li> </ul>
2022. 12. 19	ESG Research Society	Group CEO & Chairman, Bank ESG Ideas Competition Winners Shinhan 'Right, Nimble, Different' research group (ESG department heads of group companies) ESG department, Green IB Execution Lab (55 persons)	<ul style="list-style-type: none"> <li>ESG Announcing the Idea Competition Winners: Case Studies for response to Biodiversity</li> <li>Group companies announce biodiversity collaboration</li> </ul>
30	December ESG Implementation Committee	Group CEO & Chairman, CEOs of group companies (16 persons)	<ul style="list-style-type: none"> <li>ESG Progress Status (Dashboard)</li> </ul>

# Strategy

## Climate-related Opportunities and Risks

Climate change has a wide range of impacts across economic activities, and for companies responding to it, it can be a strategic opportunity to create new markets and businesses. In particular, countries with a high carbon intensity based on manufacturing, such as South Korea, should use the transition to businesses based on renewable energy and eco-friendly technologies as a starting point for leapfrogging growth. This shift will increase the demand for financial services, including financing for eco-friendly businesses, and create new business opportunities for financial companies in green finance, transition finance, and more.

However, the transition to a low-carbon economy can also place a significant burden on economic activity as a whole. Financial firms, which are linked to the real economy as a whole, are exposed to a wider range of risks than other businesses, as existing business structures, facilities, etc. need to be adapted. In this context, financial firms need to redefine their role in the face of climate change more specifically, and develop strategies to proactively address climate change risks.

### Climate-related Opportunities

Classification	Climate-related opportunities	Potential financial impact
Resource efficiency	Increased energy and water resource efficiency, increased recycling and eco-friendly means of transportation, expansion of eco-friendly construction	<ul style="list-style-type: none"> <li>Reduction in operation costs by improving energy efficiency and curtailing costs</li> <li>Increase in profits from a rise in production capacity</li> <li>Rise in the value of fixed assets (Example: Building with a high level of energy efficiency, etc.)</li> <li>Reduction in costs resulting from advantages in human resource management and plan (Example: Health and safety improvements, employee satisfaction level improvements)</li> </ul>
Energy resources	Use of low carbon-emitting energy sources, use of government support policy incentives, carbon market participation, transition to distributed energy sources, application of new technologies	<ul style="list-style-type: none"> <li>Decrease in operation costs from reduced GHG emissions</li> <li>Reduction in exposure to future fossil fuel price increases</li> <li>Reduction in influence from GHG emissions and carbon price changes</li> <li>Return on low-carbon technology investments</li> <li>Rise in capital availability</li> <li>Positive reputation benefits from a rise in demand for products/services</li> </ul>
Products and services	Development and expansion of low carbon emissions-related products and services, climate change adaptation and insurance solutions new services through technological innovation, business activity diversification capabilities, changes in consumer preferences	<ul style="list-style-type: none"> <li>Increase in profits based on demand for low-carbon emission products and services</li> <li>Rise in profits through new solutions (Example: Insurance risk transfer products and services) in relation to climate change adaptation needs</li> <li>Rise in profits by developing more competitiveness by reflecting changing consumer preferences</li> </ul>
Market	Expansion of new market creation and accessibility, use of public sector incentives, access to new assets and regions that require insurance application	<ul style="list-style-type: none"> <li>Increase in profits through new market access (Example: Partnerships with the government and development banks)</li> <li>Increased diversification of financial assets (green bond, infrastructure, etc.)</li> </ul>
Resilience	Increased application of renewable energy and improved energy efficiency, resource diversification and discovery of alternative resources	<ul style="list-style-type: none"> <li>Rise in market value through a restoration plan (Example: Infrastructure, land, building)</li> <li>Improvement in supply chain credibility and operation capabilities in diverse conditions</li> <li>Rise in sales through new products and services related to resilience</li> </ul>

As a financial institution, Shinhan Financial Group clearly recognizes its role in sustainable growth and the transition to a low-carbon economy, and has established and implemented strategies to mitigate climate change risks and create new businesses.

### Climate-related Risks

Classification	Climate-related risk	Potential financial impact
Transition risk	Policy and legal risk	<ul style="list-style-type: none"> <li>Increase in operation costs (Example: Rise in compliance costs, rise in insurance premiums)</li> <li>Depreciation due to policy changes</li> <li>Asset damage and early disposal of existing assets</li> <li>Increase in costs owing to fines and rulings or reduction in product and service demand</li> </ul>
	Technology risk	<ul style="list-style-type: none"> <li>Depreciation and early disposal of existing assets</li> <li>Reduction in product and service demand</li> <li>New technology and alternative technology R&amp;D costs</li> <li>Capital investment for technology development</li> <li>Costs incurred from adopting/distributing new practices and processes</li> </ul>
	Market risk	<ul style="list-style-type: none"> <li>Reduction in demand for goods and services from changes in consumer preferences</li> <li>Increase in production costs owing to raised raw material prices and waste treatment cost changes</li> <li>Sudden, unexpected changes in energy costs</li> <li>Reduction in sales owing to sales performance changes</li> <li>Decrease in value owing to asset re-evaluation (Example: Amount of fossil fuel reserves, land value, stock value evaluation)</li> </ul>
Physical risk	Reputation risks	<ul style="list-style-type: none"> <li>Decrease in profits resulting from reduced product/service demand</li> <li>Decrease in profits owing to reduced production capacity (Example: Delay in plan approval, suspension of the supply chain)</li> <li>Decrease in profits owing to negative impact on human resource management and plan (Example: Attracting and retaining employees)</li> <li>Reduction in capital availability</li> </ul>
	Acute physical risk	<ul style="list-style-type: none"> <li>Reduction in productivity and operating profit from suspension of business sites, collapse of the supply chain, deteriorated worker health, etc.</li> <li>Increase in operation costs and capital costs owing to facility damage, early disposal of existing assets, etc.</li> <li>Increase in insurance premiums for high-risk asset groups and possibility of reduced insurance availability</li> </ul>
	Chronic physical risk	<ul style="list-style-type: none"> <li>Change in precipitation patterns and extreme volatility of weather patterns, rise in average temperatures, rise in sea levels, and other long-term change</li> </ul>



## Impact that Climate Change Has on Shinhan

### Time Horizons

Climate risk is rapidly gaining prominence in all aspects of business, including policy and markets, as the world moves toward Net Zero. Issues such as carbon taxes and cap-and-trade programs that could affect the profits of regulated companies are emerging in the short term, and issues such as mandatory disclosure of environmental information by listed companies could pose operational and legal risks. Shinhan has analyzed that the relevant risks may affect Shinhan in the short term, which is defined as a period of at least one year and up to five years. In the medium term, reputational risks may arise from the implementation of Shinhan Financial Group's declared Zero Carbon Drive. Continued financial support for high-emitting industries that are unable to reduce their financed emissions or are unwilling to transition to low-carbon may be interpreted as "greenwashing," which may have a negative impact on public evaluation, and may also be associated with financial products such as passive investments and ESG-related ETFs, which may have a direct impact on stock price declines. This could extend to legal risks for shareholders and stakeholders.

In addition to direct risks, financial firms must also manage the risk of physical damage or deterioration in business operations of corporate clients that may occur during the transition to a low-carbon economy. In the case of conventional stress tests, short-term impacts were analyzed by predicting the future based on historical patterns, but in the case of climate scenarios, long-term analysis reflecting climate policy and regulatory impacts was found to be significant. From this perspective, Shinhan defines the medium-term as a five- to 10-year period in which it is possible to conduct practical risk monitoring and analysis and review plans to adjust exposure accordingly.

Finally, long-term risks can change dramatically depending on how physical and transition risks play out. According to the BIS report (2020), there is an inverse relationship between physical and transition risks. Therefore, if planning for low-carbon transition is not carried out smoothly, acute and chronic risks will increase due to the lack of physical risk management. Therefore, Shinhan defines the long term as the decade after 2100, which is the predicted point of reaching global temperature relative to industrialization in the IPCC report, and the decade in between.

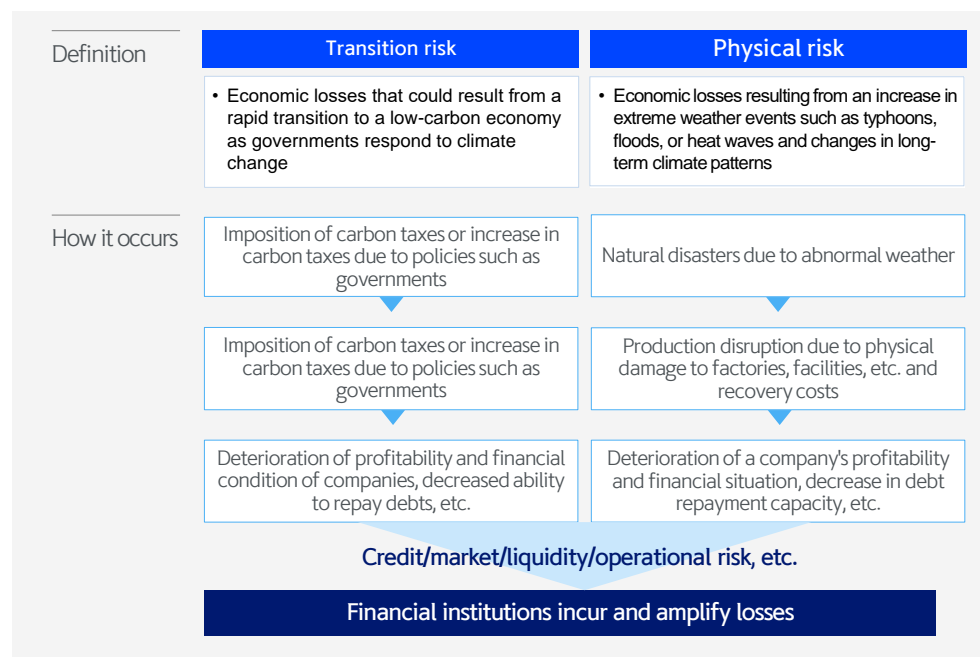
### Time Horizons



### Recognizing Climate Risk in Financial Firms

In recent years, global efforts to curb global temperature rise have been crystallized in the phrase "Net Zero 2050". This means that cumulative greenhouse gas emissions must be contained within a certain level, and a complete transition to a low-carbon economy by 2050 is the only way for humanity to do so. Climate risk is divided into transition risk and physical risk. Transition risks are economic losses that occur during the transition to a low-carbon economy by 2050, while physical risks are economic losses due to natural disasters caused by climate change.(TCFD 2018) If Net Zero is achieved at the target level, transition risks will occur during the transition to a low-carbon economy, but by limiting the increase in global temperature to a certain level, natural disasters will be limited and the level of physical risks will be reduced. Conversely, if the transition to a low-carbon economy is stalled and the goal of carbon neutrality is not achieved, transition risk may be minimal, but natural disasters are expected to escalate due to the failure to control global temperature rise, resulting in a significant increase in physical risk. As a result, an inverse relationship between transition risk and physical risk can be expected. As such, performance and physical risks can lead to complex problems such as credit, market shocks, reduced liquidity, and increased operational risk for companies, which can lead to losses for financial institutions.

### Recognizing Climate Risk in Financial Firms



# Strategy

Risk type	Detailed risk definition	Impact on Shinhan	Time
Transition risk	Policy and Legal	<ul style="list-style-type: none"> <li>In the short term, export companies, including the US/Europe, may experience a rise in export costs due to the carbon tax that will further increase and regulations on high carbon-emitting businesses. In addition, operation costs can rise in the localization process, thus having a negative financial impact</li> <li>In accordance with the Glasgow Climate Pact, each country will establish and implement an NDC that does not exceed 1.5°C by 2030. Drastic emission reduction targets are expected to be imposed on companies within the next five years in accordance with each country's emission reduction policy. Measures that were eased in the short term can more sharply expand in the mid-term. Unprepared companies will be increasingly burdened by a rise in emission right prices and this may connect directly with borrowers' financial soundness. This may, in turn, increase Shinhan's risk</li> <li>In case the process of implementing Shinhan's net-zero finance influences borrower and customer contracts, etc. or leads to the raising of an issue, such as green washing, because support was not suspended for high carbon-emitting businesses, this may lead to a legal lawsuit or can become a legal risk</li> </ul>	Short, mid, long
	Technology	<ul style="list-style-type: none"> <li>All companies will increase low-carbon facility and infrastructure investments. In this case, there may be an impact on profits from the mid-term perspective as costs and expenses sharply rise but the volume of production and consumption does not rise accordingly</li> <li>In the long term, there may be technology development risks according to whether high carbon-emitting companies transition successfully to low-carbon transition technologies. Companies that do not successfully transition can suffer a considerable impact on profits</li> </ul>	Mid, long
	Market	<ul style="list-style-type: none"> <li>In the capital market, companies that do not actively respond to climate change have a high possibility of being excluded from investments. If Shinhan Financial Group experiences difficulties in managing financed emissions according to its declared net-zero finance or an issue related to responding to climate change resulting from a continued increase in exposure to high carbon-emitting businesses, Shinhan may be shunned by consumers and investors may withdraw their funds. This can also connect to a drop in stock prices to have a financial impact</li> </ul>	Mid, long
	Reputation	<ul style="list-style-type: none"> <li>Failure to manage financed emissions may lead to the raising of the green washing issue by the media and clients, a considerable impact on Shinhan's reputation as a company that leads green finance, and customer churn. A financial company's management of Scope 1, 2, and 3 and its climate change risk management system and response can be connected to indexes of major credit rating agencies or ESG evaluation organizations, leading to the risk of a drop in the Group's overall credit rating and ESG evaluation rating</li> </ul>	Mid, long
Physical risk	Acute Risk	<ul style="list-style-type: none"> <li>In case of an acute risk, it impacts Shinhan's corporate clients as well as retail clients. In addition, it can serve as a significant risk to owned real estate according to such acute risks as the rainy season, heavy rainfall, typhoon, and earthquake. Shinhan can be directly influenced by operation risks that are caused by a drop in such real estate's mortgage value, damage to facilities and equipment, and reduced production capacity as well as by financial risks that arise from compensation for customers' life insurance and non-life insurance.</li> <li>In addition, employees who suffered damages can be negatively impacted and risks may be triggered in the aspect of running the company.</li> </ul>	Short, mid
	Chronic Risk	<ul style="list-style-type: none"> <li>In case of a chronic risk, a rise in temperatures and sea levels can lead to reduced profits of relevant businesses. For example, temperatures directly influence agricultural crops and the ocean industry, and can have a considerable impact on biodiversity and survival. In this case, borrowers that engage in such businesses as the grain business, food and beverage business, and ocean and fishing industry are financially impacted as a result of a rise in sunk costs or operation costs</li> <li>In addition, chronic risks raise the amount of electric power use in overall industry. This can lead to reduced operating income owing to a hit to the supply chain and logistics chain</li> </ul>	Mid, long

# Strategy

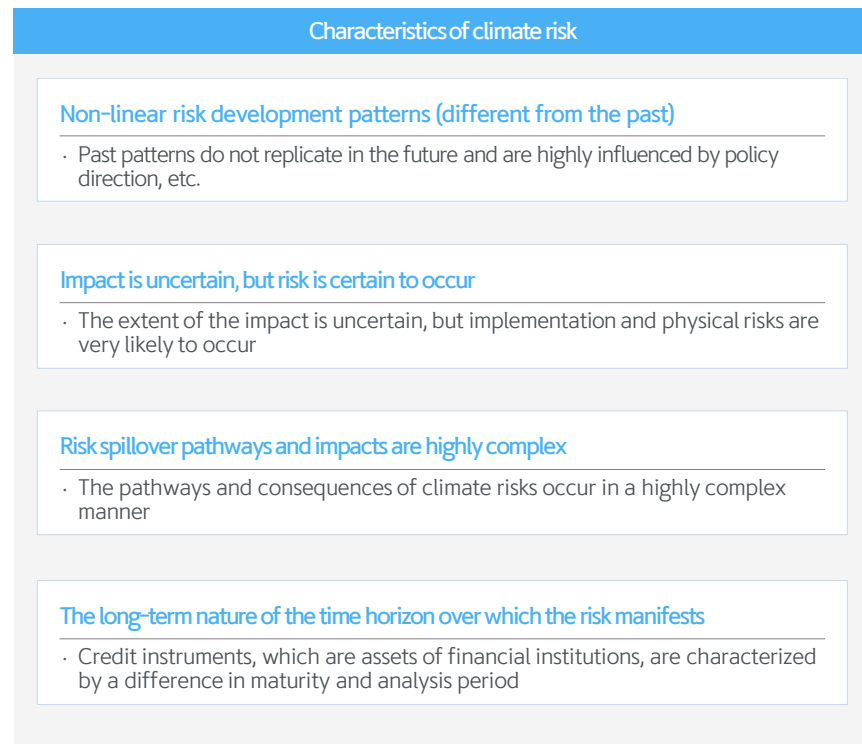
## Climate Change Scenario Analysis

Shinhan Financial Group is preparing for the risks brought about by climate change through scenario analysis that considers the characteristics of climate risks. Climate risks are characterized by long-term impacts in terms of disasters caused by natural disasters that are expected to occur by 2100 due to rising global temperatures. In addition, the extent of the impact of climate risks is uncertain and difficult to accurately predict, while the probability of risk occurrence is very high for both physical and transition risks

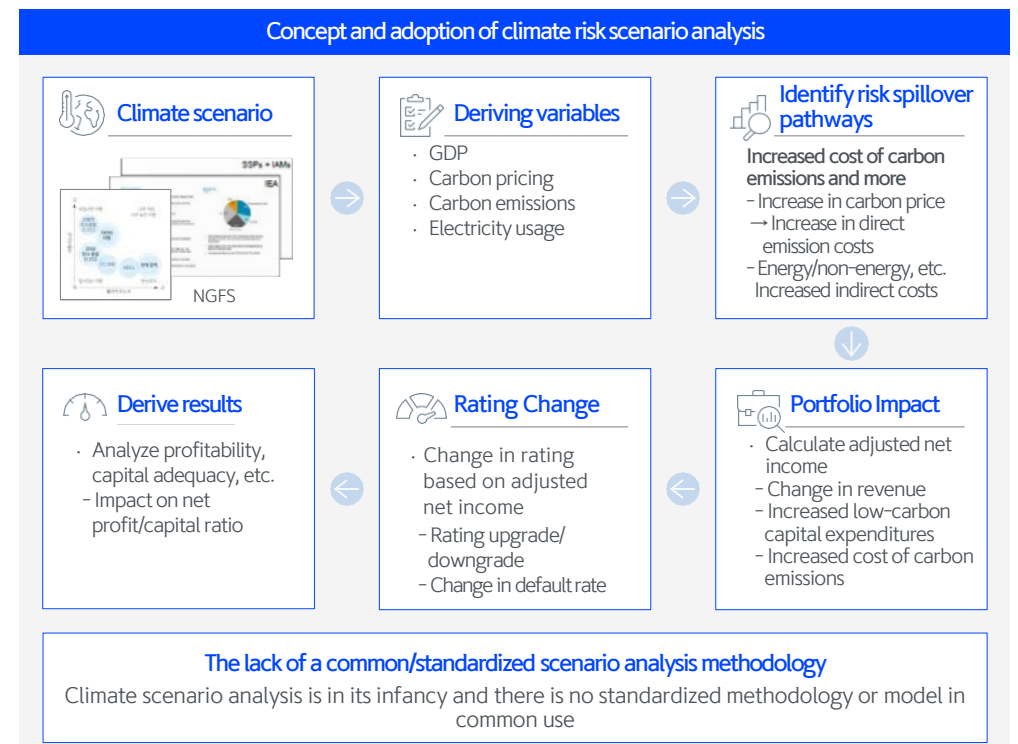
Existing stress tests conducted to analyze the impact of financial market crashes and recessions during a specific period, such as the financial crisis or coronavirus pandemic, are based on a short-term financial impact analysis of one to two years, but scenario analysis for climate risk is based on a long-term observation period. Due to this long-term nature, the period over which risks manifest themselves is long and is characterized by a gap between the maturity of credit instruments, a common asset of financial institutions, and the analysis period.

Furthermore, given the characteristics of climate risk, such as the fact that past patterns do not appear the same given the current state of domestic and international policies and companies responding to them, and the fact that the pathways and impacts of climate risk are highly complex in scope, including industries, economies, and markets, it is necessary to analyze based on scenarios that assume future conditions.

In response, Shinhan is analyzing the financial impact of climate risks by setting various variables for climate scenario analysis and deriving the risk spillover paths and impact levels according to the scenarios.



Need to analyze based on scenarios that assume future conditions



# Strategy

## Shinhan Financial Group Transition Risk Scenario Analysis

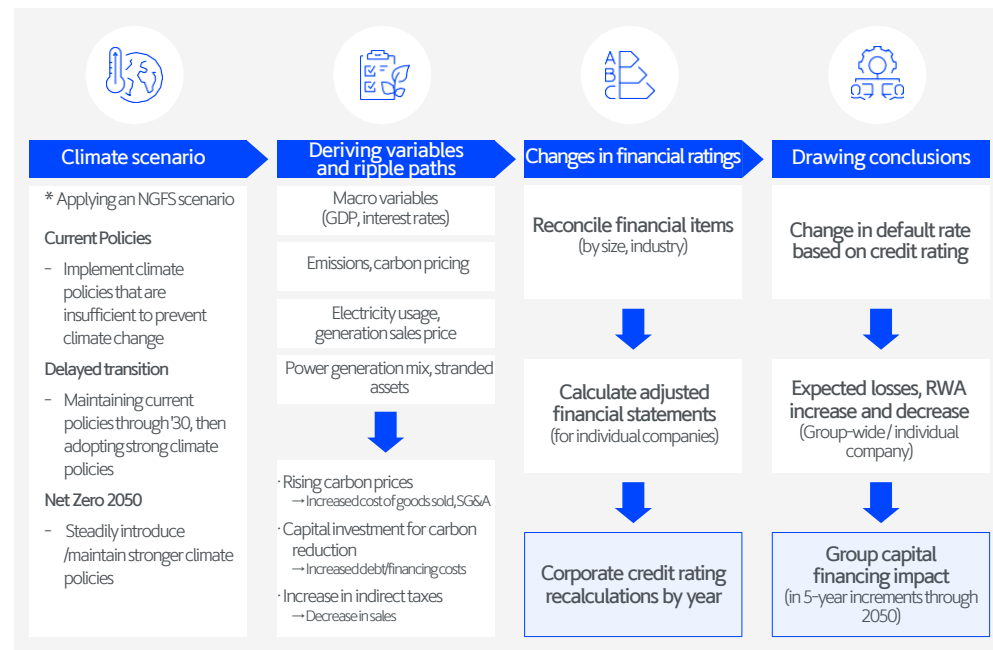
Considering the characteristics of climate risk and benchmarking various stress test methodologies such as the European Central Bank's (ECB) climate stress test<sup>1)</sup>, we developed our own scenario analysis model that reflects the characteristics of Shinhan Financial Group's portfolio.

Using GDP growth rate, market interest rate, carbon price, and power generation mix as variables in the climate scenarios developed by NGFS, we estimated the future financial statements of individual companies by separating the impact of (1) the macroeconomic scenario and (2) the carbon policy scenario.

Based on the estimated financial statements, we calculated the credit ratings of the companies and analyzed the risk-weighted assets (RWA) and expected losses according to the credit ratings to estimate the capital ratios of Shinhan Financial Group by 2050.

<sup>1)</sup> 'Economy-wide climate stress test' (Economy-wide climate stress test, 2021.9.)

### Transition Risk Scenario Process



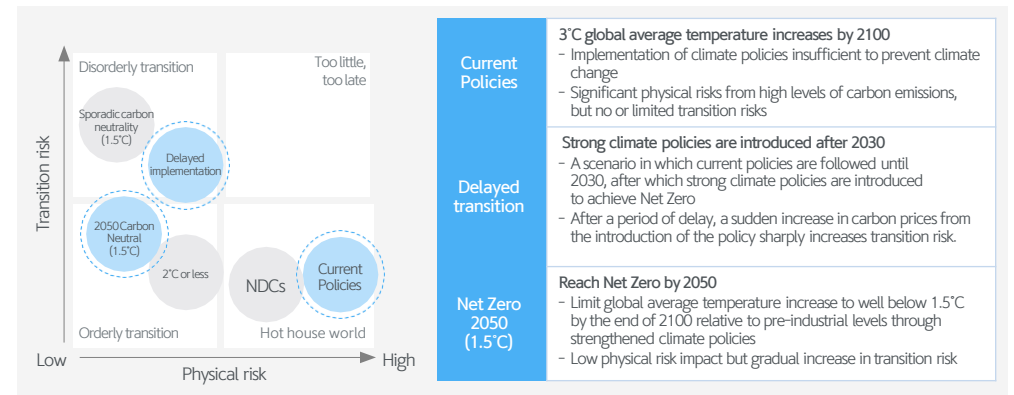
\* Climate risk financial impact analysis estimation formulas based on ECB stress methodology

$$\begin{aligned}
 \text{(Assets)} \quad TA_t^i &= \exp\{a + b_1 \log(TA_{t-1}^i) + b_2 \log(GDP_t) + b_3 \text{CPI}\%_t\} \\
 \text{(Revenue)} \quad S_t^i &= \exp\{a + b_1 \log(S_{t-1}^i) + b_2 \log(TA_t) + b_3 \text{VAT}_t + b_4 \text{OIL}\%_t + b_5 t\} \\
 \text{(COGS)} \quad C_t^i &= \exp\{a + b_1 \log(C_t^i) + b_2 \log(TA_t) + b_3 t\} + \Delta \text{Cost}_t^i(\text{carbon cost}) + \Delta \text{Cost}_t^i(\text{energy cost}) \\
 \text{(Carbon Reduction)} \quad \Delta \text{Scope}1_t^i &= \text{Scope}1_{t-1}^i \times (1 + S\_YOY_t^i) - \text{Scope}1_t^i
 \end{aligned}$$

For the scenario analysis of transition risk, we present results for three of the six scenarios provided by the NGFS that we consider to be the most characteristically distinct and meaningful: (1) Net Zero 2050, (2) Delayed transition, and (3) Current Policies.

The three selected scenarios, (1) Net Zero 2050, (2) Delayed transition, and (3) Current Policies, present levels of global warming, so that we can recognize the level each scenario is targeting. Net Zero 2050 and Delayed transition show global temperature rise declining to a peak in 2060, while Current Policies shows global temperature rise continuing.

### NGFS Climate Change Scenarios



\* NGFS (Network for Greening the Financial System): Green Finance Council, 95 organizations from around the world, including the Bank of Korea, the Financial Services Commission, and the Financial Supervisory Service, to promote green finance for the transition to a sustainable economy.

Scenario	2030	2050	2060	2080	2100
Net Zero 2050	1.13	1.26	1.26	1.13	1.02
Delayed transition	1.26	1.55	1.55	1.41	1.41
Current Policies	1.26	1.89	2.16	2.72	3.34

\* Source: Median temperature increase provided by NGFS (2022)

# Strategy

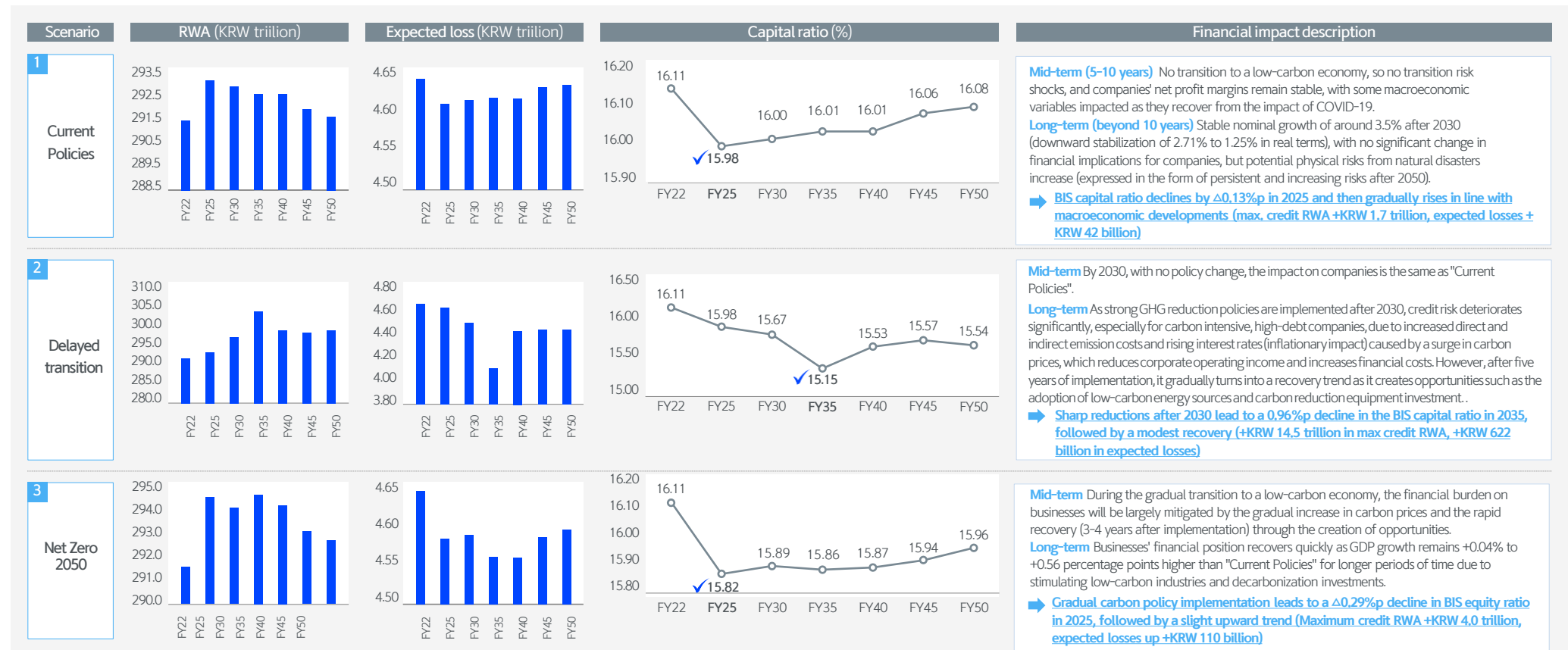
## Transition Risk Scenario Analysis Results

The analysis of Shinhan Financial Group's transition risk scenarios shows that the Group's capital ratio is expected to fall by up to 0.96 percentage points from the baseline of 2022 in the Delayed transition scenario. Even at the maximum level of decline, the capital ratio is above the regulatory capital ratio level and the Group's targeted minimum maintenance capital ratio level, and is significant in that it specifically measures the impact of climate risk. While maintaining current policies may seem less risky in the short term based on capital ratio numbers alone, global temperatures are projected to rise by about 2 degrees Celsius in 2050 if current policies are maintained. In this case, physical risks, which are inversely related to transition risks, are very likely to occur and their impacts are likely to escalate, causing greater damage from a global perspective.

Therefore, if climate scenarios are considered comprehensively, early transition efforts to a low-carbon economy based on the Net Zero 2050 scenario are necessary.

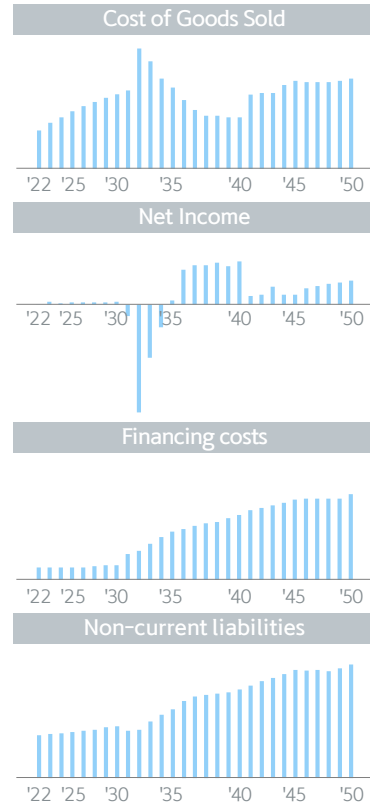
The scenario analysis was conducted for 14,000 companies that are categorized as high-carbon industries and have carbon emissions of 5,000 tons or more, which are significantly impacted by the carbon policy. The emissions of these companies account for 98% of the total financial emissions of Shinhan Financial Group, so the results are significant in terms of refining the target and scope for measuring the impact of climate risk.

### Detailed Results of Shinhan Financial Group's Transition Risk Scenario Analysis

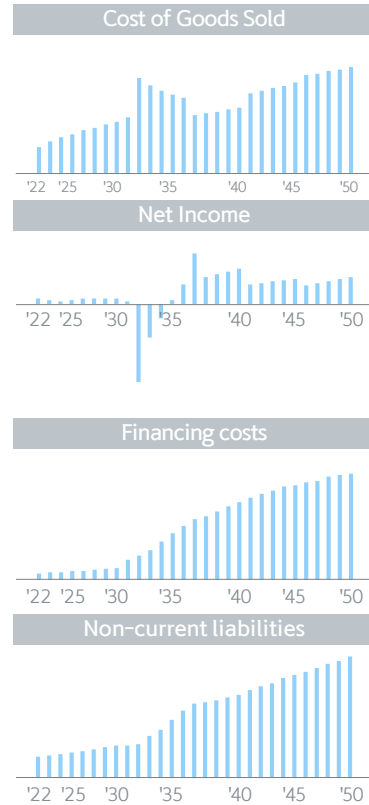


## Shinhan Financial Group's carbon intensive industry transition risk analysis: Analyzed based on Delayed Transition Scenario

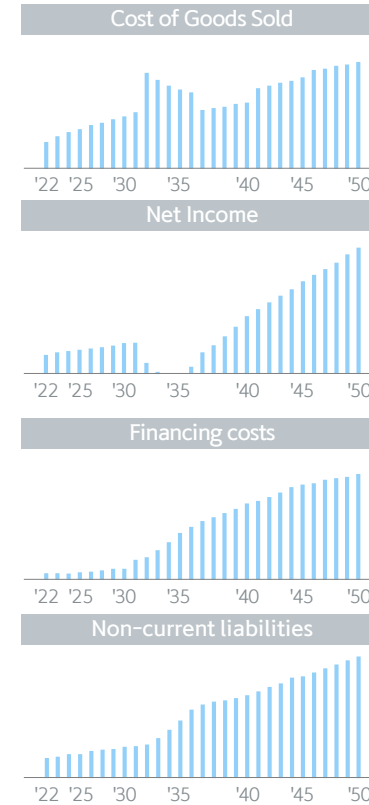
Change in financials for a carbon intensive industry (power generation company A)



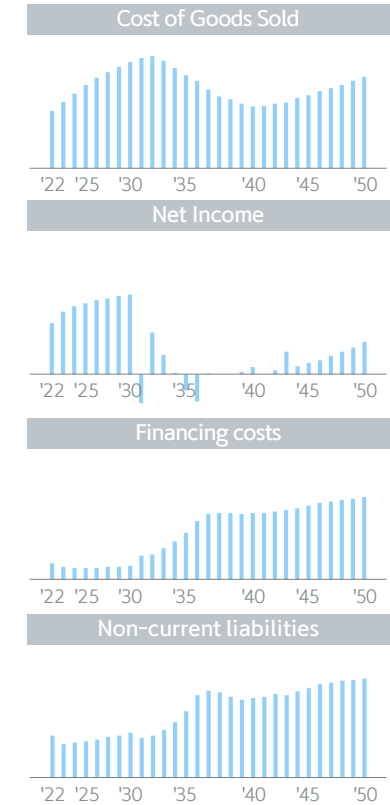
Change in financials for a carbon intensive industry (steel company B)



Change in financials for a carbon intensive industry (Cement company C)



Change in financials for a carbon intensive industry (Oil refinery company D)



Change in credit ratings

Year	Rating
2022	✓ A-
2025	A+
2030	BBB-
2035	✓ B+
2040	BBB
2045	BB+
2050	✓ BBB

Year	Rating
2022	✓ AA-
2025	A+
2030	BBB+
2035	✓ BB-
2040	BBB
2045	BBB+
2050	✓ A-

Year	Rating
2022	✓ A+
2025	A
2030	BBB+
2035	✓ BB-
2040	BBB
2045	BBB
2050	✓ BBB

Year	Rating
2022	✓ AA-
2025	AA
2030	A+
2035	✓ BBB-
2040	BBB+
2045	BBB+
2050	✓ BBB+

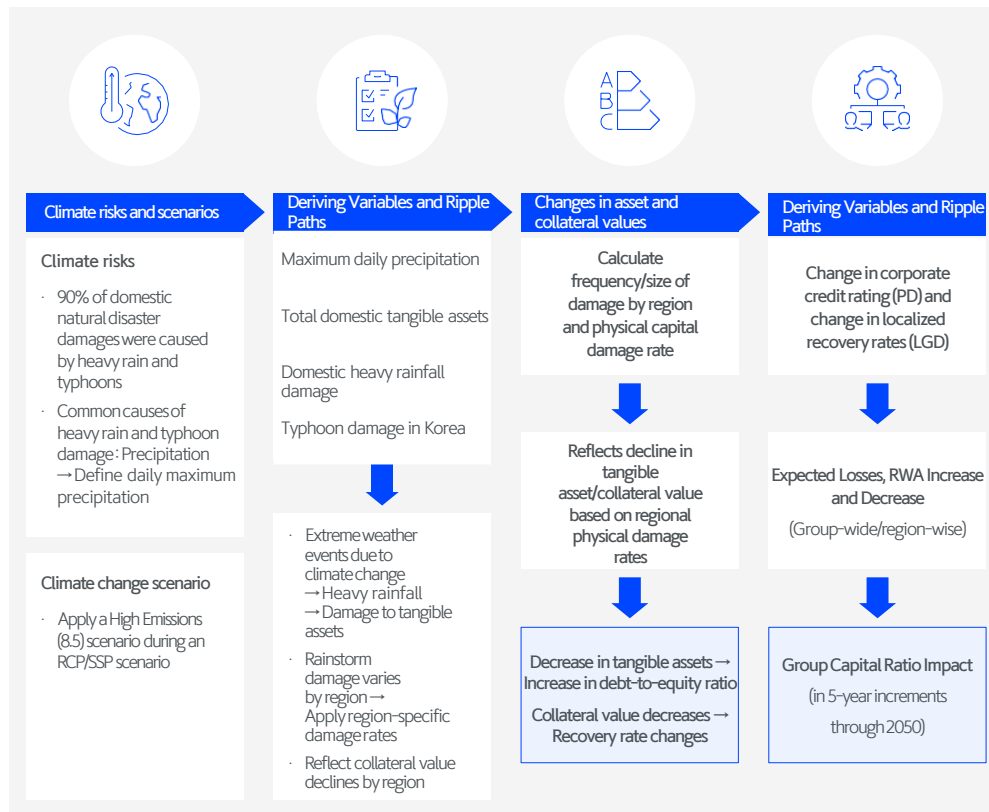
\*Carbon intensive sectors: Carbon intensive sectors are selected based on a company's financed emissions, exposure, and intensity (power generation, steel manufacturing, chemicals, cement, etc.), see page 25.

# Strategy

## Shinhan Financial Group Physical Risk Scenario Analysis

Shinhan Financial Group has developed its own physical risk analysis methodology by benchmarking the ECB's physical risk analysis methodology<sup>1)</sup> and considering the Korean climate environment.

We derived the relationship between precipitation and heavy rain/typhoon damage events to estimate the frequency and scale of damage, and calculated the annual physical capital damage rate by region until 2050 using the RCP 8.5 / SSP5-8.5 daily maximum precipitation scenario and data on total tangible assets in Korea. Based on the results, we identified the impact on Shinhan Financial Group's capital ratio by reflecting the change in debt-to-equity ratio due to changes in a company's tangible assets, the resulting change in credit rating, and the decline in the value of collateral assets.



For the scenario analysis of risks, we used the Representative Concentration Pathway (RCP) scenario used in the IPCC Fifth Assessment Report and the Shared Socioeconomic Pathways (SSP) scenario used in the IPCC Sixth Assessment Report. Shinhan Financial Group utilized the results of the RCP8.5 and SSP5-8.5 scenarios to disclose its physical risk analysis. This is because physical risks tend to increase in high-emission and high-temperature scenarios, so high-emission scenarios are the most appropriate for the purpose of conducting physical risk scenario analysis. For the analysis period up to 2050, the uncertainties in the climate models are larger than the differences between the climate change scenarios, and it is not until close to 2100 that the differences between the climate change scenarios are more pronounced than the uncertainties in the climate models.

The physical risk scenario analysis was limited to heavy rain and typhoon damage. Heavy rain and typhoon damages account for the largest share of domestic natural disaster damages, accounting for 93.2% of total damages over the past 10 years. By type of damage, heavy rain (49.1%), typhoon (44.1%), snowfall (3.6%), and earthquake (2.2%).

RCP (Representative Concentration Pathways)			SSP (Shared Socioeconomic Pathways)	
	<ul style="list-style-type: none"> <li>The IPCC Fifth Assessment Report defines GHG concentrations as the amount of radiation that human activity imposes on the atmosphere, and uses the term "representative" to mean that there can be many socio-economic scenarios for the same radiative forcing. The term "pathways" is used to emphasize the changes in GHG emission scenarios over time.</li> <li>The RCP number represents the amount of additional global absorbed energy (W/m<sup>2</sup>) due to greenhouse gases</li> </ul>		<ul style="list-style-type: none"> <li>For the IPCC's Sixth Assessment Report, five scenarios are divided into future mitigation and adaptation efforts based on future socioeconomic development in conjunction with radiative forcing in 2100 (the traditional RCP concept).</li> <li>Consider demographics, economic development, welfare, ecosystem factors, resources, institutions, technological development, social factors, and policies</li> <li>The first number of SSP represents the social/economic effort to adapt to climate change, and the second number represents the radiative forcing (W/m<sup>2</sup>) in 2100, as in the RCP scenario</li> </ul>	
Classification	Definition	CO <sub>2</sub> Concentration (2100)	Classification	Definition
RCP2.6	Take action on greenhouse gas reductions now	450ppm	SSP1-2.6	Assuming that renewable energy technologies will minimize the use of fossil fuels and lead to environmentally sustainable economic growth.
RCP4.5	Significant realization of greenhouse gas reduction policies	540ppm	SSP2-4.5	Assuming intermediate levels of climate change mitigation and socioeconomic development
RCP6.0	Achieving some level of GHG reduction	670ppm	SSP3-7.0	Assuming a social structure that is vulnerable to climate change due to inactive climate change mitigation policies and late technology development
RCP8.5	Greenhouse gas emissions on current trends	940ppm	SSP5-8.5	Assuming that rapid advances in industrial technology will lead to high fossil fuel use and urban sprawl

1) See European Central Bank (ECB), "Economy-wide climate stress test," September 2021.

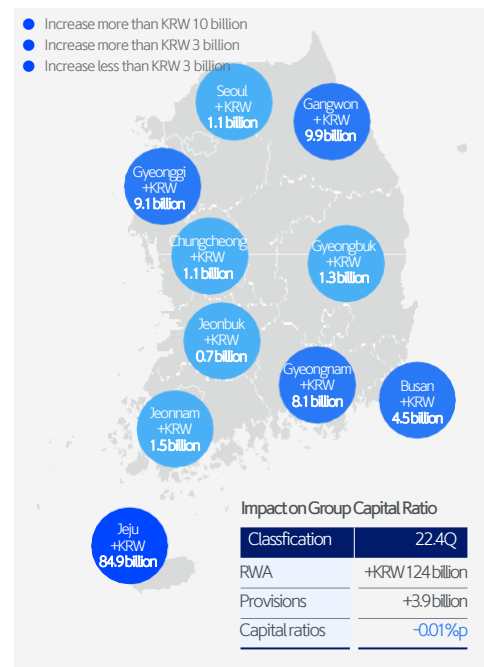
# Strategy

## Physical Risk Scenario Analysis Results

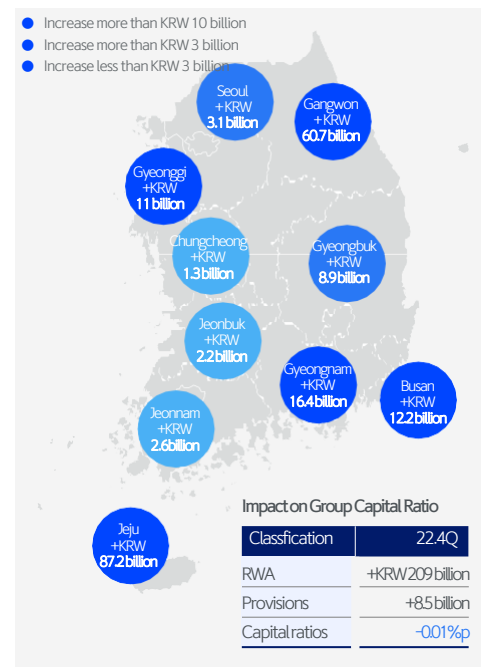
'The analysis of physical risk scenarios shows that the group's capital ratio is expected to decrease by up to 0.01%p under both the RCP 8.5 and SSP5-8.5 scenarios compared to the baseline of 2022. Under the RCP 8.5 scenario, group RWA is expected to increase by KRW 124.1 billion and provisions by KRW 3.9 billion by 2050, while under the SSP5-8.5 scenario, it is expected to increase by KRW 209.1 billion and KRW 8.6 billion by 2050, respectively.

The largest physical risk impact is in Jeju, which has a large amount of damage in the scenario and a relatively large exposure in Korea due to the characteristics of Jeju Bank, a subsidiary of Shinhan Financial Group. The results of the physical risk analysis show that the impact on Shinhan Financial Group's capital ratios is insignificant. However, if the analysis period for physical risks is extended to 2100 and the types of physical risks are expanded to other types such as heat waves, forest fires, water shortages, and coastal inundation, the impact may be greater.

### Regional RWA Impact (RCP 8.5)



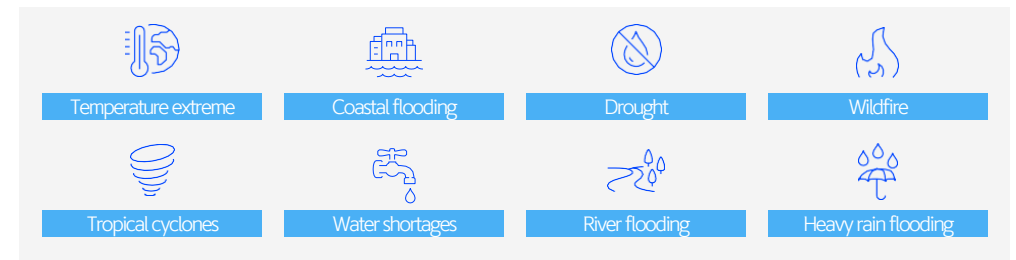
### Regional RWA Impact (SSP 5-8.5)



As part of this expanded analysis, Shinhan utilized the physical risk analysis model of global credit rating agency Standard & Poor's (S&P) Global to further analyze the physical risks of the Group's portfolio. Acute disasters such as floods and typhoons, as well as the financial impact of chronic disasters and supply chain damage due to long-term climate change, were analyzed, including a total of eight core climate change risk types<sup>1)</sup>.

In doing so, we identified financial impacts that could be caused by not only heavy rains and typhoons, but also other types of physical risks such as heat waves and cold waves. We also analyzed the types of physical risks to which Shinhan's portfolio is exposed, as well as industries and individual companies with high levels of financial impact. In the future, we plan to expand the scope of scenario analysis based on physical risks and refine the analysis of financial impacts as climate data is secured and the analysis methodology is refined.

## 8 Climate risks



### Temperature increase over 1986-2006 global temperature average by scenario (°C)

Scenario	2030	2050	2060	2080	2100
RCP2.6	1.13	1.41	1.55	1.55	1.55
RCP4.5	1.13	1.78	1.98	2.29	2.42
RCP6.0	1.13	1.68	1.98	2.72	3.34
RCP8.5	1.26	2.16	2.85	4.51	5.49

\* Source: Median temperature increase provided by NGFS (2022)

1) Extreme temperatures, coastal inundation, drought, wildfires, tropical cyclones, water scarcity, riverine flooding, and flash flooding.



## Shinhan Financial Group's Carbon Pricing

### Purpose of Adoption

Carbon pricing is a market-economic approach to reducing greenhouse gas (GHG) emissions by utilizing market mechanisms to shift the costs of emissions to emitters, and can serve as a financial indicator for high-carbon emitters, which can be used as a basis for strategic planning and decision-making for a company's low-carbon transition, including driving an economic incentive-based low-carbon transition or paying for carbon emissions.

As the international community's demand for GHG reductions intensifies, and countries are increasingly regulated and targeted to meet their NDCs to implement the Paris Agreement, carbon pricing is being utilized as a flexible and efficient approach and tool to drive active carbon reduction and mitigate climate impacts. Therefore, Shinhan Financial Group measures carbon prices and utilizes them for stress testing and scenario analysis of financial assets in order to implement the global Paris Agreement and achieve the Group's Net Zero declaration, 'Zero Carbon Drive'. Furthermore, it is utilized as an important indicator for making business decisions such as eco-friendly investments and financial support for low-carbon transition, managing financed emissions through engagement with trading customers, and managing internal carbon emissions.

### Measuring Carbon Price

Shinhan Financial Group manages all Scope 1, 2, and 3 GHG emissions according to the GHG Protocol, and applies differential carbon prices based on the characteristics of its own emissions and financed emissions. For Scope 1 and 2, which comprise the majority of our own emissions, we apply carbon prices based on renewable energy purchases, and for Scope 3, which comprises the majority of our financed emissions, we apply carbon prices based on the NGFS scenario.

#### Internal Carbon Pricing (Scope 1, 2)

In the case of internal carbon pricing for Scope 1 and 2, we calculate the price based on the cost of purchasing renewable energy that Shinhan Financial Group needs to promote in the short term to achieve its carbon neutrality declaration and RE100. In the case of domestic emission trading prices (KRW 10,000-20,000), which were the main application until last year, they are lower than those in Europe (about 100 euros per ton) and the United States (about 80 to 90 dollars), and we decided that there are limitations to limiting the carbon price to domestic emission trading prices. Therefore, Shinhan has set an internal carbon price of approximately KRW 100,000-130,000 per ton based on the cost of three means of offsetting emissions and purchasing renewable energy based on the RE100 standard: Green Premium, REC, and PPA, and makes decisions on business participation, purchases, and reductions to reduce internal emissions based on that price.

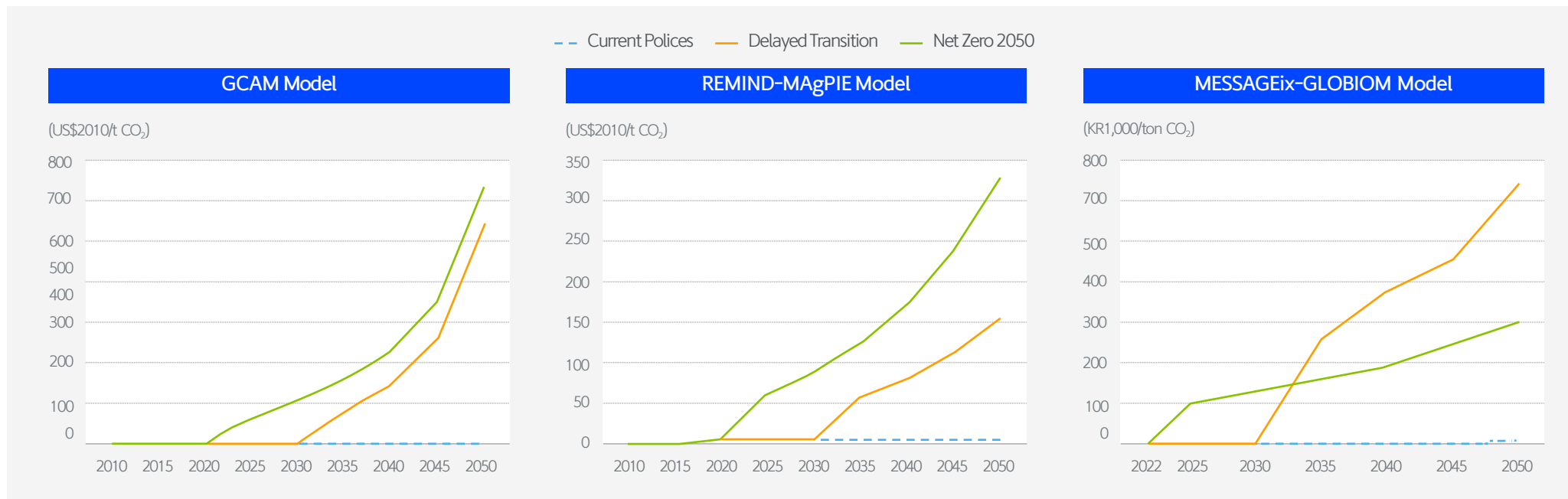
#### Financed Emissions Carbon Pricing (Scope 3)

Shinhan Financial Group is developing a carbon price for financed emissions based on national carbon prices analyzed according to scenarios provided by the NGFS, and is using it as an incentive or contractual condition for climate scenario analysis and business decisions such as credit and investment. NGFS utilizes three climate economic Integrated Assessment Models (IAMs), GCAM, REMIND-MAgPIE, and MESSAGEix-GLOBIOM, to generate carbon price scenarios. We found that the carbon price scenarios for Korea produced by the GCAM and REMIND-MAgPIE models show significantly higher carbon prices in the Net Zero 2050 scenario, where climate policies are introduced early and gradually strengthened, than in the Delayed transition scenario, where the carbon price rises sharply due to the delayed introduction of climate policies, which is at odds with the scenario narrative.

Therefore, we believe that it is reasonable to apply a carbon price based on the scenario calculated by the Shinhan Financial Group MESSAGEix-GLOBIOM model. However, it is important to note that the scenario calculated by the MESSAGEix-GLOBIOM model is not the result of analyzing Korea as a separate region, but as part of the Asia Pacific region consisting of 41 countries.

# Strategy

## Carbon Pricing Scenario for South Korea



## Carbon Pricing Scenarios based on the MESSAGEix-GLOBIOM Model

Scenario	Region	Unit	2025	2030	2035	2040	2045	2050
Delayed Transition	Other Pacific Asia	US\$2010/tCO <sub>2</sub>	-	1.0	780.4	1,168.9	1,442.2	2,002.4
Current Policies	Other Pacific Asia	US\$2010/tCO <sub>2</sub>	-	1.0	1.1	2.2	3.3	4.4
Net Zero 2050	Other Pacific Asia	US\$2010/tCO <sub>2</sub>	257.4	345.4	437.2	536.2	682.7	822.2

# Strategy

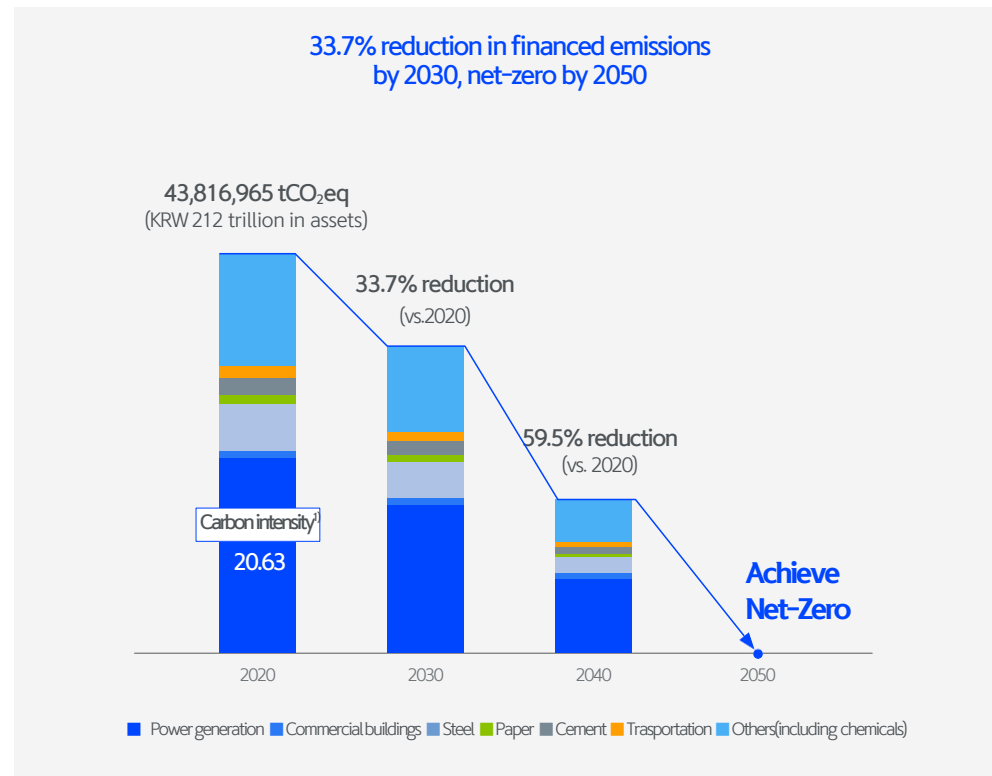
## Response Strategy that Reflect Climate Risks and Opportunities

After comprehensively analyzing the impact of climate change risks and opportunities, Shinhan Financial Group declared 'Zero Carbon Drive' in 2020, the first financial group in East Asia to adopt a carbon-neutral strategy, and set detailed goals to achieve it.

## Response to the Korean Green Classification System (K-Taxonomy)

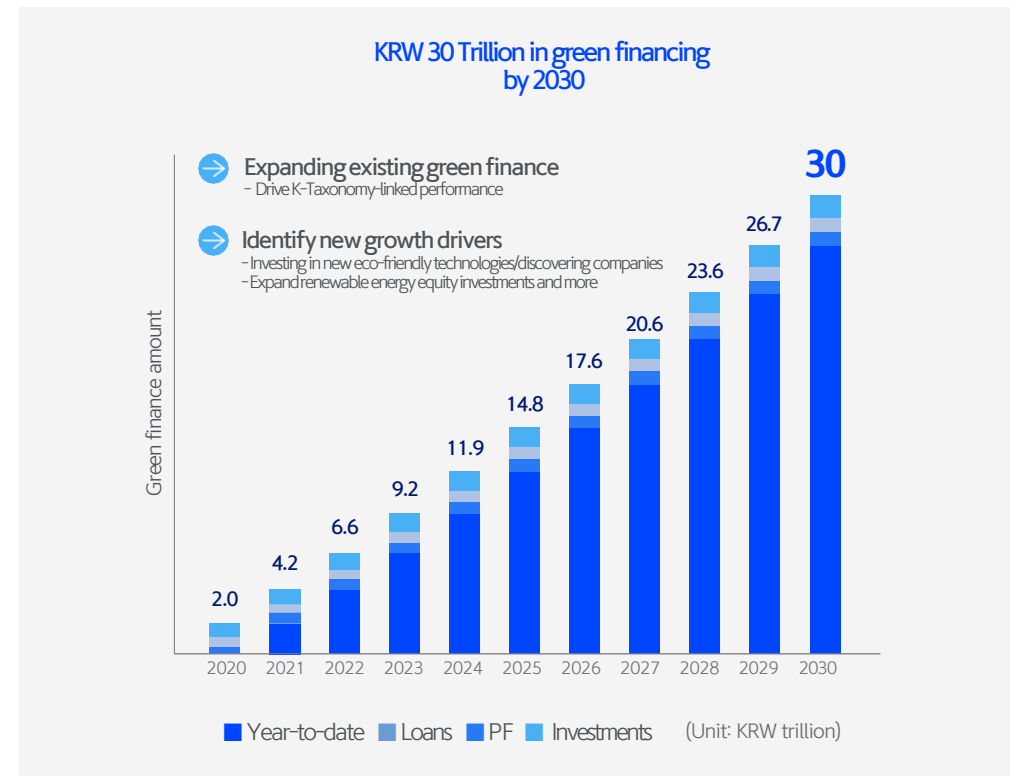
Climate change is recognized as a new type of risk, and the transition to a low-carbon economy in response is expected to have a significant impact on real payments. In addition, the low-carbon green transition, while costly and time-consuming, should be viewed as a challenge that must be addressed for the sustainable development of our society and an opportunity to secure future growth engines. As a result, climate change can be viewed as both a risk and an opportunity, and transition finance can be viewed by financial institutions as a response to the opportunity.

### Financed emissions (carbon footprint of assets)



<sup>1)</sup> Financial emissions per KRW 100 million units of assets

### Green financing



# Strategy

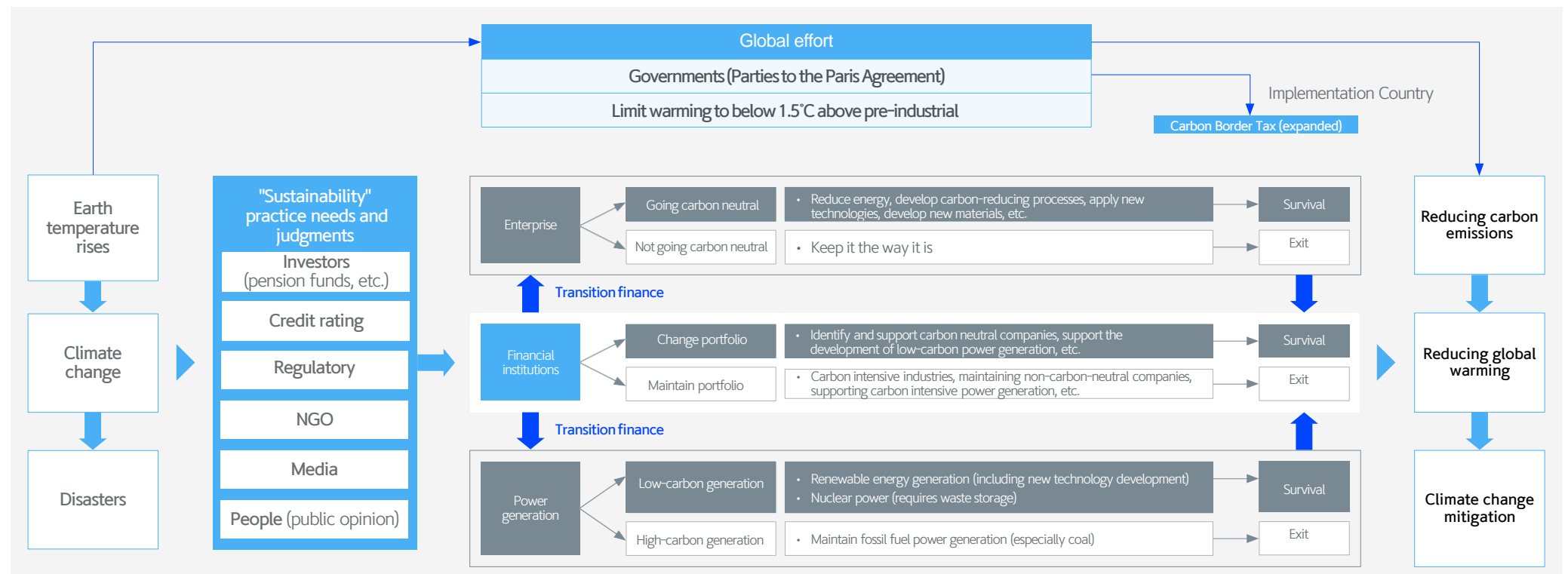
## Background on the Transition Finance Policy

One of the key climate risk management objectives for financial firms is to reduce their financed emissions, and this can be done by removing exposure to carbon-intensive industrial sectors and avoiding providing loans, financing, and investments in those sectors. However, the Net Zero Banking Alliance's (NZBA) Transition Finance Guide highlights the need for transition finance, with three reasons why reducing exposure alone will not fully address the decarbonization challenge.

- Payback does not solve the problem of decarbonizing the real economy (i.e., it does not solve the problem of combating climate change)
- Carbon-intensive sectors may still receive funding from less regulated non-bank financial institutions, maintaining the status quo or even driving higher emissions as a result

- Banks no longer have a relationship with those customers and can no longer play a role in providing transition planning and solutions for Net Zero through financing or advisory services to customers in carbon-intensive sectors.

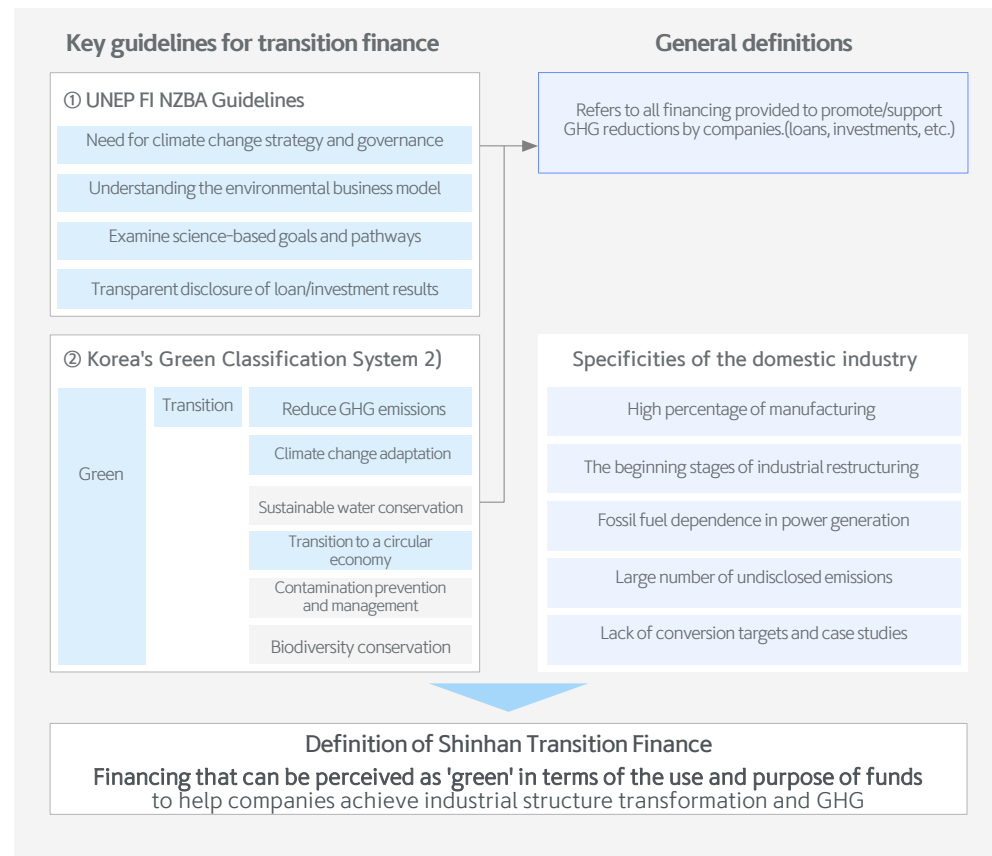
As a result, banks need to support the transition of their customers with the decarbonization of the real economy as a key factor, and develop customer engagement and financial techniques to promote decarbonization. The finance needed to do this can be referred to as transition finance, and it can be said that transition finance is a means to decarbonize the real economy and win-win finance that engages customers.



# Strategy

## Defining Transition Finance Target

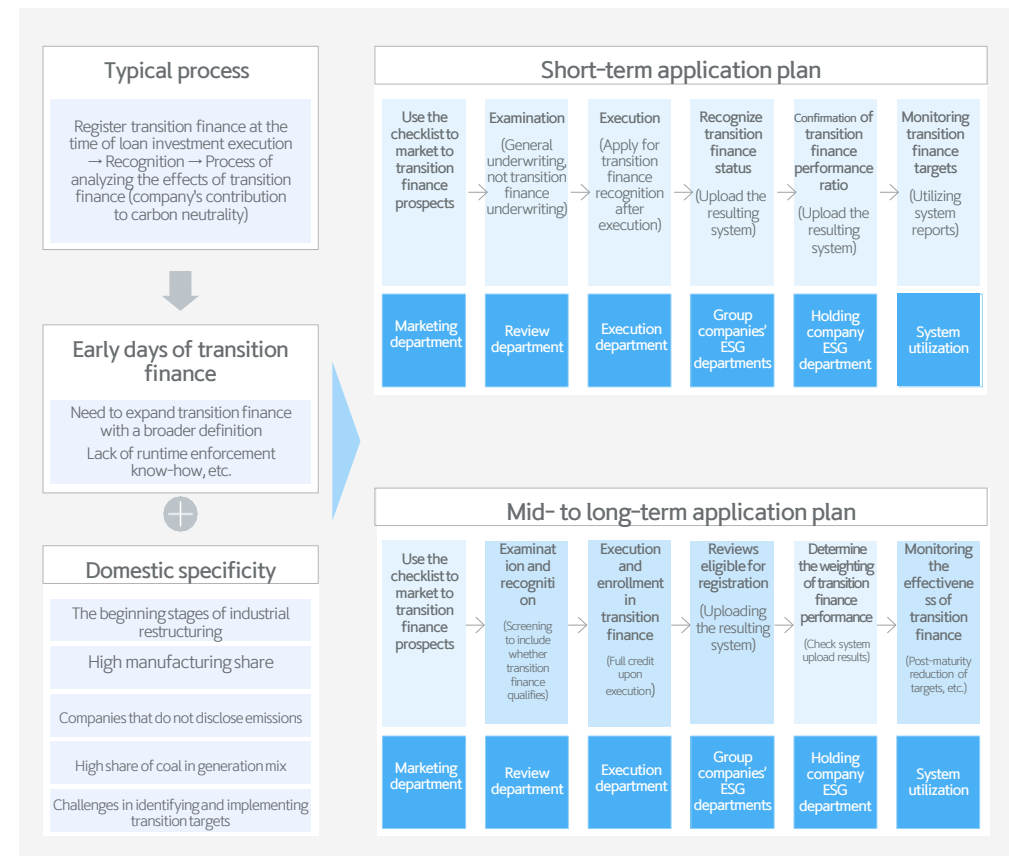
Based on the Korean Green Classification System and the UNEP FI Net Zero Transition Finance Guidelines, Shinhan Financial Group has defined the scope of transition finance, taking into account the specificities of Korea, which has a high proportion of manufacturing industries. Through this, Shinhan's transition finance will aim to (1) achieve Net Zero by 2050, (2) provide Win-win financing for climate change, and (3) secure sustainability.



## Process for Determining Transition Finance

Performance on transition finance should be operated as a procedure to register and recognize transition finance at the time of loan-investment execution, but since registration at the time of execution is a prerequisite for a clear understanding of transition finance at the point of sale, it is necessary to separate short-, medium-, and long-term applications.

In the short term, we will determine whether transition finance is required after the loan and investment screening process, and in the medium to long term, we will supplement the factors that can determine transition finance during screening and execution.



1) UNEP FI Net-Zero Banking Alliance (NZBA) Transition Finance Guidelines: Transition finance evaluation criteria applied by NZBA  
2) Korean Green Classification System: Include GHG reduction items in the green transition sector and climate change adaptation and transition to a circular economy in transition finance

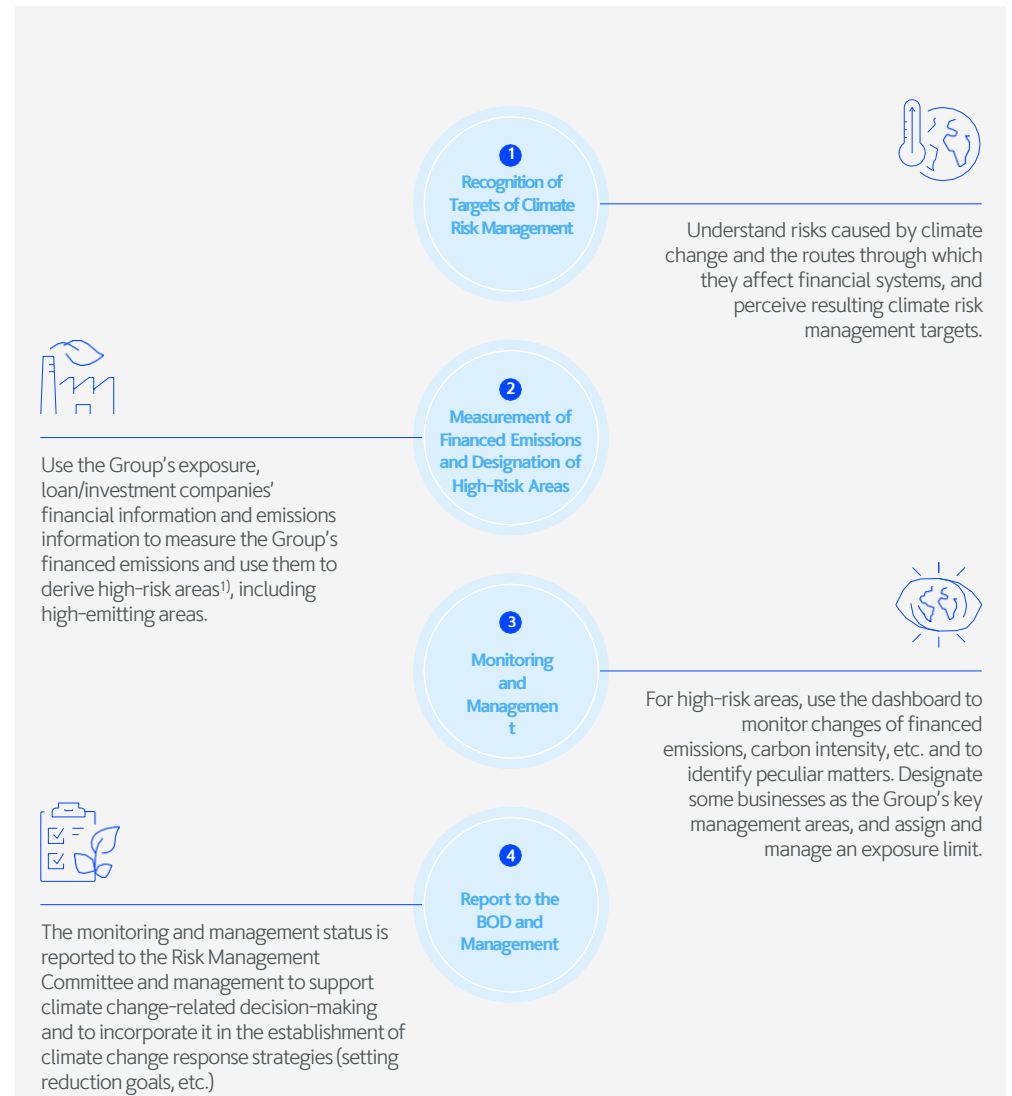
# Risk Management

## Management Process of Major Risks

By integrating climate risk areas within the existing risk management process, Shinhan Financial Group effectively identifies and monitors climate-related risks across the business, and to manage them, we systematically define environmental and social risks based on TCFD recommendations and develop appropriate methodologies to assess risks. In addition, we have advanced our risk management governance and regulatory framework by establishing a financed emissions measurement system and database, and establishing best practices for climate risk management.

➡ The ESG Strategy Committee oversees the establishment of sustainable management strategies and policy decisions, and the Risk Management Committee oversees the Group's risk management, including the management of ESG risks such as climate.

Strategy & Sustainability Division		Risk Management Division	
Classification	Highlights	Classification	Highlights
<b>ESG Strategy Committee Policy</b>	<ul style="list-style-type: none"> <li>Establishing sustainability management strategies</li> <li>Policy decisions, including climate change response</li> </ul>	<b>Risk Management Committee Policy</b>	<ul style="list-style-type: none"> <li>Define ESG risk</li> <li>Specify sub-regulations related to ESG risk management</li> </ul>
<b>Group Climate Change Action Principles</b>	<ul style="list-style-type: none"> <li>Articulate the Group's Climate Action Principles and implementation framework</li> </ul>	<b>Group ESG risk management rules</b>	<ul style="list-style-type: none"> <li>Details on recognizing, measuring, and managing ESG risk management</li> </ul>
<b>Group Environmental Code of Conduct</b>	<ul style="list-style-type: none"> <li>Define what needs to be done for environmental management</li> <li>- Minimize greenhouse gas emissions</li> <li>- Financing green industry and green living</li> <li>- Stakeholder green communication</li> </ul>	<b>Group ESG Risk Management Best Practices</b>	<ul style="list-style-type: none"> <li>Best Practices in ESG Risk Management</li> <li>- Climate risk management, materiality management, environmental and social risk review, ESG risk-related systems, etc.</li> </ul>



<sup>1)</sup> Choose by comprehensively considering the Group's exposure/financed emission/carbon intensity level, definition of risk areas in TCFD (energy, transportation, raw materials and architecture, agricultural products/foods and forest products), and reports of the Bank of Korea and research institutes

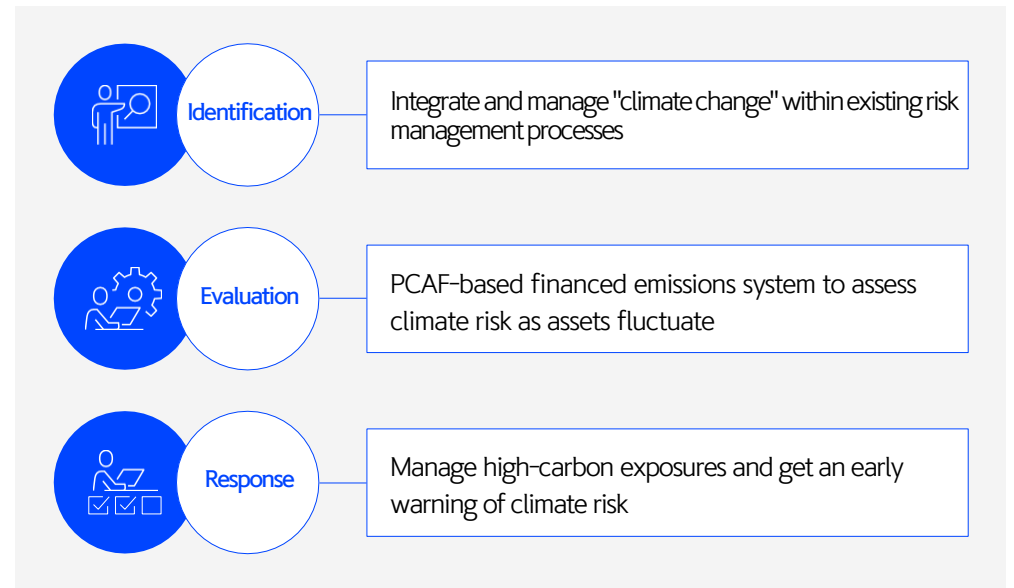
# Risk Management

## Identification of Major Risks

Based on the TCFD recommendations, Shinhan Financial Group is identifying the underlying, transition, and physical risks. The Group Risk Department regularly identifies areas of vulnerability to climate change based on climate change-related information from investment and lending companies. With 'financed emissions' as the main factor, we identify climate risks by checking the monthly volatility of assets and emissions. We also continuously monitor climate change risks by collaborating with internal and external specialized organizations and reflecting the latest research.

To systematically assess and manage climate change transition risks, Shinhan Financial Group has developed an independent financed emissions measurement system. It calculates financed emissions based on the PCAF standard and shares them across the company through a dashboard. In addition, physical damage caused by natural disasters can ripple through the financial sector. To manage physical risks, Shinhan analyzes the possible impacts on the Group's portfolio by region and industry through step-by-step climate scenario analysis.

Shinhan Financial Group reflects the results of financed emissions measurements in its credit/investment processes and decision-making. In particular, the Group sets exposure limits for carbon intensive industries that it focuses on and manages them. In addition, as with the existing risk management process, the Group monitors whether financed emissions exceed pre-set thresholds for each company/sector through the risk dashboard and establishes/implements management measures in case of excess.



# Risk Management

Scenario	Financial risk			Non-financial risk			
	Credit	Market	Reputation	Regulatory	Technology	Legal	Physical
Transition risk	Policy and Legal	●	●	●		●	
	Technology	●			●	●	
	Market	●	●			●	
	Reputation	●		●	●		●
Physical risk	Acute	●		●			●
	Chronic	●		●			●

FINANCIAL RISK	
<b>Credit Risk</b>	Shinhan Financial Group measures financed emissions of its asset portfolio and conducts a scenario analysis on climate risks. We analyzed that the power generation, utility, energy, and materials sectors, which have substantial carbon emissions, will be exposed to climate change risks owing to future carbon price increases. If we change the Group's asset portfolio to low-carbon emission pathways through investments in renewable energy projects, we can look for opportunities that can generate offset credits.
<b>Market Risk</b>	Market risk arises from consumer behavior changes or changes in product and service supply and demand. Shinhan Financial Group conducts regular surveys and analyses to identify customer requirements as well as consumer and market trends that result from climate change. In addition, we expect increased demand for the renewable energy business in accordance with the Renewable Energy 3020 Policy, and are strengthening relevant responses.
<b>Reputation Risk</b>	Against the backdrop of increased consumer awareness of climate change and the environment, companies' sustainability activities in relation to climate change and the environment are influencing consumers' buying decisions. If Shinhan Financial Group fails to fulfill social responsibilities that are related to climate change and the environment, then its brand value will drop and a negative public opinion will form which can have a considerable impact on operating income. For this reason, we applied the Equator Principles and chose 12 significant environmental and social areas to minimize reputation risk.

NON-FINANCIAL RISK	
<b>Regulatory Risk</b>	Under the emission trading scheme, a company needs to purchase excessive permits if allowances go down, and additional costs may arise to reduce emissions. The Group's clients may also experience a decrease in their debt repayment ability owing to purchasing of permits or investments in efficient facilities. If current regulations are strengthened as climate change gains speed, permit prices go up and the possibility of unexpected losses increases. As a measure, Shinhan Financial Group developed a financed emission measurement system and is systematically managing the Group's and companies' emissions.
<b>Technology Risk</b>	New low-carbon, eco-friendly technologies are being developed to achieve climate change-related and net zero goals. Sales may drop when financial products that include new technologies and innovation are not expanded/developed. Shinhan Financial Group identifies risks and opportunities by regularly surveying/analyzing climate-related technology development and market trends as well as customer demand. We also manage products that are related to building energy, such as Green Energy Factoring, Second Green Remodeling Loan, and New and Renewable Energy Fund. We plan to expand relevant financial products according to areas and speed of technology development.
<b>Legal Risk</b>	This refers to current or expected financial position and resilience-related risk that arises from a violation of laws, rules, or regulations or failure to observe stipulated customs, internal policies, processes, or ethical standards by a company or a project for which an investment was made. If a lawsuit is filed due to a climate issue and the business owner becomes subject to legal punishment, this may damage brand value and financial soundness. By using the environmental and social risk management system, Shinhan Financial Group determines whether to make an investment by evaluating financial impact on an investment company or project. If needed, the Group provides conditional financial support that obligates the reflection of measures to reduce environmental impact.
<b>Physical Risk</b>	Abnormal weather phenomena caused by climate change can directly damage assets owned by Shinhan Financial Group. In particular, bank branches that are located in mountainous areas have a relatively high possibility of suffering physical damages from localized heavy rain, and the resulting temporary business suspension may cause massive damages to business. Furthermore, average temperature rises in the summer raise the amount of electric power and tap water usage and also decrease labor productivity. Shinhan Financial Group pre-determines buildings and branches that are vulnerable to climate change and strives to prevent damages.



# Risk Management

## How to Segment Customers by Climate Risk

Climate change will have a long-term impact on the portfolio assets held by Shinhan Financial Group, and the extent of the impact will vary depending on the type of customer and collateral provided by the customer. Therefore, in order to prioritize management targets, Shinhan has differentiated customers into transition risk and physical risk, and set management levels based on a combination of the two types.

### Differentiate Customer Segments to Identify-Assess Transition Risk

Customer segmentation from a transition risk perspective is categorized into five levels of management intensity, TRR1 ~ 5, based on four factors: size-business type-disclosure of carbon emissions-increase or decrease in disclosed emissions. Size is a materiality criterion, and industry is a criterion for determining whether a company is a carbon intensive industry as defined by Shinhan Financial Group. Disclosure of carbon emissions is a criterion for determining whether a company is an emissions trading company or voluntarily discloses its emissions, and the increase or decrease in disclosed emissions is a criterion for determining reduction efforts among companies that have disclosed their emissions.

### Differentiate Customer Segments for Physical Risk Identification-Assessment

The segmentation of the physical risk perspective is divided into four levels of management intensity, PHR1 ~ 4, based on four factors: size-collateral regional information (whether it is a high-risk area for natural disasters)-business type (whether it is a natural disaster-sensitive industry)-collateral size. Size is the same materiality criterion as transition risk, collateral geographic information is differentiated because the damage caused by natural disasters varies by region, business type is a criterion for classifying industries that are sensitive to natural disasters, and collateral size is a criterion for judging the size of the collateralized property

Classification	Management intensity	Segmentation factors			
		Size <sup>2)</sup>	Industry	Carbon emissions disclosure	Increase or decrease in public emissions <sup>3)</sup>
TRR <sup>1)</sup>	High			Disclosed	Increase
TRR2	Mid-High		Carbon intensive industries		Other than increase
TRR3	Mid-Mid	Above a certain size		Undisclosed	-
TRR4	Mid-Low		Other than carbon intensive industries	-	-
TRR5	Low	Less than a certain size	-	-	-

1) TRR : Transitional Risk Rating, where a lower number indicates greater control  
 2) Size criteria: financed emissions of less than 50 tons or exposure of less than KRW 500 million  
 3) Increase in disclosed emissions: Determined by whether disclosed emissions have increased for two consecutive years.

Through the selection of carbon intensive industries, Shinhan Financial Group aims to prioritize the Group's financed emissions management targets and use them as a basis for customer management and future portfolio adjustments.

The selection of carbon intensive industries was conducted in two stages, utilizing financed emissions as a basic indicator. The first step is to categorize industries with high financial intensity. In step 1, we categorized industries with high financial intensity by considering their exposure ratio and financial intensity ranking. In step 2, we checked the compatibility with Shinhan Bank's high-risk industries.

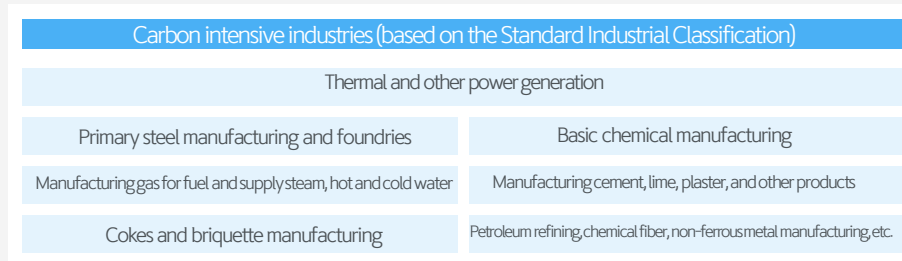
Classification	Management intensity	Size	Collateral area information	Industry	Collateral size <sup>2)</sup>
PHR <sup>1)</sup>	High		High-risk regions	Risk industries <sup>2)</sup>	More than KRW 3 billion
PHR2	Mid-High	Above a certain size		Other industries	Less than KRW 3 billion
PHR3	Mid-Low		Other regions	-	-
PHR4	Low	Less than a certain size	-	-	-

1) PHR : Physical Risk Rating, where a lower number indicates a higher level of control.  
 2) Collateral size is the appraised value of the collateralized property  
 3) In the case of risky industries, it is 'agriculture, forestry, fishing and manufacturing, and construction'.

### Shinhan Financial Group's Management of Carbon Intensive Industries

Shinhan selected carbon intensive industries by considering financed emissions, exposure, and financed emissions intensity, which will be used to prioritize the group's financed emissions management targets, manage risks, and adjust portfolios in the future.

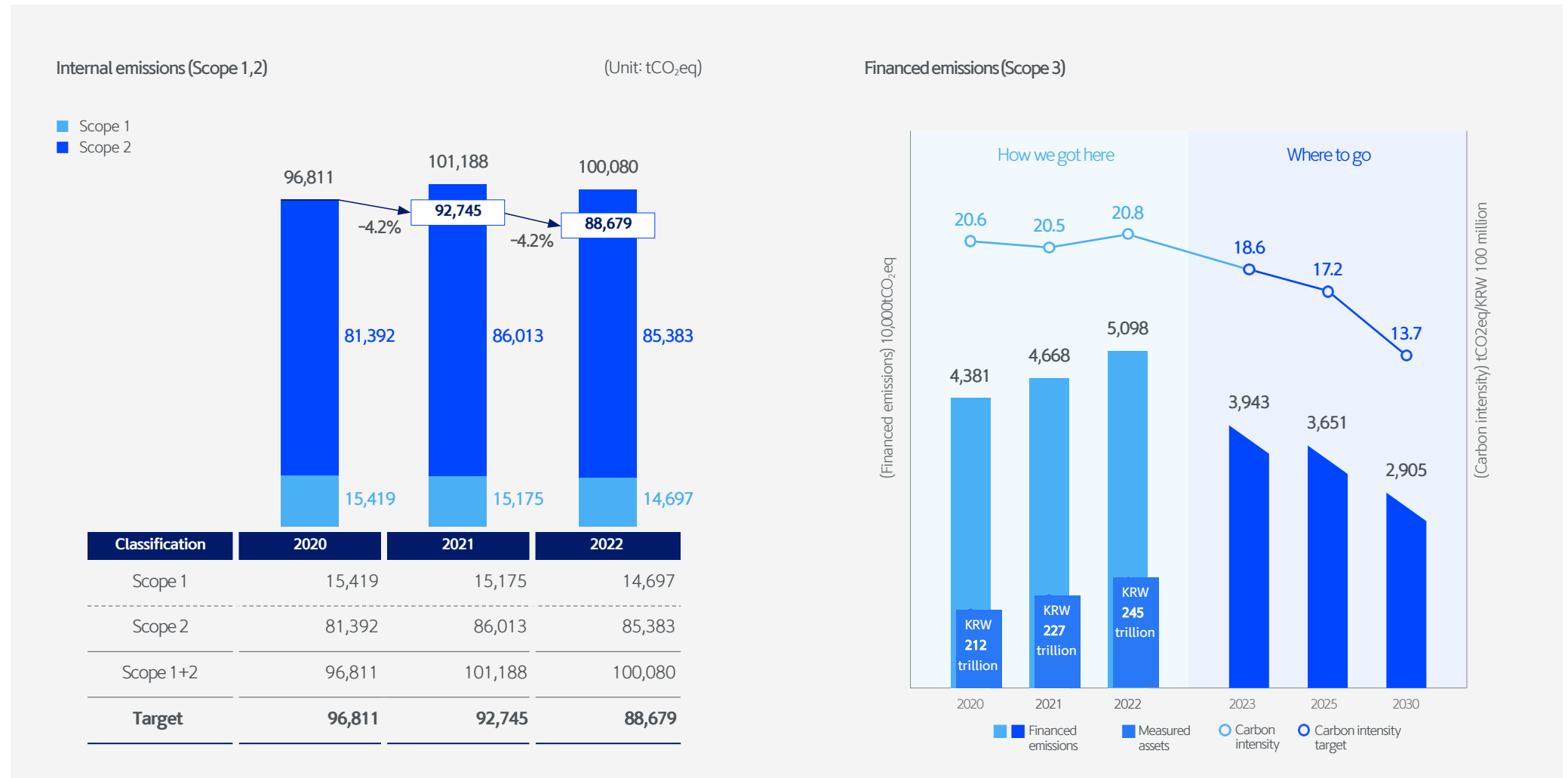
In the future, Shinhan plans to enhance carbon emission monitoring for carbon intensive industries and encourage emission disclosure and support, especially for customers with undisclosed emissions within carbon intensive industries. For customers whose emissions are increasing as a result of monitoring, we will consider a separate screening process, and for customers whose emissions are decreasing or being managed, we will consider active support for transition finance, etc.



# Metrics and Targets

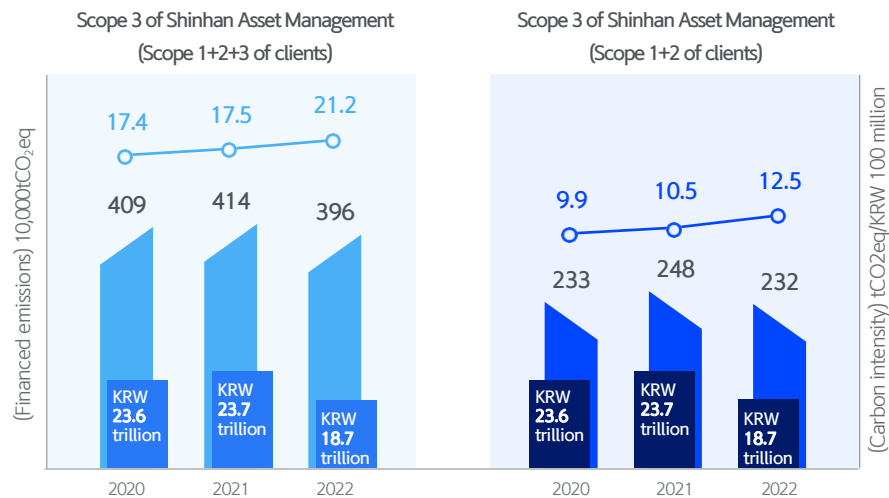
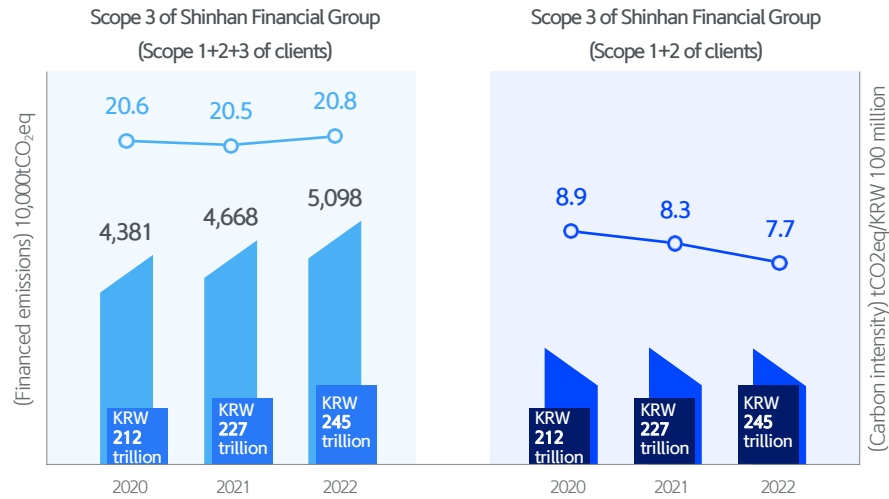
## Measuring Carbon Emissions and Setting Reduction Goals

### Emissions



# Metrics and Targets

## Analyzing Our Emissions



Legend:   
■ Financed emissions   
■ Measured assets   
○ Carbon intensity   
○ Carbon intensity target

## Shinhan's Thoughts on How to Measure Financed Emissions

Shinhan Financial Group measures its financed emissions based on the PCAF guidelines and includes all of its customers' scopes 1, 2, and 3 in its calculations and disclosures. Of these, we have observed a trend of decreasing carbon intensity when excluding Scope 3 from our customers.

The scope of environmental disclosures has expanded in recent years, and many companies are expanding their disclosures by analyzing and estimating not only Scope 1 and 2, but also Scope 3. Due to the nature of Scope 3, which occurs in facilities that a company does not own or control across its value chain, we do not believe that it can be reduced by engagement with financial institutions or green product efforts at this time.

In addition, many companies are expanding the collection of emissions for upstream activities among Scope 3, and in this trend, data from a company's emissions disclosure efforts can be directly linked to increased financed emissions, regardless of the nature of the industry and exposure. Given the characteristics of Scope 3 that are directly relevant to climate risk analysis, Shinhan is advancing the management of internal targets and operations for climate risk management.

## Measuring the Financial Footprint of Client Assets

Shinhan Financial Group also measures and monitors the financed emissions of client assets other than its own assets through the financed emissions measurement of Shinhan Asset Management. In the case of asset management, the portfolio of stocks and bonds in the PCAF product line is utilized to measure financed emissions.

# Metrics and Targets

## Financed emissions of the Group's asset portfolio in 2022 (Scope 3)

### Emissions Breakdown by PCAF Asset and Financed Emissions by Industry Sector

(Units: KRW trillion, 10,000tCO<sub>2</sub>eq)

Emission status						
Asset classification	Calculated asset size	Financed emissions	Percentage of emissions	Emissions intensity	Data Score <sup>1)</sup>	
Listed stocks and corporate bonds	45.7	560	11.0%	12.2	2.7	
Listed stocks and corporate bonds	142.0	4,173	81.9%	29.4	3.6	
Project finance	3.7	255	5.0%	69.7	3.7	
Real estate for commercial use	19.9	59	1.2%	3.0	4.0	
Mortgage	28.1	13	0.3%	0.5	4.0	
Car loans	5.7	38	0.7%	6.7	4.2	
<b>Total</b>	<b>245.08</b>	<b>5,098</b>	<b>100.0%</b>	<b>20.8</b>	<b>3.5</b>	

<sup>1)</sup> Score on a scale of 1 to 5 based on which data is used to calculate emissions based on the PCAF baseline: published emissions, emissions based on physical activity, and emissions based on economic activity

### Carbon Intensity by Industry Sector and Asset

(Unit: tCO<sub>2</sub>eq/KRW 100 million)

	Power generation	Aluminum	Cement	Steel	Paper	Transportation	Chemicals	Others
Corporate loans	125.8	57.2	124.9	141.4	63.6	44	82.9	22
Unlisted stocks	-	52.8	59.4	60.3	204.6	34	79.5	7
Publicly traded stocks	111.6	37.7	266.7	160.3	55.81	26	16.1	7
Corporate bonds	141	54.1	470.3	102.6	100.7	10	74.8	4
<b>Total</b>	<b>137.6</b>	<b>57.2</b>	<b>127.5</b>	<b>137.8</b>	<b>64.6</b>	<b>33</b>	<b>81.7</b>	<b>17</b>

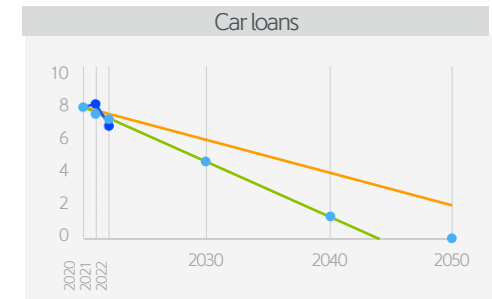
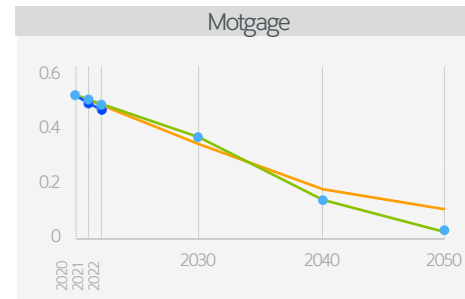
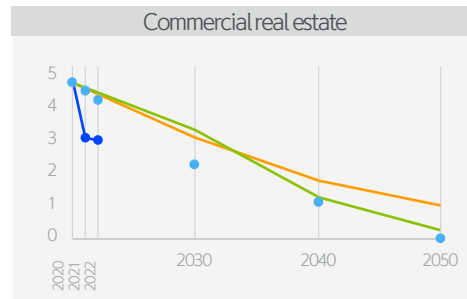
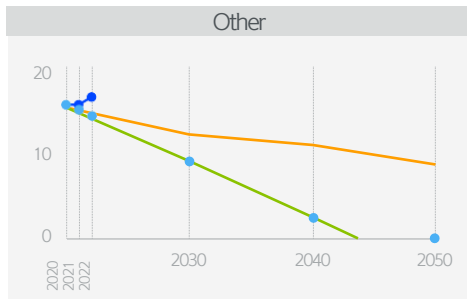
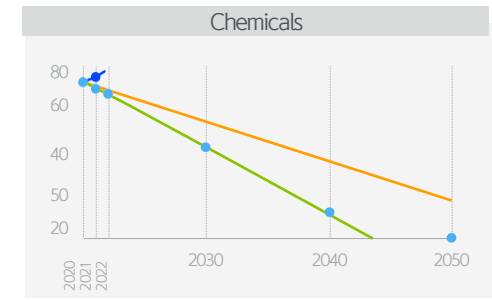
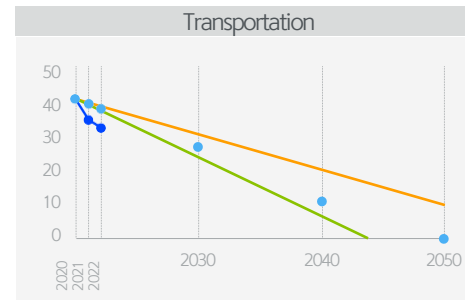
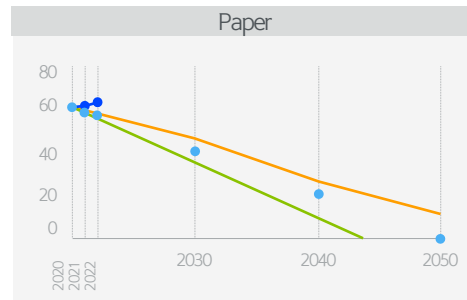
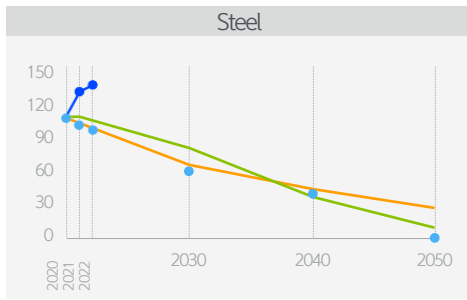
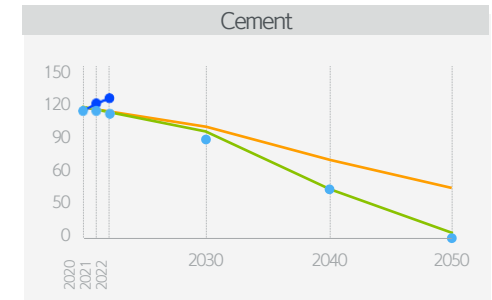
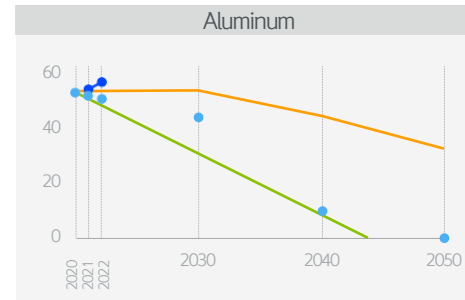
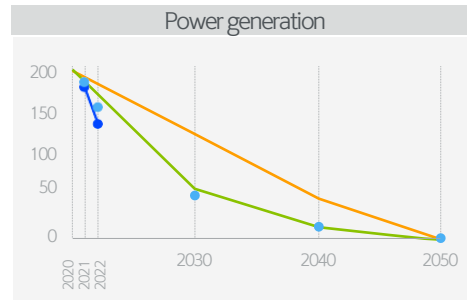
# Metrics and Targets

## PCAF-based Financed Emissions Measurement and Reduction Targets

### Asset Portfolio Industry-specific Intensity Reduction Targets

(Unit: tCO<sub>2</sub>eq/KRW 100 million)

- Shinhan's Target
- Shinhan's Current Portfolio
- B2DS
- SBTi 1.5C



<sup>1)</sup> B2DS Scenario: The Beyond 2°C Scenario (B2DS) analyzes the extent to which currently available technologies and those in the process of innovation can be leveraged to limit warming to a level significantly below 2°C, projecting a global average temperature of 1.75°C by 2100.

# Metrics and Targets

## Sovereign Debt Emissions

Shinhan Financial Group has expanded the scope of identifying climate change assets by separately measuring sovereign debt, which has been updated through the PCAF Financed Emissions Guidance. This will be updated within the existing risk measurement management system and managed regularly. Financial institutions are required to report both the inclusion and exclusion of Land Use, Land-Use Change, and Forestry (LULUCF) for Scope 1 emissions in their national emissions. Currently, there are data uncertainties in the emissions information for Land-Use, Land-Use Change, and Forestry (LULUCF). Therefore, when considering LULUCF emissions, there is a possibility of distorting the overall trend in important areas such as energy and industrial processes. Therefore, we report both the inclusion and exclusion of LULUCF emissions when reporting national emissions.

### Sovereign Debt

(Unit: KRW 100 million, 10,000tCO<sub>2</sub>eq)

Country	LULUCF included	LULUCF excluded	Shinhan Financial Group	
	Emissions	Emissions	Exposure	Financed emissions
Korea	92,862	96,650	583,722	1,977
U.S.	658,430	734,324	25,008	66
China	1,309,561	1,374,529	4,637	22
Japan	156,062	161,263	3,203	8
India	373,798	376,926	6,358	21
Vietnam	59,010	60,214	2,429	12
Others	431,054	340,495	7,153	27
<b>Total</b>	<b>3,080,777</b>	<b>3,144,401</b>	<b>632,509</b>	<b>2,134</b>

1) Carbon emissions and financed emissions are the sum of SCOPE 1,2,3

2) Financed emissions are based on carbon emissions including LULUCF

## Emissions from Carbon-intensive Industries (Unit: KRW 100 million, 10,000tCO<sub>2</sub>eq)

Carbon intensive industry	Exposure		Financed emissions		Intensity
	Amount	Weight	SCOPE 123	Weight	
Thermal and other power generation	17,194	0.9%	303	6.4%	176.2
Primary steel manufacturing and foundries	32,475	1.7%	448	9.5%	137.8
Basic Chemicals Manufacturing	23,275	1.2%	209	4.4%	89.9
Manufacture gas for fuel and supply steam, hot and cold water	19,774	1.1%	254	5.4%	128.3
Manufacturing cement, lime, plaster, and other products	7,870	0.4%	100	2.1%	127.5
Cokes and briquette manufacturing	122	0.0%	3	0.1%	221.9
Petroleum refining, chemical fiber, non-ferrous metal manufacturing, etc.	116,275	6.2%	777	16.4%	66.8
Non-carbon intensive sectors	1,660,387	88.4%	2,638	55.8%	15.9
<b>Total</b>	<b>1,877,372</b>	<b>100.0%</b>	<b>4,731</b>	<b>100.0%</b>	<b>25.2</b>

Measurement logic: 1) Financed emissions = carbon emissions × allocation factor 2) Allocation factor = balance / PPP-adj GDP\*.

\*PPP-adj GDP: Purchasing power parity-adjusted GDP by country, using information provided by the International Monetary Fund (IMF).

# Metrics and Targets

## Internal Emissions, Energy Usage, and Targets

### GHG Emissions (Scope 1, 2)

(Unit: tCO<sub>2</sub>eq)

	2020	2021	2022
<b>Scope 1+2</b>	<b>96,811</b>	<b>101,188</b>	<b>100,080</b>
Scope 1	15,419	15,175	14,697
Scope 2	81,392	86,013	85,383
<b>GHG emissions intensity</b> (Employee: persons)	<b>4.4</b>	<b>4.6</b>	<b>4.3</b>
<b>GHG emissions targets</b>	<b>96,811</b>	<b>92,745</b>	<b>88,679</b>

### Financed Emission

(Unit: tCO<sub>2</sub>eq)

	2020	2021	2022
<b>Financed Emission Target</b>	<b>43,816,695</b>	<b>41,100,060</b>	<b>40,890,324</b>
<b>Financed Emission Performance</b>	<b>43,816,695</b>	<b>46,688,085</b>	<b>50,982,536</b>
Financed Emission Intensity (KRW 100 million)	20.6	20.5	20.8
Financed Emission Intensity Target (KRW 100 million)	20.6	19.9	19.3
<b>Total</b>	<b>43,816,695</b>	<b>46,688,085</b>	<b>50,982,536</b>
Asset class			
Listed stocks and corporate bonds	8,704,068	7,212,984	5,596,149
Corporate loans and unlisted stocks	32,371,976	36,016,983	41,734,737
Project finance	1,455,357	2,320,360	2,549,265
Real estate for commercial use	705,202	530,679	592,559
Mortgage	131,778	137,519	129,861
Car loans	448,314	469,560	379,965
<b>Total</b>	<b>41,076,045</b>	<b>43,229,968</b>	<b>47,330,886</b>
Industry			
Power generation	6,078,516	4,807,281	3,180,687
Aluminum	2,423,476	2,658,403	3,024,877
Cement	857,074	907,712	1,003,066
Steel	2,734,132	4,147,669	4,475,830
Paper	663,982	722,587	812,340
Transportation	1,327,705	1,030,344	1,080,495
Chemicals	4,090,636	4,572,927	5,756,406
Others	22,900,524	24,383,045	27,997,185

### Energy Consumption

(Unit: TOE)

	2020	2021	2022
<b>Total Energy Consumption</b>	<b>21,280</b>	<b>22,281</b>	<b>21,960</b>
Energy intensity (Employee: persons)	1.0	1.0	0.9
Total energy consumption	21,280	20,386	19,492
Electricity	14,974.5	16,054.7	15,945.5
Heat (Steam)	137.1	160.6	128.0
Town gas (LNG)	2,975.9	2,896.4	2,695.5
Town gas (LPG)	1.6	1.4	0.8
Indoor kerosene	5.4	5.0	0.5
Diesel	10.0	14.2	14.4
Car-gasoline	3,085.8	3,091.4	3,113.2
Car-diesel	28.9	6.4	7.2
Car-LPG	60.6	50.9	55.1

#### \*Scope of environmental performance sites

- 16 companies including Shinhan Financial Group (Holding Company)
- Reporting scope: All business sites within the operational control of the 16 group companies

#### \*Reasons for changes (increases) in emissions and energy use

As part of the RE100 declaration in 2023, Shinhan Financial Group expanded the scope of the group's emissions measurement. As a result, a total of 16 companies of Shinhan Financial Group (including the Holding company) conducted GHG emissions inventory at the 'Emissions Trading System and GHG Target Management System' level (Shinhan Bank).

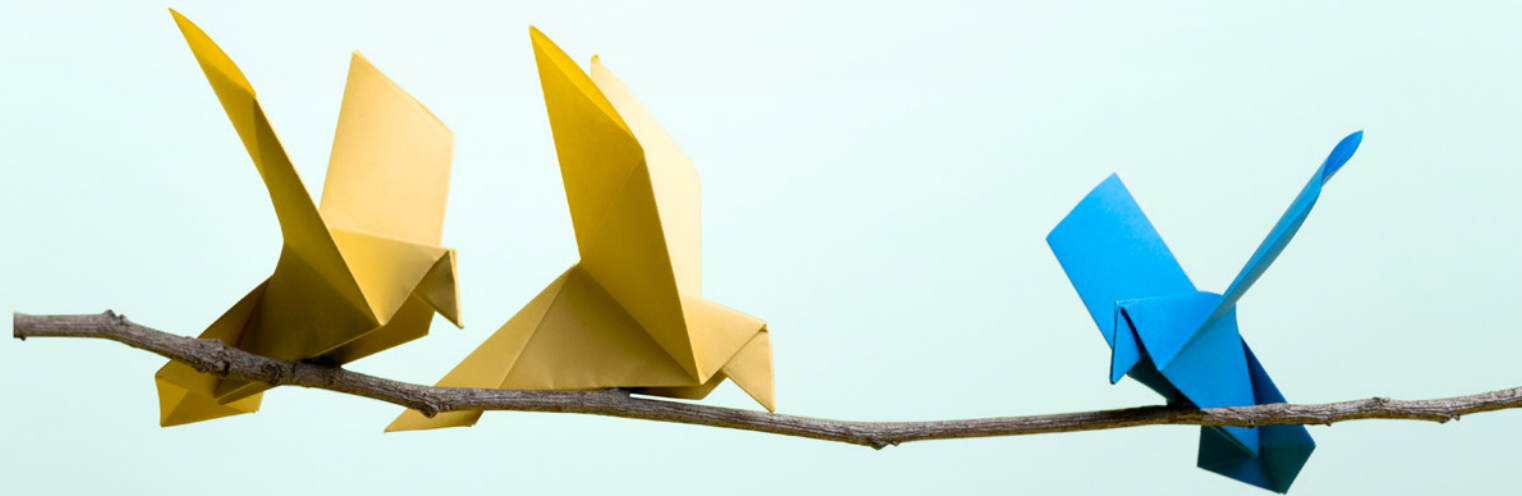
Therefore, in the case of existing Card, Securities, Life, and Jeju Bank, the scope of GHGs and energy usage, which was mainly measured at the headquarters, was expanded to include all small business sites such as branches and centers, and in cases where it was difficult to secure measurement data, emissions and energy usage per area by group companies were estimated.

For this reason, the scope of this report has been expanded from the previously reported scope, and we plan to further expand the scope to include our overseas subsidiaries (overseas operations) in the future (planned for 2024).

The data in this report has been separately assured by Lloyd's Register at the 'reasonable assurance' level for Scope 1 and 2 and at the 'limited assurance' level for Scope 3, and the GHG assurance opinion can be found in the '2022 ESG Report'.

# Biodiversity Report

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\* The TNFD plans to release the final framework in September 2023, and this report is based on the beta version of the framework (v0.4) released in March of the same year.

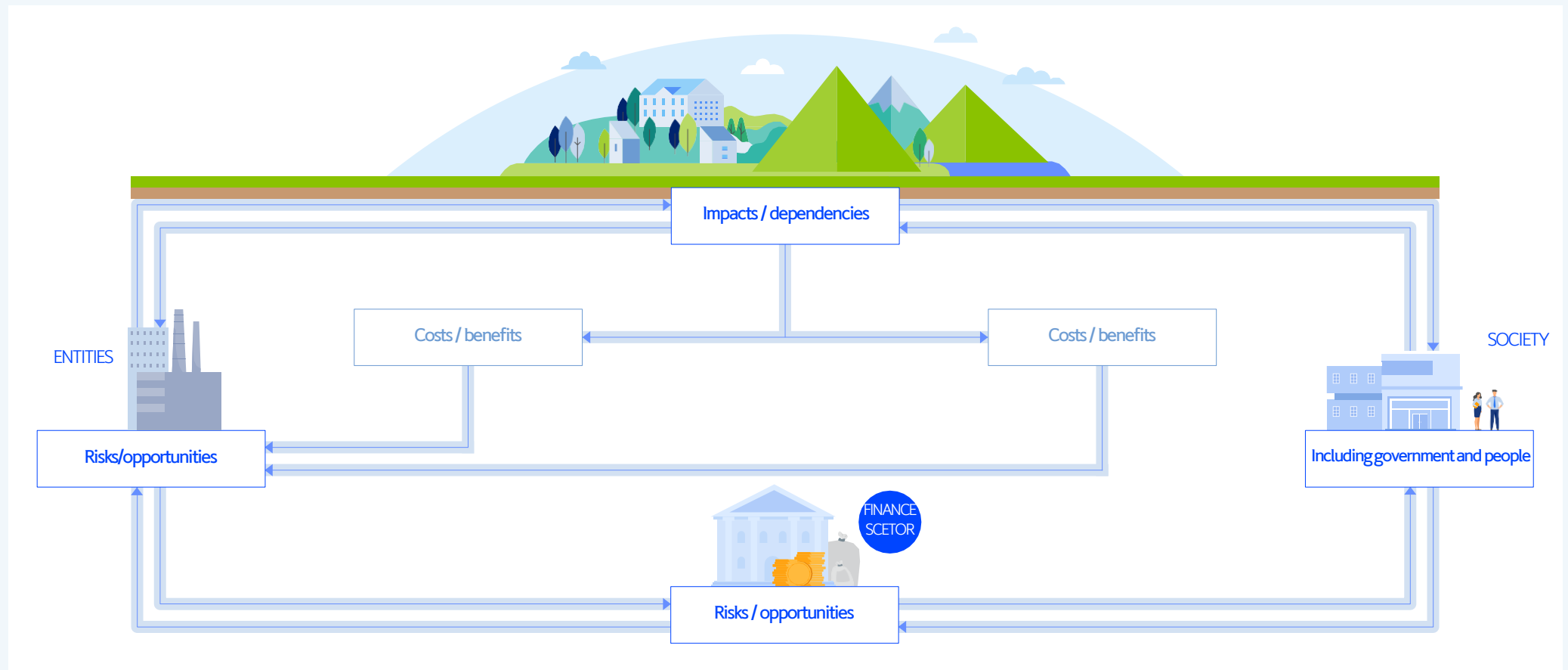


# INTRODUCTION

Taking the limited planetary resources into account, it is clear the times call for efforts to protect and restore biodiversity. Worsening extreme weather events, habitat destruction due to overdevelopment, and species loss due to overfishing threaten a sustainable future for humanity.

In this context, biodiversity is a material issue that directly and indirectly impacts companies' business operations and supply chains. Increasing demands in regards to heightening accountability and legislation, scrutiny of supply chain practices and consumer preferences show that the role of financial institutions (banks, insurers, asset managers, investors, etc.) in addressing biodiversity issues are becoming increasingly important.

The conceptual map of biodiversity in companies and markets<sup>1)</sup>, on dependencies and impacts on natural capital<sup>2)</sup>



\*Source: reorganization of UNEP-FI(2020), Beyond 'Business as Usual': Biodiversity Targets and Finance Figure1

- 1) The variability among living organisms in all locations, including terrestrial, marine, and other aquatic ecosystems and their ecological complex. It includes diversity within species, between species, and between species and ecosystems.
- 2) Renewable or non-renewable natural resources (e.g., plants, animals, air, water, soil, minerals) that are combined to provide benefits to people.

# INTRO

Financial institutions can accelerate biodiversity recovery in society at large by allocating capital to biodiversity-related projects and financially supporting related initiatives or campaigns. On the other hand, biodiversity issues can pose physical, transition, and systemic risks to companies they lend to or invest in, which can impact their portfolios, leading to weakened financial stability and macroeconomic deterioration. Therefore, financial institutions should identify, analyze, and manage their biodiversity-related dependencies, impacts, risks, and opportunities to mitigate their potential impacts, and integrate them into their decision-making processes to build a sustainable financial system.

Shinhan Financial Group clearly recognizes the importance and urgency of biodiversity issues and the potential impact that the loss of natural capital can have on the various business areas in which Shinhan operates and the society at large. At the same time, we believe that Shinhan's biodiversity-friendly activities can contribute to a better environment for more people and ecosystems, and we are actively engaging in non-financial support such as the creation of urban forests. Since joining the TNFD Forum in March 2022, we have been upgrading our biodiversity management system and expanding related activities. Through this report, we would like to share with our stakeholders our approach to managing biodiversity and the results of our analysis of the Jeju Hallim Offshore Wind Farm, which is part of UNEP FI's TNFD pilot. We will also continue to disclose Shinhan Financial Group's activities, achievements, goals, and plans to protect biodiversity in the future.

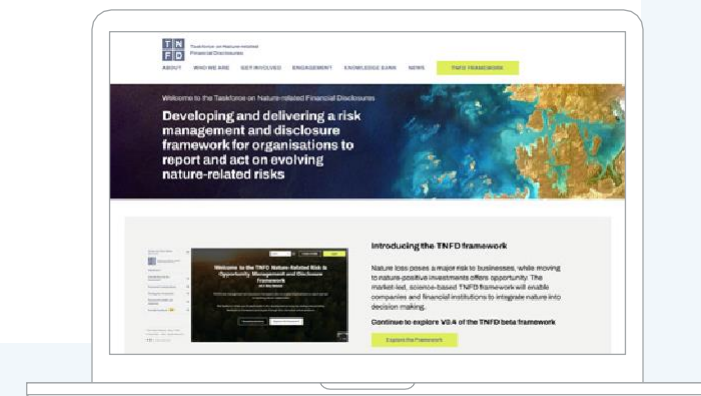
## Taskforce on Nature-related Financial Disclosures (TNFD)

TNFD was founded in 2021 at the initiative of international organizations including UNEP FI, UNDP, and WWF in response to the growing need to factor natural capital into financial and business decisions. TNFD's members manage more than \$20.6 trillion in assets and are working to develop a disclosure framework for companies and financial institutions on whether they create natural capital risks and how they are responding, supported by the TNFD Forum and a network of 22 core knowledge partners, comprising more than 1,000 organizations around the world.

The TNFD's disclosure framework, like the Task Force on Climate-Related Financial Disclosures (TCFD), consists of governance, strategy, risk management, targets and metrics. For disclosures, the TNFD recommends the LEAP approach, which consists of locating the interface with nature (Locate), evaluating natural capital dependencies and impacts (Evaluate), assessing natural capital risks and opportunities (Assess), and reporting on preparedness to respond to natural capital risks and opportunities (Prepare). The first beta version (v0.1) was released in March 2022, followed by the last beta version (v0.4) in March 2023, and the final guidelines will be released in September 2023 after comments have been submitted.



\* Source: TNFD website

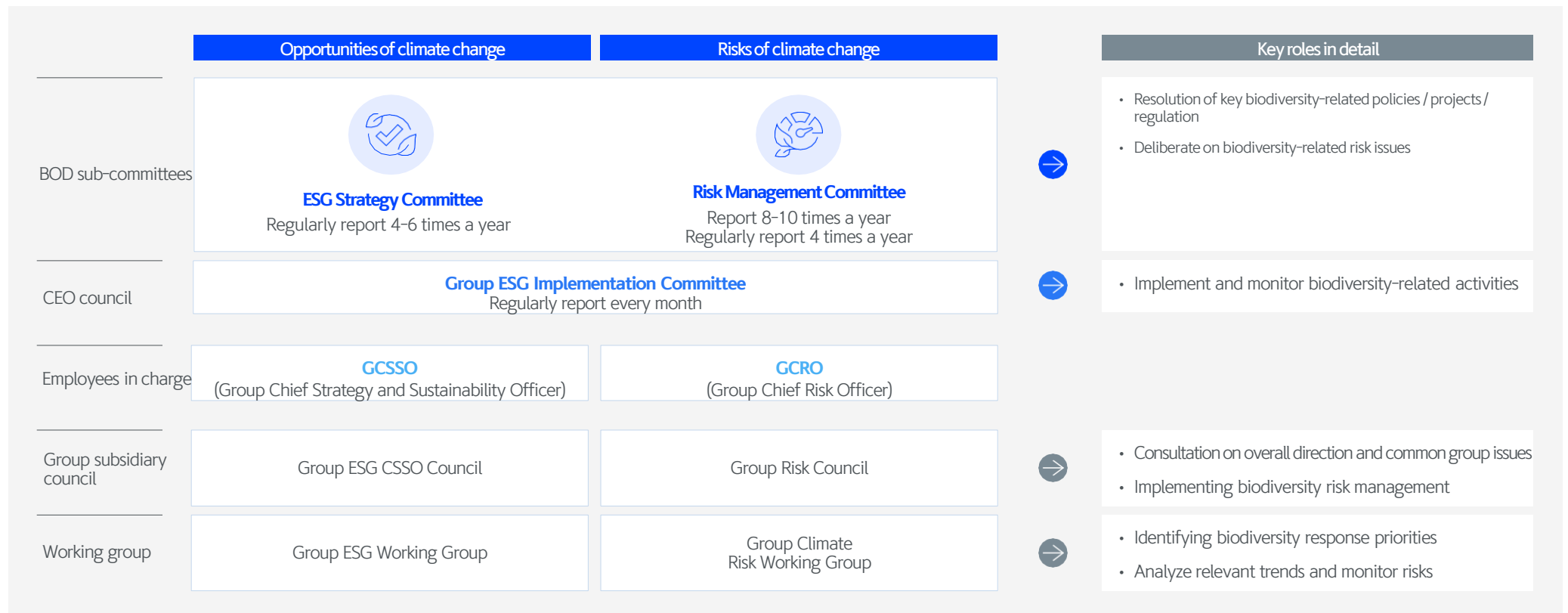


# Biodiversity Governance

## Governance for Managing Biodiversity

To effectively identify and manage risks and opportunities related to biodiversity, Shinhan Financial Group operates an organic management system among the BOD, management, and working-level teams. The ESG Strategy Committee of the BOD receives reports on activities and progress related to biodiversity, deliberates on major issues, and discusses and manages sustainability issues, including biodiversity, through the Group Chief Strategy and Sustainability Officer (GCSSO), the Group ESG CSSO Council, and the Group ESG Working Committee. The Risk Management Committee of the BOD reviews biodiversity issues, and the Group Chief Risk Officer (GCRO), the Group Risk Council, and the Group Climate Risk Council identify biodiversity-related issues and discuss responses to them.

In 2022, we decided to participate in the TNFD initiative through the ESG Strategy Committee, and we continue to identify and manage risks and opportunities related to biodiversity. Going forward, we will establish biodiversity management as one of the key management indicators for the Group, enhance our assessment and management system, and reflect it in the business strategy of Shinhan Financial Group.



\* Shinhan Financial Group integrates and manages biodiversity issues within its governance system for climate change management

# Biodiversity Strategy

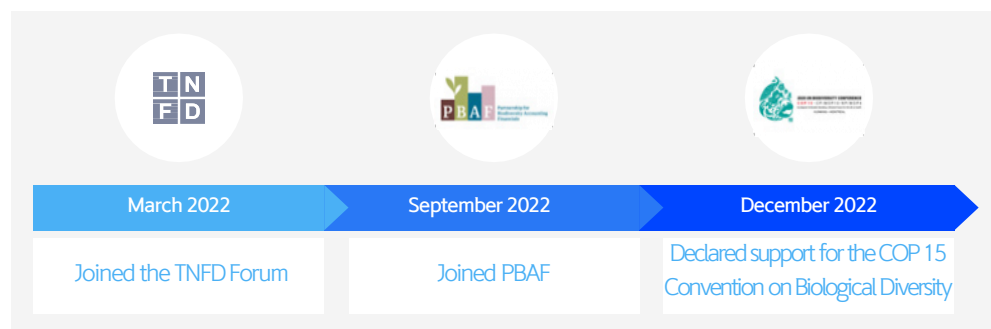
## Participation in Biodiversity-related Initiatives and Application of the LEAP Methodology

To actively participate in addressing biodiversity issues, Shinhan Financial Group joined the TNFD Forum in March 2022, and in September of the same year, joined the Partnership for Biodiversity Accounting and Finance (PBAF), a global biodiversity initiative, to collaborate on the development of an international standard for biodiversity impact assessment. In December, we declared our support for the Convention on Biological Diversity through the Global Private Finance Statement at the 15th Conference of the Parties to the Convention on Biological Diversity (COP 15) and solidified our commitment to systematically work with the UN, governments, and central banks to address natural risks by 2030. Through these efforts, we are actively responding to the rapidly changing global ecosystem and biodiversity issues and building leadership in the green financial ecosystem.

Shinhan Financial Group also participated in the UNEP FI LEAD pilots in support of the TNFD (Pilot group 3: Offshore wind farms) in July 2022 to understand the relationship between its business and natural capital. The pilot focused on the Jeju Hallim Offshore Wind Pilot Area and adopted the LEAP approach, a risk and opportunity factor assessment methodology from the TNFD framework. LEAP is not a mandatory process to comply with the disclosure recommendations set out by the TNFD, but is a key basis for disclosures on location, dependencies and impacts, opportunity and risk assessment and reporting.

By applying the LEAP approach, Shinhan identified its dependencies on ecosystem services provided by natural capital in its business as well as its impacts on natural capital, and analyzed the risks and opportunities for Shinhan by examining the interactive nature of dependencies and impacts. Based on the analysis, we derived countermeasures to address these risks.

### Key Milestones



### Overview of the LEAP and LEAP-FI approaches

The LEAP approach consists of Locate, to locate the interface with nature; Evaluate, to assess our natural capital dependencies and impacts; Assess, to evaluate natural capital risks and opportunities; and Prepare, to respond to natural capital risks and opportunities. First, the Locate step establishes the geographic scope for identifying risks and opportunities. The Evaluate step then utilizes a tool called ENCORE<sup>1</sup>) based on industry classifications to diagnose natural capital dependencies and impacts. In the Assess phase, we assess natural capital risks and opportunities using indicators of exposure, dependencies and impacts, and financial impacts; and finally, in the Prepare phase, we set targets for oceans, land and biodiversity. In doing so, the TNFD recommends applying the Science Based Targets Network's (SBTN) target-setting methodology (SBTs for Nature).

The LEAP-FI approach is an additional methodology that takes the characteristics of financial institutions into account and recognizes that, as providers of various types of financial capital, the relative weighting of LEAP's components may be more appropriate. The process is based on the following considerations:

- Financial institutions operating as a corporate entity can apply the LEAP approach for corporates as it pertains to their own operations and supply chain. However, these impacts will be limited compared to those of financed activities.
- Financial institutions can encourage their clients (recipients of financial capital) to use the LEAP approach for corporates and report information in line with the TNFD disclosure recommendations. Data provided to financial institutions by clients can be used to complement other sources of data.
- Financial institutions will need to apply the LEAP-FI approach flexibly to accommodate variations in the nature and structure of the business, the type of asset classes/financial products and level of aggregation of financial products/services.
- Tools and data already exist to help financial institutions get started with the assessment of their portfolios. These include matrices of high impact and high dependency sectors, such as the SBTN. 2022. Sector Materiality Tool, and data and metrics on ecosystem integrity and importance. Examples and case studies are referenced in the framework online platform 'Additional guidance to support LEAP for financial institutions (LEAP-FI).'

Scope the assessment

<b>Corporates</b>	<b>C1</b> Type of organization	What are the organization's primary activities and assets in its direct operations and value chain? Where are they located?	<b>Financial Institutions</b>	<b>F1</b> Type of business	What is the nature of our business as a financial institution? What are the main functional units within our business?
	<b>C2</b> Entry points	What are the typical interactions with nature of these activities and in these locations?		<b>F2</b> Entry points	In Which sectors/geographies do we allocate capita What asset classes/financial products do we have and what are their potential interactions with nature What biomes/ecosystems do our financial activities interact with and how?
	<b>C3</b> Type of analysis	Where should the organization focus its analysis based on its own and stakeholders' priorities? What are the constraints and appropriate limits on the assessment?		<b>F3</b> Type of analysis	What level of assessment is feasible/appropriate for our business, given the level of aggregation of financial products and services?

**L** Locate - Interface with Nature      **E** Evaluate - Dependencies & Impacts      **A** Assess - Material Risks & Opportunities      **P** Prepare - To Respond % Report

Engagement wit affected stakeholders

<b>L1. Business footprint</b>	Where are our direct assets and operations, and our related value chain (upstream and downstream) activities?	<b>E1. ID of relevant environmental assets and ecosystem services</b>	What are our business processes and activities at each priority location? What environmental assets and ecosystem services do we have a dependency or impact on at each priority location?	<b>A1. Risk and opportunity ID</b>	What are the corresponding risks and opportunities for our business?	<b>Strategy and resource allocation</b>	<b>P1. Strategy and resource allocation</b>	What strategy and resource allocation decisions should be made as a result of this analysis?
<b>L2. Nature interface</b>	- Which biomes and ecosystems do these activities interface with? - What is the current integrity and importance of the ecosystems at each location?	<b>E2. ID of dependencies and impacts</b>	What are our nature-related dependencies and impacts across our business at each priority location?	<b>A2. Existing risk mitigation and risk and opportunity management</b>	What existing risk mitigation and risk and opportunity management approaches are we already applying?		<b>P2. Performance measurement</b>	How will we set targets and define and measure progress?
<b>L3. Priority location identification</b>	At which locations does our organization and its value chain(s) operate in high integrity ecosystems, areas of rapid decline in ecosystem integrity, areas of high biodiversity importance, areas of water stress and/or areas with potential significant dependencies or impacts?	<b>E3. Dependency analysis</b>	What is the size and scale of our dependencies on nature in each priority location?	<b>A3. Additional risk mitigation and risk and opportunity management</b>	What additional risk mitigation and risk and opportunity management actions should we consider?	<b>Disclosure actions</b>	<b>P3. Reporting</b>	What will we disclose in line with the TNFD disclosure recommendations?
<b>L4. Sector identification</b>	What sectors, business units, value chains or asset classes are interfacing with nature in these priority locations?	<b>E4. Impact analysis</b>	What is the size and scale of our nature impacts in each priority location?	<b>A4. Risk and opportunity materiality assessment</b>	Which risks and opportunities are material and should be disclosed in line with the TNFD disclosure recommendations?		<b>P4. Presentation</b>	Where and how do we present our nature-related disclosures?
<b>Review and repeat</b>								

1) Use of the Exploring Natural Capital Opportunities, Risks and Exposure (ENCORE) tool, which analyzes global industry classifications to diagnose natural capital dependence and impacts, including changes in the four domains of oceans, freshwater, land, and atmosphere, as well as climate change, resource use, pollution, and invasive species introduction

\* Source: TNFD(2023), The TNFD Nature-related Risk and Opportunity Management and Disclosure Framework Beta v0.4. p.32 and TNFD website

# Biodiversity Strategy

## Locate (Interface with Nature)

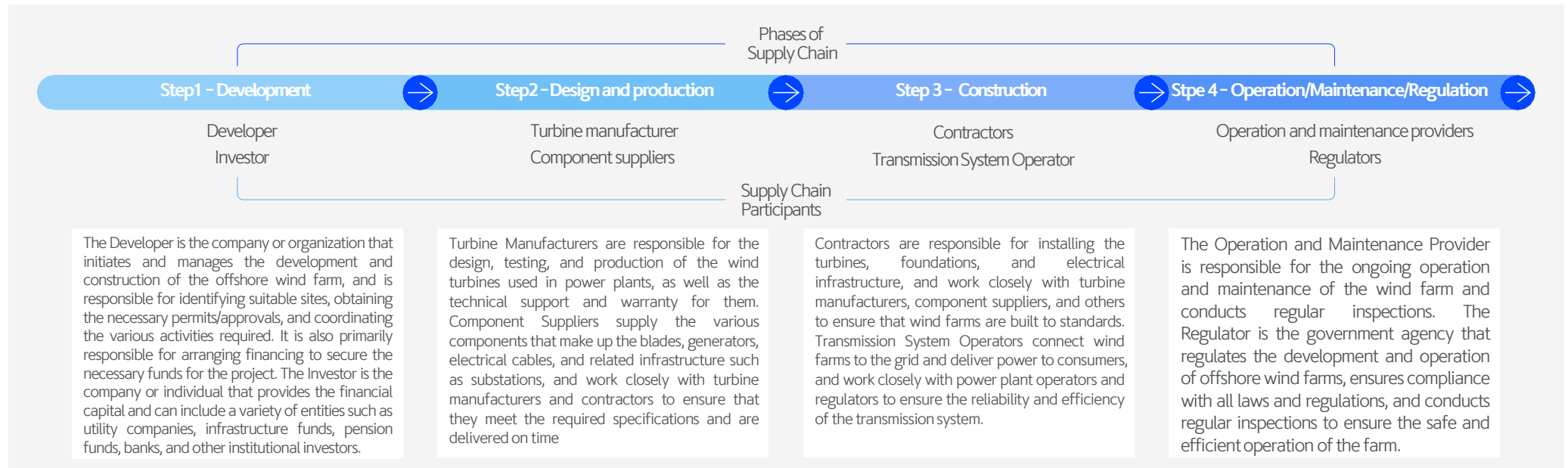
Shinhan Financial Group selected the Jeju Hallim Offshore Wind Farm Pilot Area, where Shinhan Life has committed KRW 37 billion in senior loans to participate in the UNEP FI's TNFD Pilot in the offshore wind farm group, as the subject of analysis through the LEAP approach. The Jeju Hallim Offshore Wind Farm Pilot Area is located in the offshore waters of Suwon-ri, Hallim-eup, Jeju-si, and construction is scheduled to last for 34 months, after which the facility will run for a lifespan of 20 years.

Offshore wind farms involve a wide range of participants depending on the stage of the supply chain. It is broadly categorized into four stages: Development, Design and Production, Construction, and Operation/Maintenance/Regulation. Despite the complexity of multiple stakeholders, financial institutions can play a key role in measuring and mitigating nature-related risks as the financing entity. Through this pilot project, Shinhan Financial Group has identified that its financing activities are related to the Construction and Operation/Maintenance/Regulation stages of the relevant supply chain and have identified interface with nature in the process.

Shinhan Financial Group determined that the distance of the offshore wind power pilot area from marine protected areas and wilderness areas was an important factor. Based on the UN Biodiversity Lab<sup>1)</sup>, we confirmed that the location of the project is far enough from marine protected areas and wilderness areas. In addition, the environmental impact assessment confirmed that the project site, where underground transmission lines, public information centers, and substations will be installed, is a cultivated area and does not contain natural vegetation and valuable plants. However, it was confirmed that some marine ecosystems, such as some waterfowl, fish, and seaweed that live along the coast, may be impacted. Nonetheless, we determined that the project site is distant enough from nesting sites of migratory birds, and the impact of floating sediment generated during construction is expected to be minimal.

<sup>1)</sup>The UN Biodiversity Lab (UNBL) aims to provide access to global spatial data to provide insights and impact for conservation and sustainable development

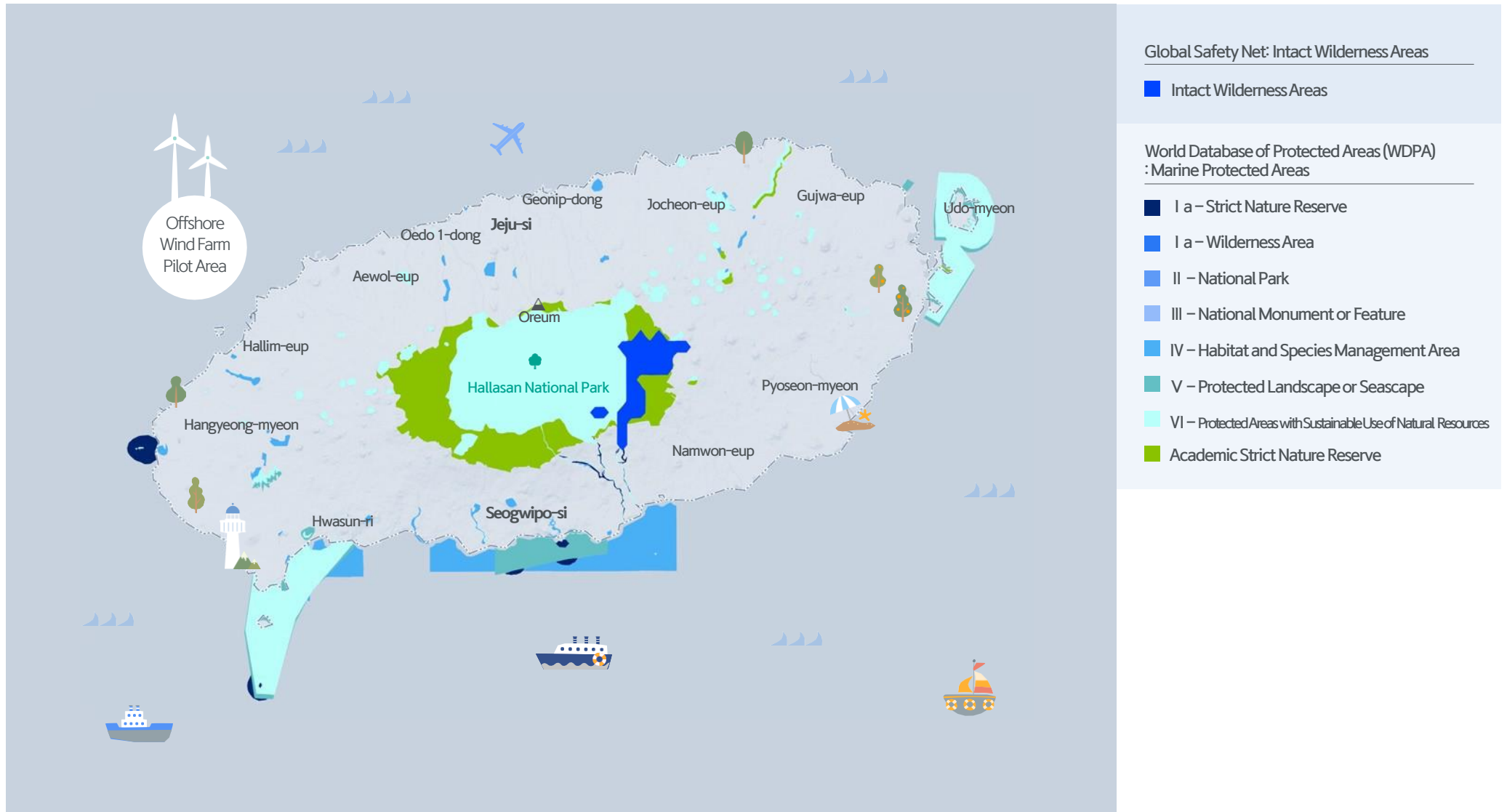
### Supply chain stages and key players in offshore wind power



\* Source: UNEP FI(2022), Unboxing Nature-related Risks pp.11-12

# Biodiversity Strategy

## Mapping the Hallim Offshore Wind Farm Pilot Area and marine/wilderness areas



\* Source: Mapping Jeju's marine/wilderness protected areas (Global Safety Net: Intact Wilderness Areas and marine Protected Areas WDPa) with the UN Biodiversity Lab

# Biodiversity Strategy

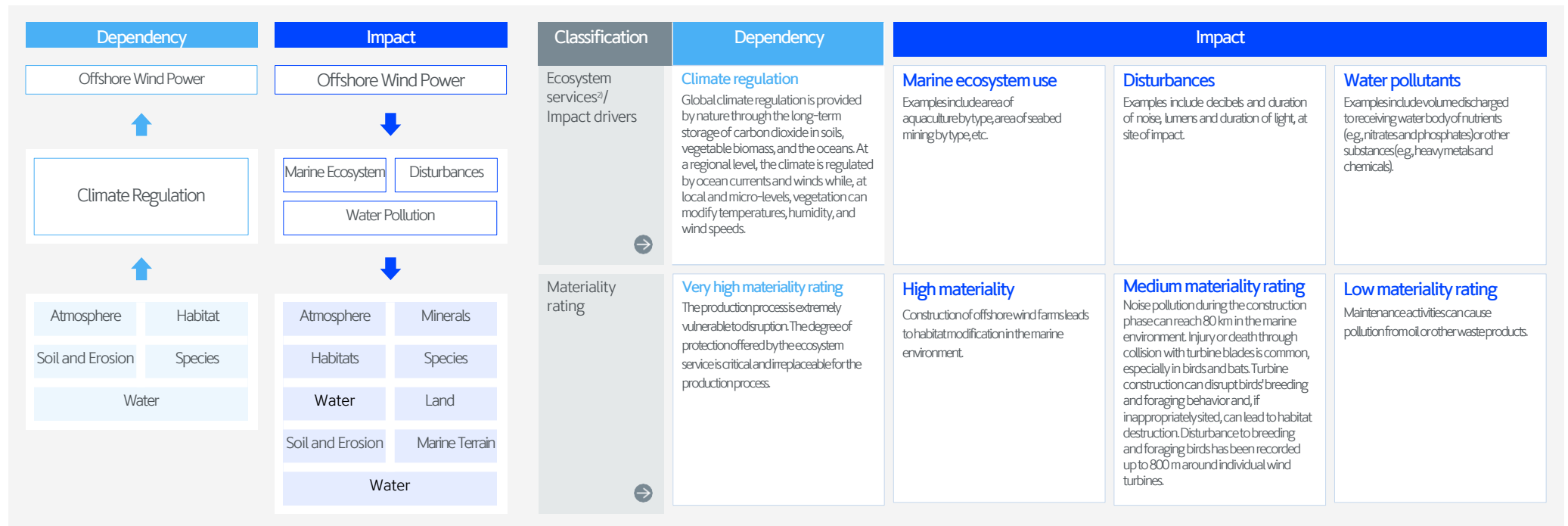
## Evaluate (Dependencies and Impacts)

To understand the relationship between the offshore wind power project and natural capital, Shinhan Financial Group identified dependencies and impacts based on ENCORE, a TNFD-recommended tool.

With respect to Dependencies, businesses can benefit from the ecosystem services that natural capital generates. On the other hand, if the value of natural capital is compromised (e.g., natural disasters, overdevelopment, etc.) and ecosystem services are disturbed, it can lead to additional costs or business continuity issues. To address these issues, companies will either shift their business model or make capital investments. In the case of offshore wind power, there is a very high degree of dependency on climate regulation.

With respect to Impacts, companies can negatively impact natural capital by polluting soil and air, emitting greenhouse gases, and using large amounts of water, which in turn reduces ecosystem services. Impacts can also result in additional costs and reputational damage as regulations or stakeholder demands for ecosystem protection increase, leading to business transformation or capital investment to address the issue. In the case of offshore wind power, potential impacts include marine life and ecosystem disturbances and water pollution.

### Offshore wind dependencies and impacts identified in ENCORE <sup>1</sup>



1) Reorganized ENCORE's wind energy segment by selecting dependencies and impacts related to offshore wind.

2) Defined broadly as the conditions and processes that enable ecosystems and species to sustainably support human life; the goods and services that humans derive directly or indirectly from ecosystem functions; the benefits that humans derive from ecosystems; and the various ways in which humans benefit from ecosystems (National Geographic Information website)



# Biodiversity Strategy

Based on the analysis of dependency and impact factors on offshore wind power identified based on ENCORE, Shinhan Financial Group reviewed biodiversity-related items among the 14 items in the environmental impact assessment conducted for the Hallim offshore wind power pilot project. We selected six items, including 'water quality and hydrology', 'marine environment (marine water quality, marine sediment quality, and marine physics)', 'marine environment (marine flora and fauna)', 'flora and fauna', 'eco-friendly resource circularity, and 'noise and vibration', and identified impact factors for each item.

## Focusing on six biodiversity-related items from the environmental impact assessment and analyzing their impacts

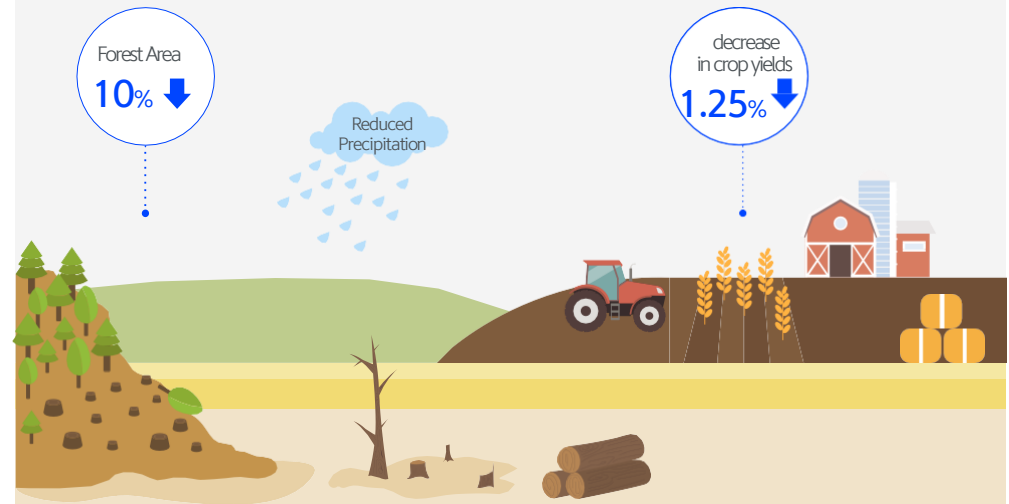
Air quality and GHGs	Land use	<b>Noise and vibration</b>
Water quality and hydrology	Soil	Landscape
Marine environment (marine water quality, marine sediment quality, marine physics)	Terrain and geology	Social and economic environment
Marine environment (marine flora and fauna)	<b>Flora and fauna</b>	Electromagnetic interference
	<b>Eco-friendly resource circularity</b>	Others

- Water quality and hydrology**
  - Sediment Discharges
  - Stormwater runoff and nonpoint source discharges during construction and operations
- Marine environment (marine water quality, marine sediment quality, marine physics)**
  - Floating sediment
  - Construction noises
  - Oil pollution
  - Fishing
- Marine environment (marine flora and fauna)**
  - Floating sediment
  - Oil pollution
  - Noise, vibration, and electromagnetic waves impacting marine flora and fauna
- Flora and fauna**
  - Collision of flying birds with wind turbine blades
  - Coastal protection during cable construction (including preservation of habitat for waterfowl)
- Eco-friendly resource circularity**
  - Maintenance of construction equipment during offshore construction (land transfer, etc.)
  - Waste oil and other wastes from onshore construction
- Noise and vibration**
  - Exceeding the target noise standard in residential areas and other noise-regulated regions
  - Underwater noise and vibration at and around wind turbine installations

## Importance of Biodiversity: Decrease in Precipitation Due to Deforestation

The decrease in precipitation caused by deforestation has significant implications for agriculture and hydropower generation. On average, agricultural yields decrease by 0.5% for every 1% reduction in precipitation. Changes resulting from deforestation can potentially exacerbate the impacts of climate change and future droughts, as crop yields decrease by 1.25% for every 10% loss in the forest area. Despite this, deforestation continues in tropical regions, leading to a vicious cycle where the decrease in crop yields due to reduced precipitation outweighs the production increase from expanding agricultural areas. Additionally, reduced rainfall in the remaining tropical regions is expected to have further effects on additional deforestation, changes in biodiversity, carbon sequestration, and fire frequency. As a response to these concerns, international efforts are expanding, including agreements like the 'Halt Deforestation by 2030' consensus made during the 26th UN Climate Change Conference (COP26).



\* Source: C. Smith, J. C. A. Baker1 & D. V. Spracklen(2023), Tropical deforestation causes large reductions in observed precipitation 참고

# Biodiversity Strategy

## Assess (Material Risks and Opportunities)

If a financial institution's business activities degrade or deplete natural capital and reduce its value, this could lead to higher business costs and increased severity of natural disasters, as well as physical risks from negative environmental impacts (e.g., greenhouse gas emissions, wastewater discharges). At the same time, degradation of natural capital and environmental change can lead to situations such as the adoption of new technologies or business disruption, and entail transition risks from government policies and regulations related to biodiversity. On the other hand, financial institutions can have a positive impact on natural capital by supporting biodiversity through financial products and services, which can help ensure business continuity and identify new business opportunities.

### Potential risks and hazards associated with offshore wind power<sup>1)</sup>

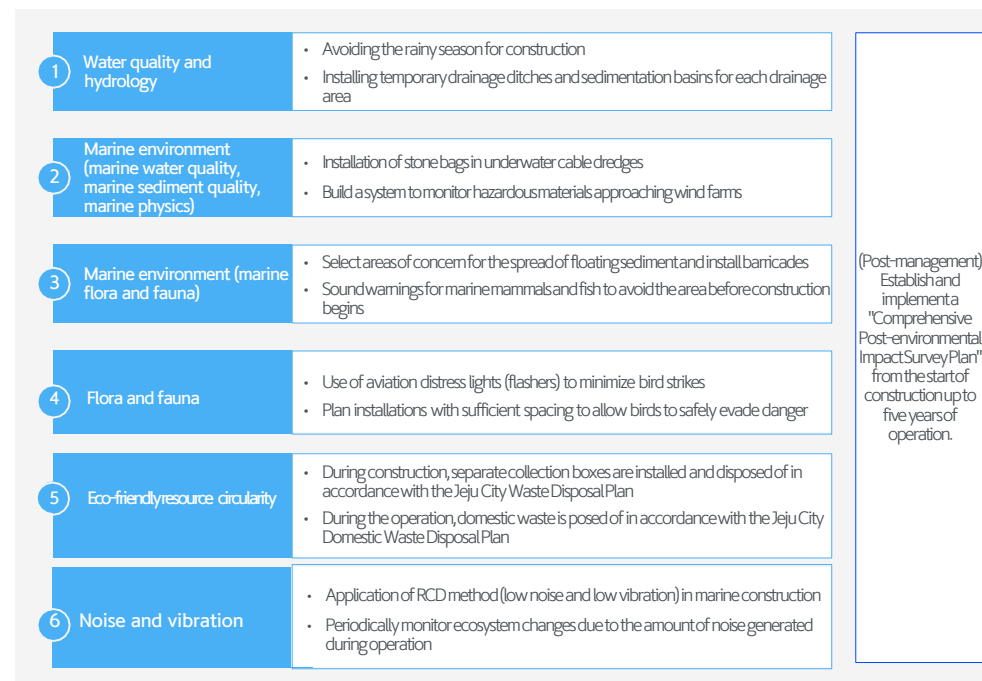
Classification		Description
Risk	Habitat disruption	Inevitably involves habitat disruption of natural ecosystems, with the magnitude of the disruption depending on the form
	Collision risk	Birds and bats may fly into turbine blades, causing injury or death, but the frequency of occurrence is unspecified
	Noise pollution	The construction and operation of wind farms generate unavoidable noise that may disturb marine life and ecosystems
	Interference with feeding and reproduction	Depending on the location, offshore wind power can disrupt feeding and reproduction of birds, bats, and marine life
Opportunities	Habitat creation	Can be designed in such a way as to create an 'artificial reef' environment, where the infrastructure structures (e.g. turbines and foundations) support the growth of marine flora and fauna
	Nature-friendly design	Designed and deployed in a way that minimizes impact on wildlife, including avoiding sensitive habitats and migration routes
	Air pollution reduction	Offshore wind energy can replace fossil fuels as a source of electricity, reducing the amount of air pollution caused by burning fossil fuels
	Job creation	Jobs are created in the construction, operation, and maintenance process of wind farms, as well as in related industries such as manufacturing and engineering
	Energy independence	Reduction of a country's dependence on fossil fuel imports from other countries

1) Summarized from the UNEP FI(2022), Unboxing Nature-related Risks pp.10-11

Shinhan Financial Group has analyzed the risks and opportunities that may arise based on the relationship between offshore wind power business activities and natural capital. Offshore wind power has potential negative impacts on marine ecosystems, local wildlife, and migratory birds, as well as on fishing and aquaculture, and on real estate values due to changes in coastal landscapes, and therefore requires careful planning and management. On the other hand, opportunities can be identified and utilized by focusing on the energy independence and fossil fuel mitigation effects of offshore wind power.

Shinhan Financial Group comprehensively reviewed the potential risks of the identified offshore wind power projects, as well as their dependencies and impacts, and matched them with the impacts of the six key checkpoints on biodiversity in the environmental impact assessment to derive specific risk management measures.

### Risk management measures per checkpoint



# Biodiversity Strategy

## Concept of Nature-based Solutions (NbS) and their role in creating a new market

Nature-based Solutions (NbS) are gradually gaining attention as a method to achieve the objectives of various global agreements, considering their potential to provide extensive social and economic benefits and services, while also addressing existing changes and mitigating biodiversity loss. In the resolution adopted by the United Nations Environment Assembly (UNEA) in March 2022, NbS is defined as measures taken to effectively and appropriately address social, economic, and environmental issues, while providing benefits to human well-being, ecosystem services, resilience, and biodiversity in natural or modified terrestrial, freshwater, coastal, and marine ecosystems, aiming to protect, conserve, restore, and sustainably manage these ecosystems.

The transition to a green economy based on NbS is expected to impact the market in various ways, and it can play a crucial role in addressing a wide range of social challenges, from water scarcity management to disaster risk reduction and poverty alleviation. Notably, while most related spending is projected to occur in high-income regions, the majority of job creation will take place in income-vulnerable areas that heavily rely on nature and resources. The World Economic Forum (WEF) estimates that nature-friendly policies could generate over \$10 trillion in new business value annually and create 395 million jobs by 2030. Businesses can leverage NbS-based business models to capitalize on these market opportunities.



\* Source: ILO, UNEP and IUCN(2022), Decent Work in Nature-based Solutions 2022 & WEF (2020), 395 Million New Jobs by 2030 if Businesses Prioritize Nature, Says World Economic Forum

## Prepare (Response and Disclosure)

Shinhan Financial Group identified the risks and opportunities associated with the offshore wind power pilot project and conducted an analysis by setting up focused checklist items accordingly. In the future, we will expand the analysis to various business segments of Shinhan and consider setting targets to quantify related impacts and reduce negative impacts based on global standards such as the SBTN (Science Based Targets Network) target-setting methodology. In addition, we will conduct annual information disclosure based on the TNFD framework and gradually upgrade the contents.



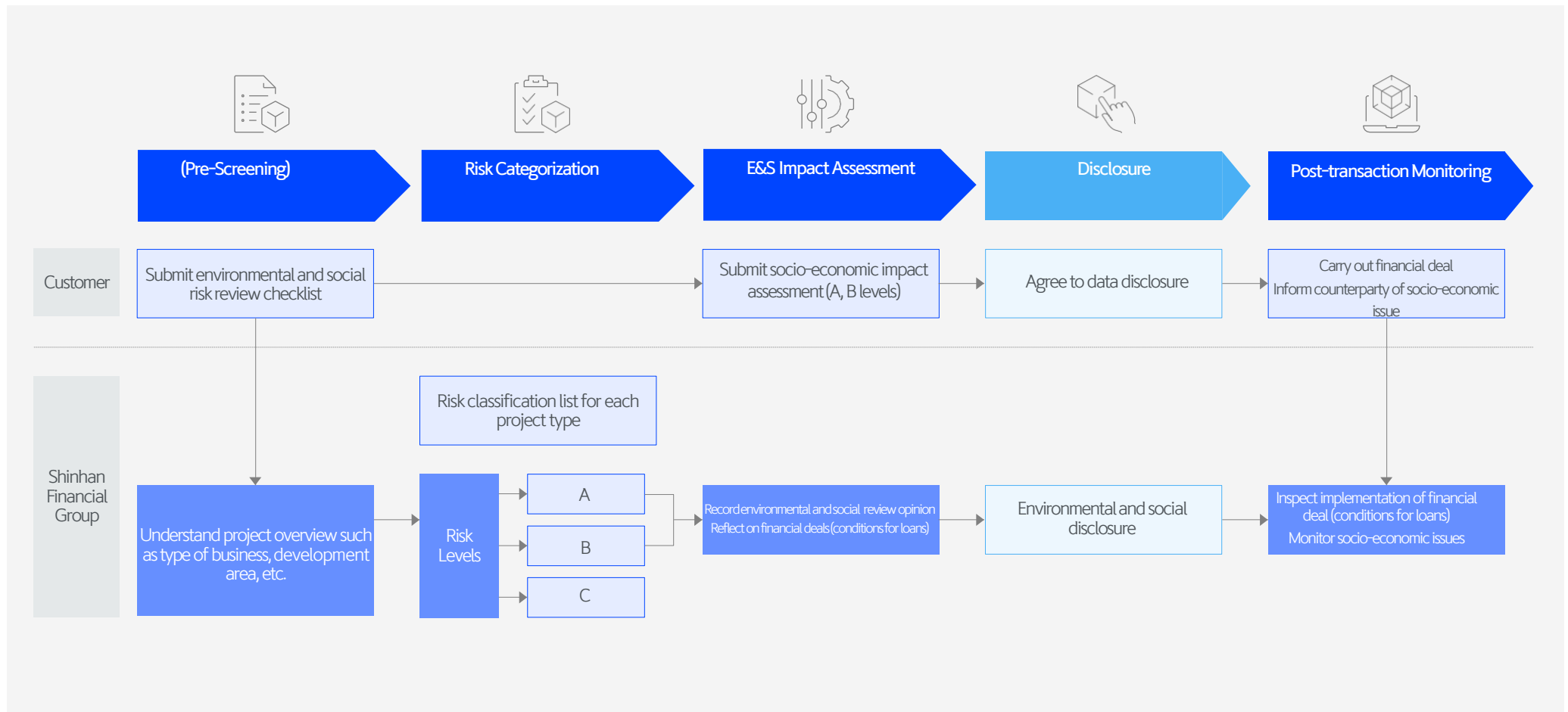
\* Source: Jeju Hanlim Offshore Wind Power Co.

# Management of Biodiversity Risks and Impact

## Risk Review Process and Monitoring Areas of Concern

Shinhan Financial Group clearly recognizes that risks related to biodiversity are factors that have a significant impact on our business activities and conducts environmental and social risk reviews to continuously manage them. The review is divided into four stages: pre-screening, risk categorization, E&S impact assessment, disclosure, and post-transaction monitoring. In the environmental and social impact assessment stage, biodiversity risks that may arise during business activities are monitored.

Shinhan plans to operate this monitoring system in conjunction with the LEAP approach. The review of the Hallim Offshore Wind Power Pilot Area was also conducted with this perspective in mind.



# Management of Biodiversity Risks and Impact

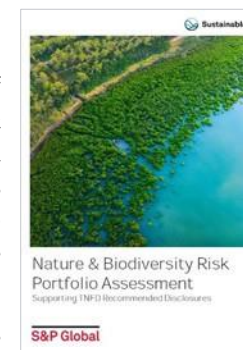
We also comprehensively review environmental and social impacts, including biodiversity, to select areas of significance and define risks. We then conduct active risk management based on the review items for each area of concern.

Risks	Review items(illustrative example)	
1. Large-scale agriculture and food crop production	<ul style="list-style-type: none"> <li>Environmental impact</li> <li>Violation of the right to living conditions and impact on habitats</li> </ul>	<ul style="list-style-type: none"> <li>Soil pollution                             <ul style="list-style-type: none"> <li>- Water pollution</li> <li>- Impacts ecosystem around large farmlands</li> </ul> </li> </ul>
2. Forestry	<ul style="list-style-type: none"> <li>Environmental impact</li> <li>Violation of the right to living conditions and impact on habitats</li> <li>Occupational Safety and Health</li> </ul>	<ul style="list-style-type: none"> <li>Local habitat and ecological impacts in the case of large-scale logging                             <ul style="list-style-type: none"> <li>- Logging acreage and whether the logging site hosts habitat for protected species</li> <li>- Worker safety and health precautions</li> </ul> </li> </ul>
3. Chemical Manufacturing	<ul style="list-style-type: none"> <li>Environmental impact</li> <li>GHG emission</li> <li>Occupational Safety and Health</li> </ul>	<ul style="list-style-type: none"> <li>Air pollutant concentrations and emissions                             <ul style="list-style-type: none"> <li>- Water pollutant concentrations and discharges</li> <li>- Environmental/safety incident prevention/detection/response measures</li> </ul> </li> </ul>
4. Mining	<ul style="list-style-type: none"> <li>Environmental impact</li> <li>Violation of the right to living conditions and impact on habitats</li> <li>Occupational Safety and Health</li> </ul>	<ul style="list-style-type: none"> <li>Manage dust emissions                             <ul style="list-style-type: none"> <li>- Impact on the ecosystem</li> <li>- Emergency response system</li> </ul> </li> </ul>
5. Oil and gas development	<ul style="list-style-type: none"> <li>Environmental impact</li> <li>GHG emission</li> <li>Occupational Safety and Health</li> </ul>	<ul style="list-style-type: none"> <li>Managing environmental impacts and contamination of soil, groundwater, and seawater around the development site                             <ul style="list-style-type: none"> <li>- Health and safety measures for workers in drilling and mining operations</li> </ul> </li> </ul>
6. Large-scale infrastructure projects	<ul style="list-style-type: none"> <li>Environmental impact</li> <li>Violation of the right to living conditions and impact on habitats</li> <li>Occupational Safety and Health</li> </ul>	<ul style="list-style-type: none"> <li>Managing dust                             <ul style="list-style-type: none"> <li>- Impact on natural habitat and the ecosystem</li> <li>- Managing the environmental impact of nearby areas regarding hazardous materials storage, or underground oil pipes, etc.</li> </ul> </li> </ul>
7. Electricity Generation	<ul style="list-style-type: none"> <li>Environmental impact</li> <li>GHG emission</li> <li>Violation of the right to living conditions and impact on habitats</li> </ul>	<ul style="list-style-type: none"> <li>(Thermal power generation) Whether air pollution prevention facilities are installed and managed</li> <li>Impact on natural habitat and the ecosystem (Hydropower)</li> <li>Impact on natural habitat (Large-scale solar power)</li> </ul>
8. Wastewater and waste treatment	<ul style="list-style-type: none"> <li>Environmental impact</li> <li>GHG emission</li> </ul>	<ul style="list-style-type: none"> <li>Treatment of wastewater and waste byproducts (sludge, ash, etc.)                             <ul style="list-style-type: none"> <li>- Avoid contaminating surrounding soil and groundwater due to waste landfill</li> </ul> </li> </ul>
9. Weapons and defense	<ul style="list-style-type: none"> <li>Social impact</li> </ul>	<ul style="list-style-type: none"> <li>Product manufacturing activities                             <ul style="list-style-type: none"> <li>- Vision and strategy</li> </ul> </li> </ul>
10. Drift-net fishing	<ul style="list-style-type: none"> <li>Environmental impact</li> <li>Social impact</li> </ul>	<ul style="list-style-type: none"> <li>Survey on forced labor                             <ul style="list-style-type: none"> <li>- Ensuring workers' occupational safety</li> </ul> </li> </ul>
11. Tobacco	<ul style="list-style-type: none"> <li>Environmental impact</li> <li>Occupational Safety and Health</li> </ul>	<ul style="list-style-type: none"> <li>Managing soil pollution                             <ul style="list-style-type: none"> <li>- Water pollution contamination levels</li> <li>- Minimize raw material inputs and increase reuse and recycling rates</li> </ul> </li> </ul>
12. Coal processing	<ul style="list-style-type: none"> <li>Environmental impact</li> <li>Social impact</li> </ul>	<ul style="list-style-type: none"> <li>Scope of the surrounding impact due to dust                             <ul style="list-style-type: none"> <li>- Emergency response system</li> </ul> </li> </ul>

## Shinhan Financial Group Biodiversity Assessment Result

Shinhan Financial Group performed a biodiversity pilot analysis with Standard & Poor's Global to heighten awareness and understanding of biodiversity risk. We analyzed Shinhan's portfolio with the Nature & Biodiversity Risk Portfolio Assessment model, developed by S&P Global based on biodiversity-related data sourced from UNEP-WCMC<sup>1)</sup>. This methodology allowed for risk assessment related to biodiversity from three perspectives, covering a total of 1,130 companies in the analysis. (This stage accounts for the Locate and Evaluate phases from the LEAP framework)

We could identify companies with bigger impacts and dependencies related to biodiversity within our portfolio companies. Shinhan Financial Group strives to enhance our risk assessment methodology in the coming future, through continuous research and analysis on the subject of biodiversity risk.

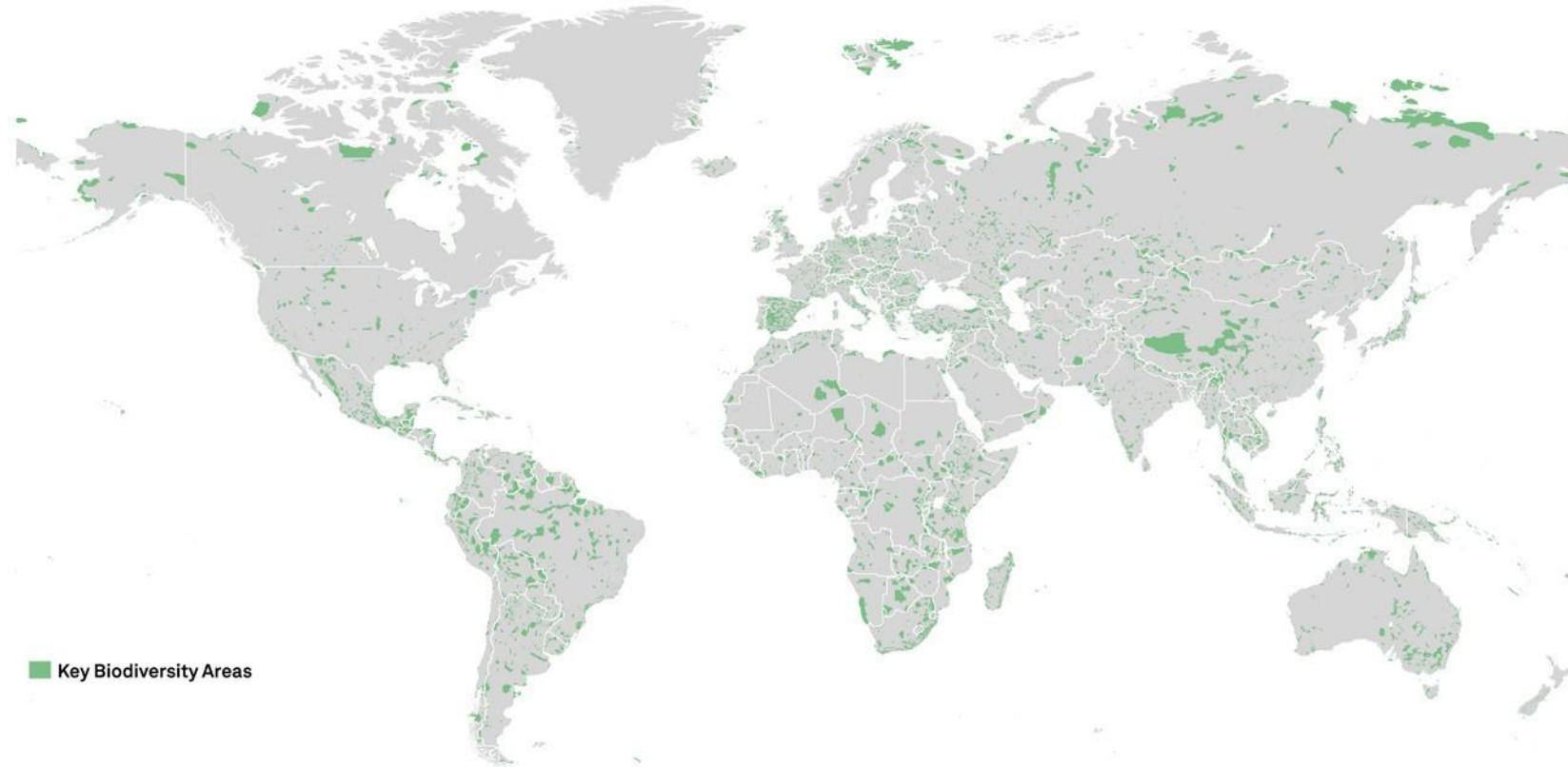


<sup>1)</sup> United Nations Environment Programme World Conservation Monitoring Centre

Risk Type	Definition	Assessment Result
Reputational and Regulatory Risk	Risk arising from the corporate asset being located in biodiversity-related area	<ul style="list-style-type: none"> <li>Only 2% of Shinhan portfolio companies are located in Key Biodiversity Areas (KBAs).</li> <li>- Ratio of invested companies that may cause potential risk in biodiversity-related areas</li> </ul>
Impact Risk	Risk arising from potential impact from corporate activity to natural resources and ecosystem  ex) Impact on regional contamination and habitat damage	<ul style="list-style-type: none"> <li>We quantified ecosystem impact by identifying impacted land area.</li> <li>As a result of a biodiversity-focused analysis on the significance of the area and the level of damage compared to the original state, 9ha (7%) of operating land area for Shinhan portfolio companies out of 122ha are identified as having potential for impact on ecosystem.</li> </ul>
Dependency Risk	Risk arising from degree of corporate dependency on natural ecosystem  ex) Operation activities dependent on water resources, land, raw materials, etc.	<ul style="list-style-type: none"> <li>We identified companies with high dependency on natural environment such as land, raw materials, climate, etc. and calculated risk levels.</li> <li>441 companies out of all analyzed companies are assessed to have high nature dependency risk.</li> </ul>

<sup>1)</sup> Key Biodiversity Areas

# Management of Biodiversity Risks and Impact



For KBAs: Sources: S&P Global Sustainable1; S&P Global Market Intelligence. Key Biodiversity Area data downloaded March 2022 from the Integrated Biodiversity Assessment Tool (IBAT). Integrated Biodiversity Assessment Tool (IBAT) provided by BirdLife International, Conservation International, International Union for Conservation of Nature and United Nations Environment Programme World Conservation Monitoring Centre. Please contact [ibat@ibat-alliance.org](mailto:ibat@ibat-alliance.org) for further information.

# Shinhan ESG Value Index Report

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# INTRODUCTION

## The Importance of Measuring Performance on ESG Activities

As corporate business activities cause various social problems such as environmental pollution and human rights violations, it is necessary for companies to create environmental and social value in addition to financial performance and to enhance the value of all stakeholders. Socially responsible investment has emerged as a major investment technique in response to the demands of this era, recognizing the importance of measuring non-financial performance to assess corporate sustainability.

As companies have limited capital and workforce available for environmental and social value creation, they need to quantify and evaluate the performance of their non-financial ESG activities for managing resources more efficiently and improving their performance. Measuring the performance of a company's ESG activities enables efficient management by comparing performance across businesses and prioritizing for optimized resource allocation. Moreover, it also facilitates communication with various stakeholders such as customers, employees, investors, and rating agencies to expanding the horizons of ESG management.

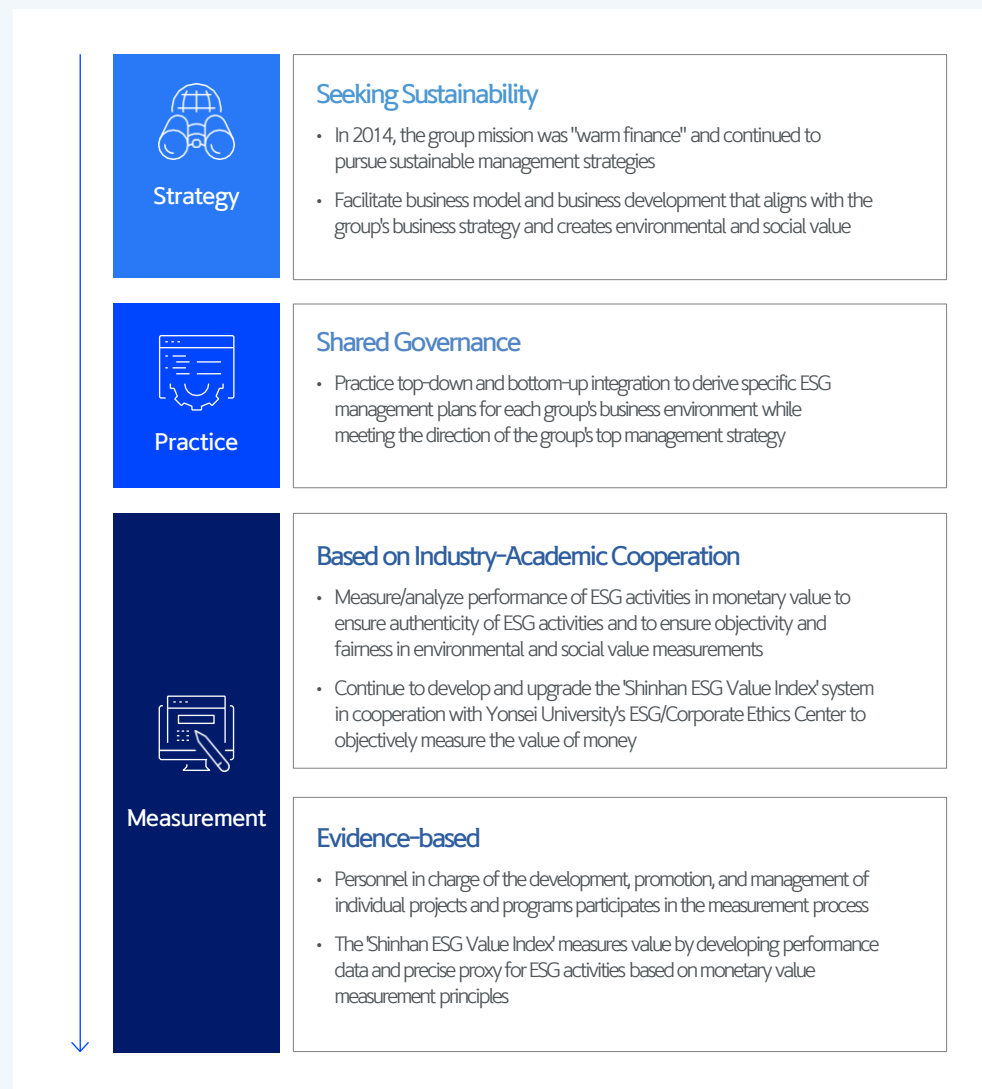
## Shinhan's Journey to Create ESG Value

Shinhan Financial Group has been promoting various ESG activities that imply a good-hearted environmental and social impact under the ESG promotion principle of 'Finance for Impact'. Shinhan recognized the need to diagnose the current status of ESG activities of each group company consistently with the direction of sustainable strategies and contribute to the spread of value creation through quantitative and qualitative growth.

To promote systematic and efficient management by quantifying performance of ESG activities, we developed the 'Shinhan ESG Value Index', the first global financial company to develop a performance measurement model for ESG activities, and have been disclosing the measurement results since 2019. In addition, we joined the VBA (Value Balancing Alliance), the first Asian financial company to develop ESG currency value measurement standards, and is promoting advancement by incorporating the know-how of global ESG leaders into the Shinhan ESG Value Index.

In the future, we will measure environmental and social value through quantification and objectification of ESG activities based on the 'Shinhan ESG Value Index' and create more value to achieve sustainable growth and development with stakeholders.

## Direction of Shinhan ESG Value Index





# INTRODUCTION

## Shinhan ESG Value Index Performance Management System

Shinhan Financial Group has established a 'Shinhan ESG Value Index' performance management system in line with its sustainable management strategy. Based on Shinhan ESG's five impact tasks, ESG activities are finely divided into nine categories: eco-friendly growth, innovative growth, inclusive growth, social diversity pursuit, financial education, financial consumer protection, support for the vulnerable, community growth, and social contribution.

We then categorized each program into business innovation programs and social contribution ESG programs so to manage performance accordingly. In addition to corporate profitability, Shinhan Financial Group focuses on projects that can create ESG values by adding social responsibility and triple bottom line, especially by solving environmental and social problems that cannot be solved by individual efforts.

### Shinhan ESG Top 5 Impact Tasks

**E Green**

Reduce carbon emissions and expand eco-friendly finance

**S Win-win**

Building an innovative growth ecosystem  
Expanding social contribution through finance

**G Trusted**

Pursuit of social diversity  
Financial consumer protection

Large classification (9)	Middle classification (20)	Business innovation type			Social contribution type			Category of beneficiary							
		E	S	G	E	S	G	Socially vulnerable	Children/adolescents	Youth	Small business owner	Social enterprise/venture/start up, etc	Local community	Consumer/overall environment and social	
Eco-friendly growth	Eco-friendly financial support	●			●								●		●
	Eco-friendly products	●													●
	Spread of eco-friendly	●			●								●	●	●
	Environmental protection				●									●	●
Innovative growth	Innovative financial support		●										●		
	Innovative financial support				●	●									●
	Fostering startups		●			●							●		
Inclusive growth	Inclusive financial support		●			●			●			●	●	●	
	Financial support for social enterprises		●									●			
	Inclusive growth services				●	●					●	●			●
Pursuit of social diversity	Pursuit of social diversity					●	●		●	●	●		●		
Financial education	Financial education					●			●	●	●				●
Financial consumer protection	Financial consumer protection					●	●		●						●
Support for the socially vulnerable	Support for the vulnerable		●		●	●			●	●	●	●			
	Scholarship program					●			●	●	●				
Community growth	Youth education and employment linkage					●			●		●				
	Creating jobs and solving local problems						●							●	
	Revitalizing the culture and arts ecosystem						●		●	●					●
Donations to social contribution	Charitable donation						●		●	●					
	Other social contribution donations						●		●					●	

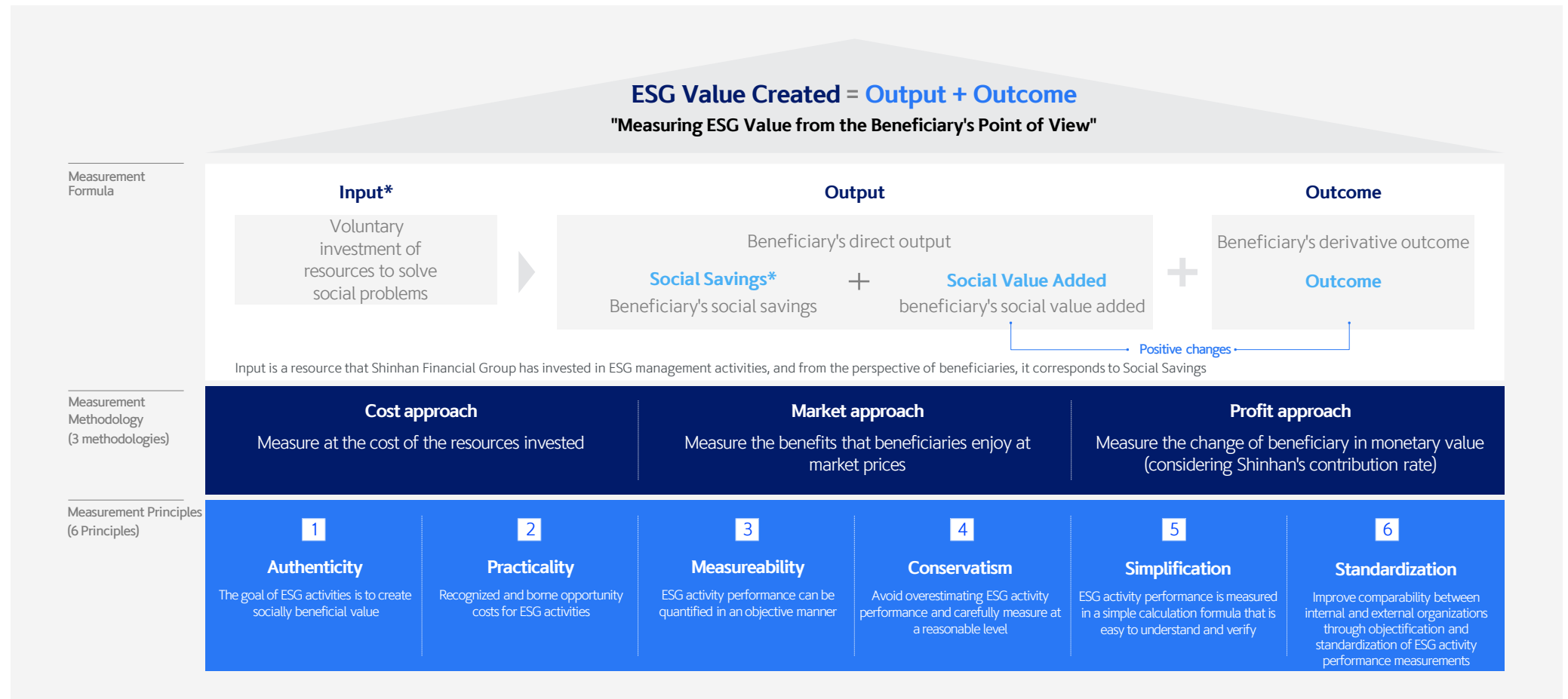
# Shinhan ESG Value Index System

## Measurement Model and Structure

Shinhan Financial Group identifies the cost (Input) of resources voluntarily invested in ESG activities and measures the performance of ESG activities from the beneficiary's point of view into monetary value by calculating the value generated from them as the sum of 'Direct Output' and 'Derivative Outcomes'. The direct output is categorized into the beneficiary's social savings and the beneficiary's social value added, and the positive changes to the beneficiary due to ESG activities are measured as the sum of the beneficiary's value-added measure and the beneficiary's derivative outcome.

## Measurement Principles

The 'Shinhan ESG Value Index' includes six measurement principles so that various stakeholders can easily understand and universally utilize Shinhan Financial Group's ESG value creation system.

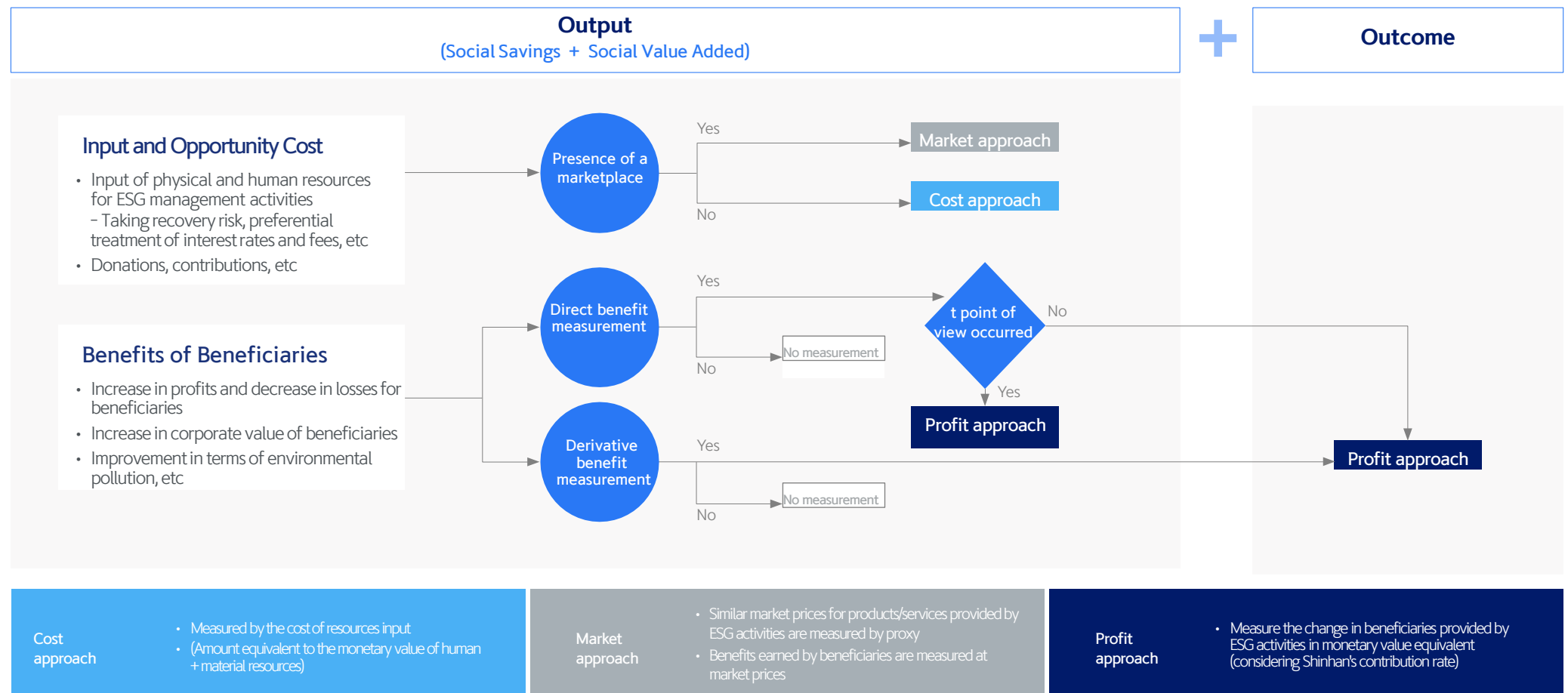


# Shinhan ESG Value Index System

## Measurement Methodology and Process

Shinhan Financial Group internalizes ESG value creation and measurement concepts in ESG management activities. As a measurement method for each ESG management activity, we used the cost approach, the market approach, and the profit approach, and we can apply multiple methodologies for one activity, depending on its characteristics. These three approaches are conceptually identical to the historical cost and current value, which are the metrics of financial accounting.

For example, if Shinhan Financial Group provides consulting programs to startups, Social Savings measures Shinhan's opportunity cost in terms of historical costs whilst the value of consulting programs provided to startups is 'Output' according to the market approach. The increase in startup value is 'Outcome' according to the profit approach.



# Shinhan ESG Performance

## Shinhan ESG Value in 2022

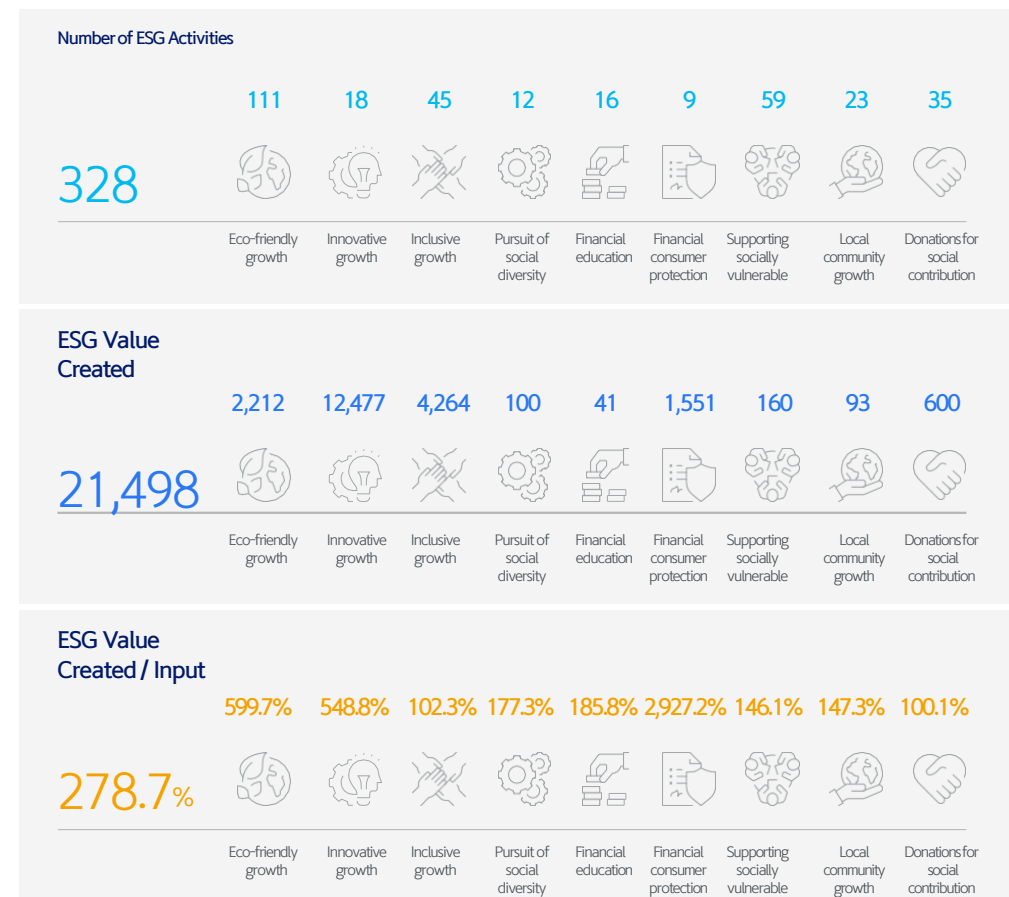
Shinhan Financial Group defines the value created by each ESG activity measured based on the 'Shinhan ESG Value Index' as ESG Value Created, and reports the amount, which excludes environmental costs (GHG emissions Scope 1, 2, 3) and social costs (penalty paid for violating laws), as 'Shinhan ESG Value.' However, indirect economic contribution such as dividends, interest, tax payment, and employment is the amount generated by Shinhan Financial Group's original activities, that makes difficult to evaluate ESG purpose. Thus, these are excluded from the consideration when calculating Shinhan ESG Value.



## ESG Value by ESG Activity Type in 2022

Of the nine criteria for Shinhan Financial Group's ESG activities, the largest ESG Value Created was measured in the Innovative Growth area to support innovative finance and digital transformation, and the Inclusive Growth area to support small business owners and the financially vulnerable. ESG Value Created was the highest for ESG activities in the 'Financial Consumer Protection' area, which consists of building a financial fraud prevention system such as voice phishing and damage prevention activities, and green investment and environmental protection activities.

(Unit: KRW 100 million)

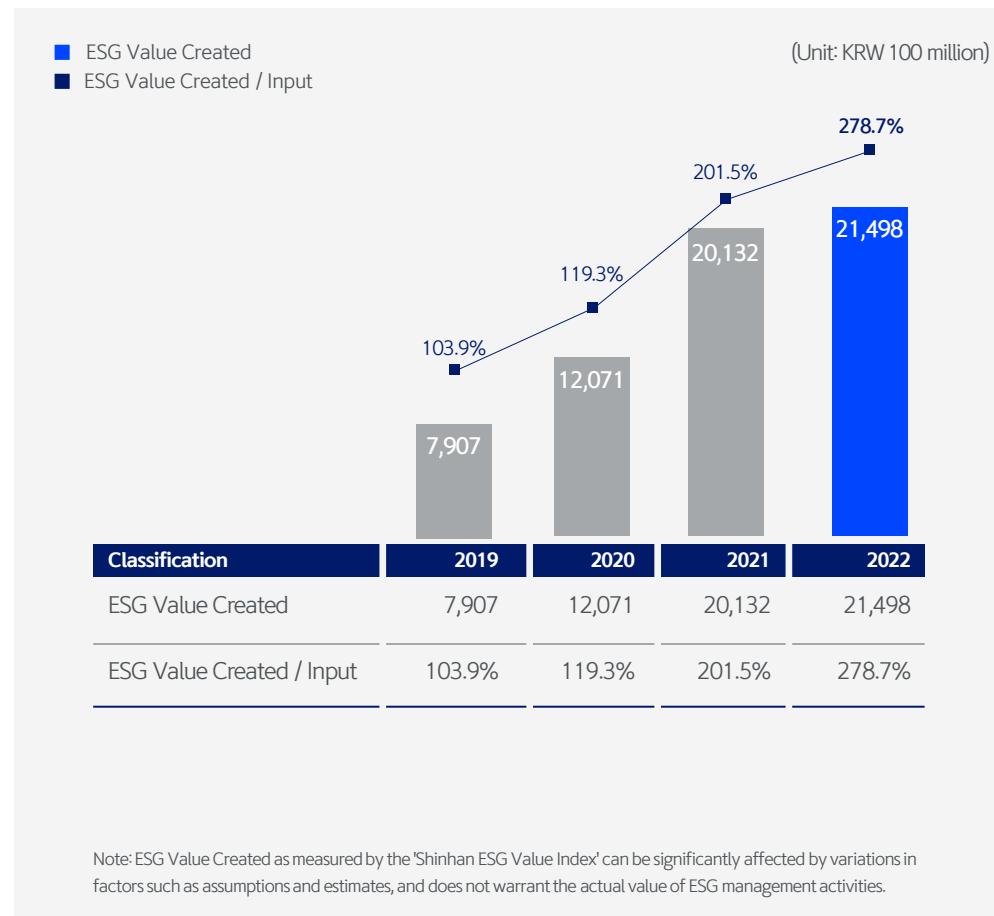


# Shinhan ESG Performance

## Trend of ESG Value Created

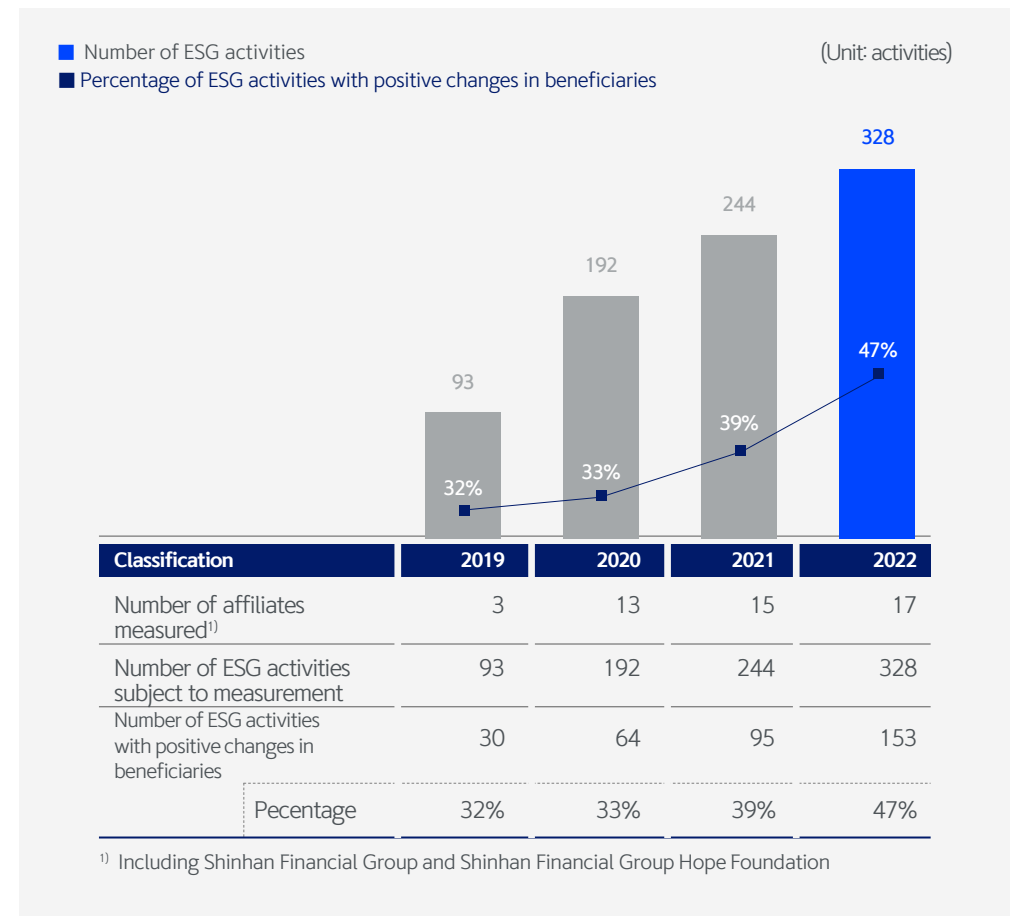
Shinhan Financial Group's ESG Value Created has continued to increase since its first measurement in 2019 due to the annual expansion of the 'Shinhan ESG Value Index' measurement target, accumulation of non-financial performance data, and discovery and application of precise proxy.

### Trend of ESG Value Created



In 2022, Shinhan Financial Group and all group companies invested KRW 771.2 billion in 328 ESG activities, and ESG Value Created totalled KRW 2.1498 trillion, and ESG Value Created compared to the input was 278.6%. Due to Shinhan's resource input, a total of 153 ESG activities showed positive changes in beneficiaries, accounting for 47% of the total.

### ESG Activity Trends with Positive Changes in Beneficiaries



# Key ESG Activity Measurement Cases

## E Green

Reduce carbon emissions and expand eco-friendly finance

Through this report, Shinhan Financial Group introduces eight representative cases of measuring the 'Shinhan ESG Value Index' and transparently discloses the methodology and results of measuring ESG Value to stakeholders.

## Investment in eco-friendly power plants and rail vehicles

**Business introduction**

- Investing in project financing and equity/bonds for eco-friendly business owners leasing solar, wind and other eco-friendly power plants and diesel rail vehicles
- Eco-friendly power plant operators implement power generation projects using leverage effects, and diesel railway vehicle leasing companies manufacture eco-friendly railway vehicles and lease them to operators

**Participating affiliates**

Shinhan Bank	Shinhan Securities	Shinhan Life	Shinhan Capital	Shinhan Asset Management
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**ESG activity of Shinhan**

Equity investment, bond investment, project financing

**Beneficiaries and changes**

Eco-friendly business owners (Power plant and diesel rail vehicle lease company)	Environment
Project construction financing and project implementation	Reducing carbon emissions by generating electricity through renewable energy and using eco-friendly railway vehicles

Classification	Workforce input	+	Material input
<b>Business innovation type</b> (Bond investment, project financing)	Personnel expense for persons in charge of business KRW 459 million		Amount of loans × Rate of setting allowance for bad debts <sup>1)</sup> KRW 2,387.9 billion
<b>Business innovation type</b> (Bond investment, project financing)	Personnel expense for persons in charge of business KRW 100 million		Equity investment amount × Social discount rate <sup>2)</sup> KRW 32.74 billion

**INPUT**  
KRW 8.77 billion

↓

Method of measurement	Target beneficiary	Value of benefit
Cost approach	Eco-friendly business owner	Green business cost savings KRW 8.77 billion

**OUTPUT**  
KRW 8.77 billion

+

Method of measurement	Target beneficiary	Value of benefit	× Contribution rate	× Long-term performance
Profit approach	Environment	Power generation capacity × CO <sub>2</sub> emission coefficient × Carbon emission futures price <sup>1)</sup> 8,328,402 MWh × 0.4434 tCO <sub>2</sub> eq/MWh × 110,165.96 원/t	Shinhan investment amount in a project	5-year current price coefficient <sup>2)</sup>
		Fuel calorific value × CO <sub>2</sub> emission coefficient × Carbon emission futures price 13,588 TJ × 74.1t/TJ × 110,165.96 KRW/t		

**OUTCOME**  
KRW 131.3 billion

Input	87.7	ESG Value Created	1,401.0
Output	87.7	Outcome	1,313.3

(Unit: KRW 100 million)

**ESG Value Created: KRW 1,401 billion**

1) A proxy used to represent reduced carbon emissions in monetary value, measured using European carbon emissions futures prices

2) To measure long-term environmental performance, calculated the effectiveness of the next five years from the time the investment is completed at present value

# Key ESG Activity Measurement Cases

## E Green

Reduce carbon emissions and expand eco-friendly finance

### Creating an Eco-Friendly Forest

**Business introduction**

- To practice carbon neutrality and preserve biodiversity, 'Shining Forest No. 1' in Hongcheon, Gangwon-do and 'Promise Garden' in Busan APEC Naru Park were created
- Donating eco-point and eco-point-linked donations of 'Deep Eco Card' to 'Seoul Green Trust' to form an 'Eco Zone' park in the city center and implement eco-friendly campaigns such as events to encourage citizens to practice carbon neutrality

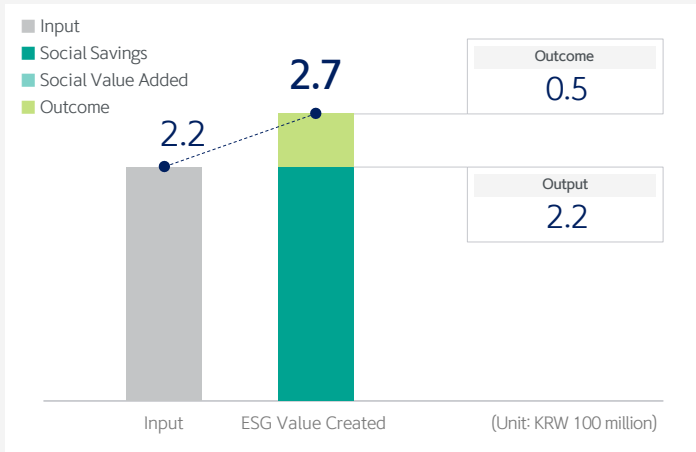
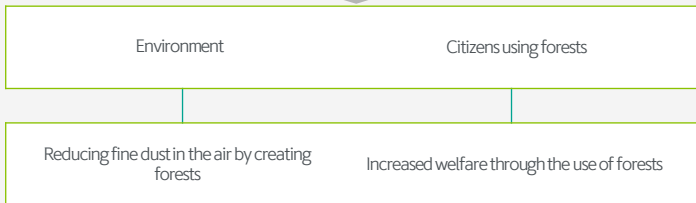
**Participating affiliates**

Shinhan Bank   Shinhan Life

**ESG activity of Shinhan**

Donation to a forest-building project   Implementation of an eco-friendly campaigns

**Beneficiaries and changes**



INPUT	Classification	Workforce input	Material input
KRW 220 billion	Social contribution type	Personnel expense for persons in charge of business KRW 30 million	Business operating expenses KRW 190 million (Forest creation and eco-friendly campaign costs, etc.)

OUTPUT	Method of measurement	Target beneficiary	Value of benefit
KRW 220 billion	Cost approach	Citizens using forests /environment	Savings in forest construction costs KRW 220 million

OUTCOME	Method of measurement	Target beneficiary	Value of benefit	Long-term performance
KRW 50 million	Profit approach	Environment Citizens using forests	Planting trees × Annual fine dust absorption × Annual fine dust environmental cost 5,250 trees × 35.7 g/trees × 66.352 KRW/g	5-year current price coefficient 4.38999
			Increased welfare through the use of forests <sup>2)</sup>	

1) To measure long-term environmental performance, calculated the effects of the forest over the next five years as its present value  
2) The effect of increasing the welfare of citizens using the forest is expected, but the long-term beneficiary value cannot be quantified, so outcome is not counted according to the measurability principle

**ESG Value Created: KRW 270 million**

# Key ESG Activity Measurement Cases

**S Win-win**  
 Building an innovative growth ecosystem  
 Expanding social contribution through finance

## Investing in Social Ventures

**Business introduction**

- Invest by creating social enterprise investment funds that invest in social enterprises, social enterprise conversion agreements, preliminary social enterprises, and impact enterprises that can be applied to UN guidelines
- After Shinhan's investment in the parent fund, contributed to the creation of private venture funds and the revitalization of venture company investment

**Participating affiliates**

Shinhan Bank	Shinhan Securities	Shinhan Life	Shinhan Capital
Shinhan Asset Management	Shinhan Venture Investment	Shinhan Financial Group	Hope Foundation

**ESG activity of Shinhan**

Equity investment, bond investment, project financing

**Beneficiaries and changes**

Eco-friendly business owners (Power plant and diesel rail vehicle lease company)	Environment
Project construction financing and project implementation	Reducing carbon emissions by generating electricity through renewable energy and using eco-friendly railway vehicles

**INPUT**  
KRW 1.3 billion

↓

**OUTPUT**  
KRW 7.53 billion

+

**OUTCOME**  
KRW 8.64 billion

Classification	Workforce input	+	Material input
Business innovation type	Personnel expense for persons in charge of business KRW 440 million		Equity investment amount × Social discount rate <sup>1)</sup> KRW 19 billion × 4.5%

1) Measure by using social discount rates as a concept of return on investment when invested in other alternatives to measure the opportunity cost of ESG investment

Method of measurement	Target beneficiary	Value of benefit
Cost approach	Venture and social enterprises	Savings in financing for social venture business KRW 1.3 billion
Profit approach		Investment amount of private venture funds × Social discount rate KRW 138.5 billion × 4.5%

1) Private venture funds were formed by Shinhan's parent fund creation, and the investment amount is recognized as output, but Shinhan's investment amount is measured by the cost approach and the private venture fund investment by the profit approach

Method of measurement	Target beneficiary	Value of benefit	×	Contribution rate
Profit approach	Venture and social enterprises	Amount of increase in corporate value of the invested company KRW 220.5 billion		Investment amount for invested companies Corporate value after investment

■ Input  
 ■ Social Savings  
 ■ Social Value Added  
 ■ Outcome

Input	130
ESG Value Created	161.7
Outcome	86.4
Output	75.3

(Unit: KRW 100 million)

**ESG Value Created: KRW 16.17 billion**



# Key ESG Activity Measurement Cases

**S Win-win**  
 Building an innovative growth ecosystem  
 Expanding social contribution through finance

## Operating Win-win Delivery App, 'Ddangyoyo'

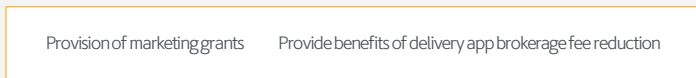
**Business introduction**

- With the slogan of 'Our Neighborhood Delivery App where You Live and I Live,' operate "Ddangyoyo," a food order brokerage platform that provides benefits to platform participants
- Provide support funds for issuing customer discount coupons to merchants in "Ddangyoyo" and provide brokerage fees to merchants when customers order through "Danger"

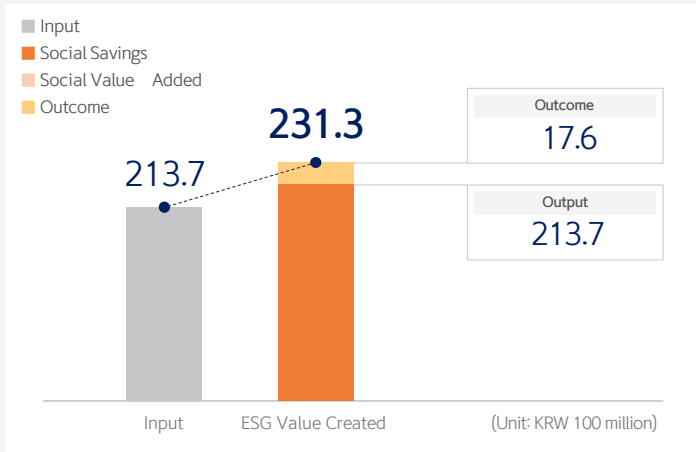
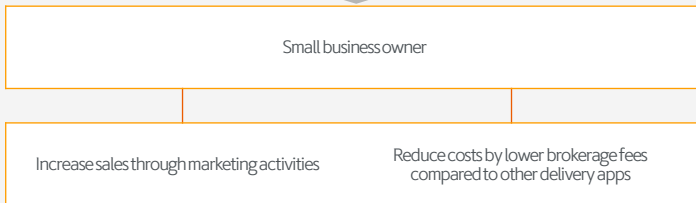
**Participating affiliates**

Shinhan Bank

**ESG activity of Shinhan**



**Beneficiaries and changes**



<b>INPUT</b> KRW 21.37 billion	<b>Classification</b>	<b>Workforce input</b>	<b>+</b>	<b>Material input</b>
	<b>Social contribution type</b> (marketing support)	Personnel expense for persons in charge of business KRW 10 million		Business operating expenses KRW 660 million (Support for the issuance of customer discount coupons, etc.)
	<b>Social contribution type</b> (reduction of brokerage fees)	Personnel expense for persons in charge of business KRW 3.84 billion		Business operating expenses KRW 16.86 billion (Marketing and promotion costs, etc. to increase sales of store franchises)
<b>OUTPUT</b> KRW 21.37 billion	<b>Method of measurement</b>	<b>Target beneficiary</b>	<b>Value of benefit</b>	
	Cost approach	Small business owner	Marketing savings KRW 670 million	
			Cost savings of delivery app brokerage fee <sup>1)</sup> KRW 20.7 billion	
<b>OUTCOME</b> KRW 1.76 billion	<b>Method of measurement</b>	<b>Target beneficiary</b>	<b>Value of benefit</b>	
	Profit approach	Small business owner	Increase in sales × Value-added rate <sup>1)</sup> KRW 4.75 billion 37.15%	

<sup>1)</sup> Cost savings of delivery app brokerage fees (based on the amount of orders received, brokerage fees for other delivery apps – brokerage fees for 'Ddangyoyo') can be measured as there is a similar market, but Shinhan's input amount is greater than the value of similar markets due to the short operating period since the launch of 'Ddangyoyo' and the promotion support amount is included in addition to the reduction of brokerage fees, so it is measured by a cost approach

<sup>1)</sup> Measurement using the value-added rate of the food and beverage industry to calculate the profit minus expenses to increase sales

**ESG Value Created: KRW 23.13 billion**

# Key ESG Activity Measurement Cases

**S Win-win**  
 Building an innovative growth ecosystem  
 Expanding social contribution through finance

## Participation in Youth Housing Development Project

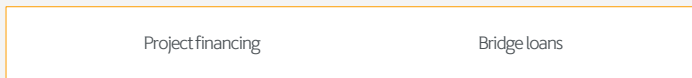
Business introduction

- Participation in projects to provide housing to youth as part of private efforts to stabilize housing for young people which is emerging as social problems
- Investment in loans for business site purchase funds, construction costs, etc. in the form of bridge loans and project financing for projects that provide housing for young people and newly married couples, etc

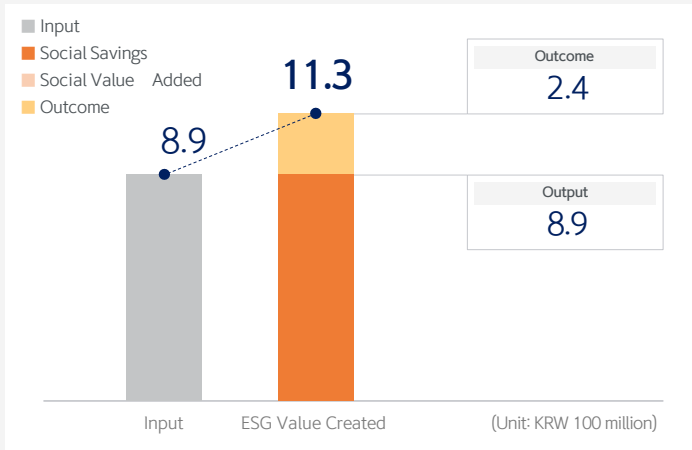
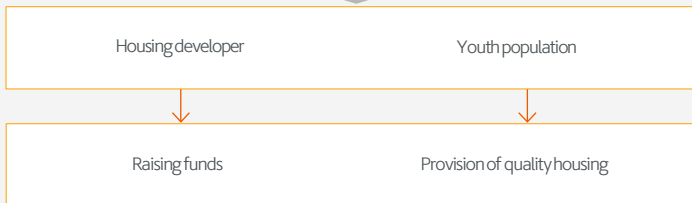
Participating affiliates

Shinhan Capital

ESG activity of Shinhan



Beneficiaries and changes



INPUT	Classification	Workforce input	+	Material input						
KRW 890 million	Business innovation type	Personnel expense for persons in charge of business KRW 130 million		<table border="1"> <tr> <td>Bridge loan and PF loan bad debt allowance set<sup>1)</sup></td> <td>×</td> <td>Interest rate preferential amount<sup>2)</sup></td> </tr> <tr> <td>KRW 300 million</td> <td></td> <td>KRW 460 million</td> </tr> </table>	Bridge loan and PF loan bad debt allowance set <sup>1)</sup>	×	Interest rate preferential amount <sup>2)</sup>	KRW 300 million		KRW 460 million
Bridge loan and PF loan bad debt allowance set <sup>1)</sup>	×	Interest rate preferential amount <sup>2)</sup>								
KRW 300 million		KRW 460 million								

1) Bridge and PF loans have the nature of recouping investments, measured by the credit risk set aside to execute ESG products  
 2) Loan balance x (market interest rate - interest rate applied to youth housing development project)

OUTPUT	Method of measurement	Target beneficiary	Value of benefit		
KRW 890 million	Cost approach	Youth housing developer	<table border="1"> <tr> <td>Saving amount in financing for youth housing development Projects</td> </tr> <tr> <td><b>KRW 890 million</b></td> </tr> </table>	Saving amount in financing for youth housing development Projects	<b>KRW 890 million</b>
Saving amount in financing for youth housing development Projects					
<b>KRW 890 million</b>					

OUTCOME	Method of measurement	Target beneficiary	Value of benefit - Rent reduction	×	Contribution rate	×	Long-term performance													
KRW 240 million	Profit approach	Youth population	<table border="1"> <tr> <td>Supply of youth housing</td> <td>×</td> <td>Average annual rent in the neighborhood</td> <td>×</td> <td>Percentage of rent savings<sup>1)</sup></td> </tr> <tr> <td>2,361 rooms</td> <td></td> <td>6,600,000 won</td> <td></td> <td>5%</td> </tr> </table>	Supply of youth housing	×	Average annual rent in the neighborhood	×	Percentage of rent savings <sup>1)</sup>	2,361 rooms		6,600,000 won		5%		<table border="1"> <tr> <td>Investment amount for invested companies</td> </tr> <tr> <td>Total cost of the project</td> </tr> </table>	Investment amount for invested companies	Total cost of the project	<table border="1"> <tr> <td>5-year current price coefficient</td> </tr> <tr> <td><b>4.38999</b></td> </tr> </table>	5-year current price coefficient	<b>4.38999</b>
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Investment amount for invested companies																				
Total cost of the project																				
5-year current price coefficient																				
<b>4.38999</b>																				

1) Conservatively measured based on a private rental and general supply basis  
 2) The average useful life of a building is 20 to 30 years or more, but the effect of the next five years is conservatively calculated as the present value in consideration of uncertainties such as the possibility of rent changes

**ESG Value Created: KRW 1.13 billion**

# Key ESG Activity Measurement Cases

**S Win-win**  
 Building an innovative growth ecosystem  
 Expanding social contribution through finance

## Financial Education

**Business introduction**

- Operation of various lifestyle finance education programs for the financially underprivileged who have difficulty using financial services in their daily lives
- Provide customized programs for each target, such as 'Visiting Financial Experience Classes' for youth in islands and mountainous areas, digital banking for the elderly and people with developmental disabilities, and education on prevention of financial fraud

**Participating affiliates**

Shinhan Bank	Shinhan Card	Shinhan Securities	Shinhan Life
Jeju Bank	Shinhan Savings Bank	Shinhan Financial Group Hope Foundation	

**ESG activity of Shinhan**

Production of financial education contents and textbooks	Providing musical performances, hands-on activities, etc
--	--

**Beneficiaries and changes**

Elementary, middle, and high school students	The financially underprivileged
--	---------------------------------

Acquisition of financial knowledge for living	Closing the digital financial divide
---	--------------------------------------

Classification	Workforce input	Material input
Social contribution type	Personnel expense for persons in charge of business KRW 180 million	business operating expenses KRW 2.71 billion (Production of educational content and personnel expense for instructors)
Method of measurement	Target beneficiary	Value of benefit
Social contribution type	Persons subject to financial education	Number of training sessions × Persons for training × Education expenses in a similar market 2,885 times × 325,419 persons × Application by training target
		Production of textbooks × Textbook price in a similar market 60,169 books × Application by training target
		Number of musical performances × Number of audience × Performance fee in a similar market 75 times × 30,844 persons × Application by performance type
Profit approach	Persons subject to financial fraud prevention education	Persons subject to financial education
Profit approach	1,182 persons	Persons for training × Possibility of exposure to financial fraud <sup>1)</sup> × Net damage to financial fraud per person <sup>2)</sup> 1,182 persons × 4.5% × 8,364,544 won
		Cultivate savings and sound consumption habits, and improve access to digital finance <sup>3)</sup>

**INPUT**  
KRW 2.89 billion

↓

**OUTPUT**  
KRW 4.36 billion

+

**OUTCOME**  
KRW 440 million

■ Input

■ Social Savings

■ Social Value Added

■ Outcome

Input	28.9
ESG Value Created	48
Outcome	4.4
Output	43.6

(Unit: KRW 100 million)

1) Percentage of financial fraud experiences over the age of 50

2) Amount deducted from the amount of damage per victim of financial fraud

3) Outcome is not accounted for in accordance with the measurability principle because the long-term beneficiary value of financial education cannot be quantified

ESG Value Created: KRW 4.8 billion

# Key ESG Activity Measurement Cases



## Supporting Employment and Job Creation for the Disabled

Business introduction

- Provide opportunities for barista internships for people with hearing disability and support the acquisition of barista certificates
- Operate five Cafe Sweet shops, a cafe of people with hearing disability, for the purpose of professional vocational education and job creation

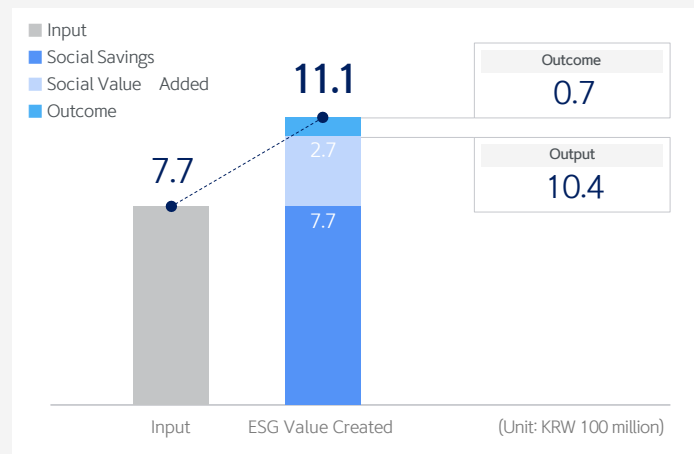
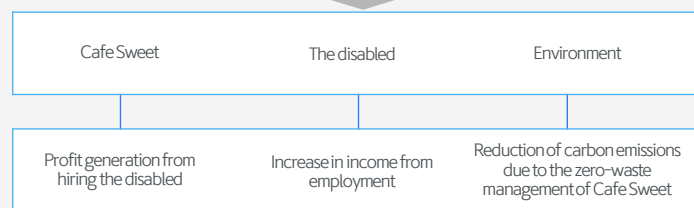
Participating affiliates

Shinhan Financial Group	Shinhan Bank	Shinhan Financial Group Hope Foundation
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ESG activity of Shinhan

Supporting management of Cafe Sweet, education for the disabled

Beneficiaries and changes



INPUT KRW 770 million	Classification	Workforce input +	Material input
	Social contribution type	Personnel expense for persons in charge of business KRW 20 million	Business operating expenses KRW 750 million (Funds for the operation of Cafe sweet, education expenses for the disabled, etc.)
↓	Method of measurement	Target beneficiary	Value of benefit
	Cost approach	Cafe Sweet	Cafe operating cost savings KRW 770 million
OUTPUT KRW 1.04 billion	Profit approach	Cafe Sweet	Increase in sales × Value-added rate <sup>1)</sup> KRW 570 million × 37.15%
		The disabled	Employed persons × Annual income increase per person <sup>2)</sup> 2 persons × KRW 30 million

+ OUTCOME KRW 70 million	Profit approach	Cafe Sweet	Receipt of employment incentives for the disabled KRW 70 million
		Environment	Using a multi-use/biodegradable cup <sup>1)</sup> × Reduction amount of carbon emissions × Carbon emissions futures price 283,543 cups × 0.00003546 t/cups × 110,164.96 won/t

<sup>1)</sup> Measurement using the value-added of the food and beverage industry to calculate the profit minus expenses to increase sales  
<sup>2)</sup> Calcaute annual income growth based on 2022 minimum wage

<sup>1)</sup> Measured using data from the Institute for Climate Change Action as reduced amount of carbon emissions when using multi-use cups and biodegradable cups  
<sup>2)</sup> A proxy used to represent reduced carbon emissions in monetary value, measured using European carbon emissions futures prices

**ESG Value Created: KRW 1.11 billion**

# Key ESG Activity Measurement Cases



## Business to Prevent Financial Fraud such as Voice Phishing

Business introduction

- To prevent and detect abnormal financial transactions early, a dedicated response team is formed, and systems are established and advanced
- In order to prevent family-named voice phishing accidents, conducted a 'National Campaign to Make Our Family Password' with the National Police Agency

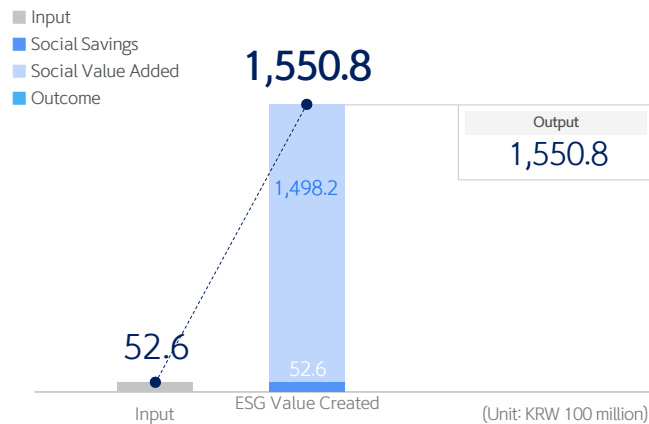
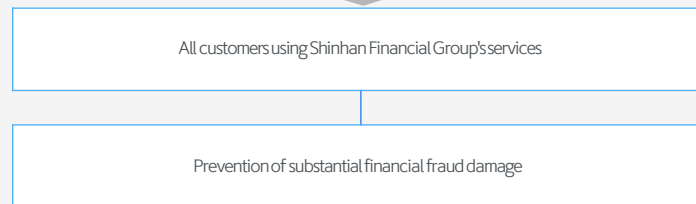
Participating affiliates

Shinhan Bank	Shinhan Card	Shinhan Securities
Shinhan Life	Jeju Bank	Shinhan Savings Bank

ESG activity of Shinhan

Establishing a system for preventing and early detection of financial fraud, implementing a campaign to prevent damage due to financial fraud, and sending customer notification messages

Beneficiaries and changes



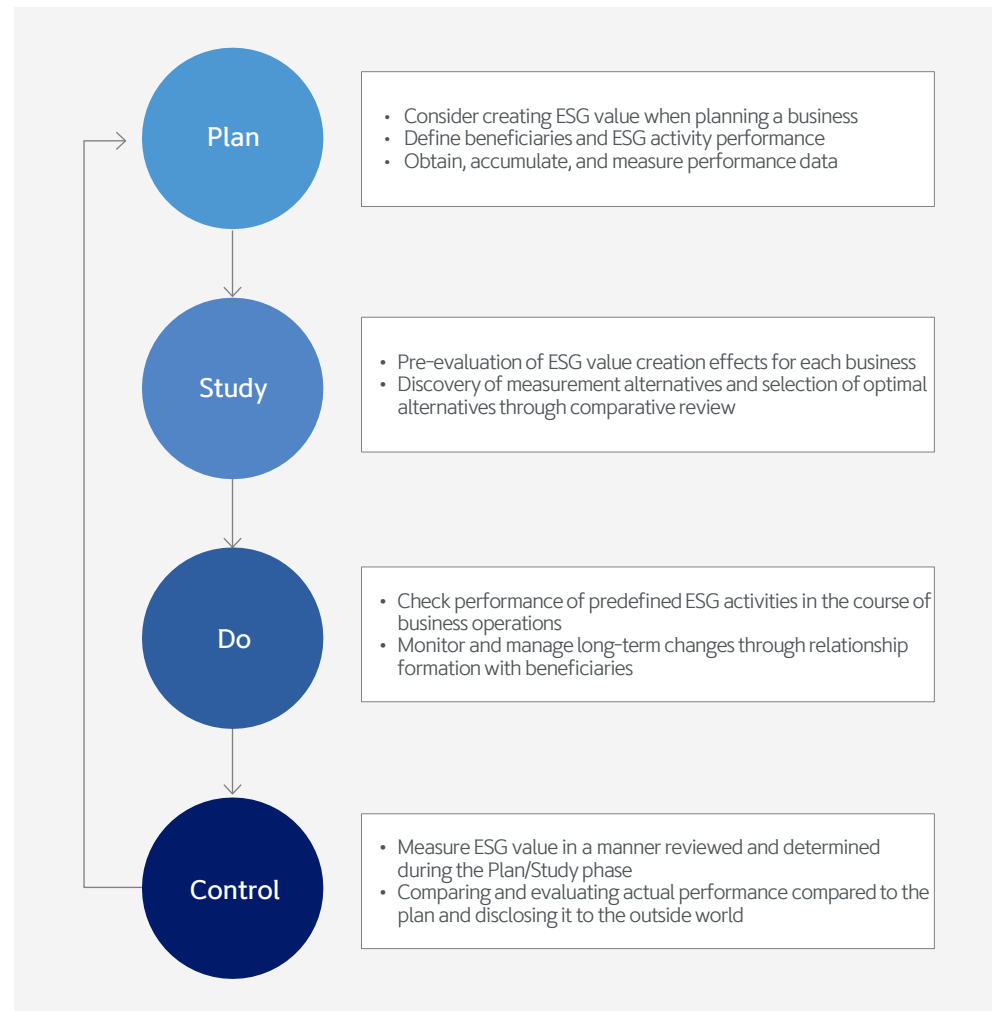
<sup>1)</sup> Outcome is not accounted for in accordance with the measurability principle because the long-term damage prevention effect related to financial fraud cannot be quantified

**ESG Value Created: KRW 155.08 billion**

# Shinhan's ESG Value Creation and Direction

This year marks the fifth anniversary of Shinhan Financial Group's collaboration with Yonsei University's ESG/Corporate Ethics Center to develop 'Shinhan ESG Value Index' and measure and manage ESG performance in monetary value every year. The performance of ESG activities, which was considered a non-financial achievement, is now the basis for solidifying Shinhan's steps toward ESG management practice, delivering them at a recognizable and understandable currency value. Based on 'Shinhan ESG Value Index,' we will increase the effectiveness of Shinhan Financial Group's ESG activities and focus on more valuable ESG activities to continue our efforts for sustainable growth with various stakeholders.

## Shinhan Financial Group's ESG Value Review Process



## Comment from the researchers of Shinhan ESG Value Index

### We promote a virtuous cycle of social value creation through ESG internalization.

Shinhan Financial Group has shared its willingness to measure the monetary value of its ESG activities with executives and employees. In order for the 'Shinhan ESG Value Index' to be used as a strategic decision-making and performance assessment tool, it is necessary to establish an internal consensus on objective measurements and results by ensuring the suitability of data and measurements.

Therefore, we should consider creating ESG values from the stage of planning the actual business, and define performance indicators to measure in monetary value. In addition, efforts must be made to comply with the ESG Value Index measurement process, from data collection and measurement of monetary value to feedback.

As the 'Shinhan ESG Value Index' has advanced, Shinhan Financial Group has been encouraging the discovery and expansion of ESG activities which can meet the characteristics of each group company by reflecting it in the CEO evaluation of affiliates within the group since 2023. As a result, if a sustainability culture is spread and established within the group, we can expect a virtuous cycle of creating greater ESG values.

**Jo Jung-hoon**  
(Director of ESG at Shinhan Financial Group)



# Shinhan's ESG Value Creation and Direction

## Measuring ESG Value is a global trend.

Financial statements are a report that summarizes transactions that change financial position and can be measured in monetary amounts among economic events that occur through corporate management activities. The monetary value reported in the financial statements involves numerous assumptions, estimates, and discretionary judgments, and various measurement criteria are sometimes mixed. Despite these limitations, accounting information is the most useful source of information to help you understand a company.

I believe that 'Shinhan ESG Value Index' is a tool that can contribute to internalizing ESG management through quantified measurement and evaluation, despite multiple assumptions and estimates. Authentic ESG management and its performance measurements can improve enterprise value, including reduced regulatory costs and innovation in technology and processes, while generating long-term benefits for both businesses and society. The 'Shinhan ESG Value Index' will be a useful tool for Shinhan's contribution to society as a global financial group and sustainable growth.

**Lee Ho-young**

(Professor, Business School, Yonsei University, Director of ESG/Corporate Ethics Center)



## ESG Value measurements should be beneficiary focused.

The core of the 'Shinhan ESG Value Index' metric is a beneficiary-focused ESG value measurement. This is because the 'value' criterion for ESG activities is the 'benefit' perceived by the beneficiary.

Shinhan Financial Group defines 'ESG Value' created by companies as tangible and intangible benefits perceived by all potential beneficiaries compared to the efforts and resources invested by companies and measures monetary value based on the principles of authenticity, practicality, and measurability. Furthermore, conservatism, simplification, and standardization principles are strictly applied so that they can be used convincingly and universally by more stakeholders. We look forward to Shinhan's continued efforts to develop 'Shinhan ESG Value Index' into a standardized indicator for measuring performance for ESG activities in the future.

**Min Soon-hong**

(Professor, Business School, Yonsei University and Vice President of the Korea Ethics Management Association)



# Metrics by Subject

## Environmental Performance Metrics

Large classification	Middle classification	Minor classification	Metrics	
Environmental performance	GHG reduction	Reducing GHG emissions	CO2 emission factor (unit of electricity)	
			CO2 emission factor (unit of consumption)	
			Price of carbon credit	
		Reducing GHG emissions-electricity	CO2 emissions from electricity use	
			CO2 emissions from fluorescent light use	
			PC standby power	
			Eco-cost per PC unit	
			CO2 emissions from A4 paper use	
			Plastic waste incineration CO2 emission coefficient	
		Reducing GHG emissions-waste	CO2 emissions from sending E-mails	
			CO2 reduction from using multiple containers	
			CO2 reduction from credit card made by materials from waste plastic	
		Reducing GHG emissions-transportation	Annual CO2 reduction from using hybrid vehicles	
			CO2 emissions from railways	
			CO2 emissions from gasoline use	
		Reducing GHG emissions-heating	CO2 reduction from using eco-friendly boilers	
		Fine dust reduction	Reducing fine dust emissions	Fine dust environmental cost
			Reducing fine dust emissions-heating	Fine dust reduction using eco-friendly boilers
Reducing fine dust emissions-landscape	Fine dust absorption from trees			

Greenhouse Gas Information Center, Ministry of Environment

International Futures Market Price

Korea Climate and Environment Network

Institute of Climate Change Action

Korea Institute of Electrical Research

Delft University of Technology Data

Journal of the Korean Railroad Society

National Environmental Industry Technology Information System

Korea Environmental Corporation

Institute of Climate Change Action

THE FINTECH TIMES

Korea Automotive Engineering Association

Korea Environmental Corporation

Comprehensive Information on Energy and Greenhouse Gas

National Academy of Environmental Sciences

Institute of Energy Economics

National Academy of Environmental Sciences

Seoul Institute of Research



# Metrics by Subject

## Social Performance Metrics

Large classification	Middle classification	Minor classification	Metrics	Reference	
Social performance	Personnel expense	Personnel expense-general	Minimum wage	Ministry of Employment and Labor	
			Average wage for startups (businesses with less than 50 employees)	National Statistical Office	
		Personnel expense-employee	Average wage of Shinhan Financial Group	Shinhan Financial Group	
	Educational expenses	Educational expenses-general		Training for middle-aged and elderly instructors	Korea Gender Equality Education Promotion Agency
				Cost of one-day class training completion	Market research
				Training fee of Youth Employment Academy	Korea Development Institute
		Educational expenses-students		Average monthly participation cost per after-school student (elementary/middle/high school)	National Statistical Office, Ministry of Education
				After-school program participation time per person (elementary/middle/high school)	
				EBS textbook fee (elementary/middle/high school)	
				Average private education expenses for elementary school students	
				Private education hours per elementary school student	
				Cost of care per elementary school student per hour	
				Digital education expenses (certification acquisition, coding education expenses, etc.)	
	Reading education program				
	Space rental	Space rental-general		Reading ability test cost	Korea Educational Broadcasting Corporation
				Environmental education	National Children's Science Museum
Small business owner	Small business owner-general		Average area of medium office building	Journal of Real Estate	
			Small business owners' annual income	Ministry of SMEs and Startups, National Statistical Office	
Medical expenses	Medical expenses-the disabled		Small business closure rate	Ministry of Public Administration and Security	
			Neurodevelopmental intervention therapy	Market research	
			Developmental rehabilitation service for disabled children	Social Service Electronic Voucher	
Support for language development for disabled children					

# Metrics by Subject

## Financial Social Performance Metrics

Large classification	Middle classification	Minor classification	Metrics	Reference
Financial social performance	Financial investment	Bond investment-opportunity cost	Accumulation rate of allowance for bad debts on normal bank bonds	Banking Supervision Regulations
			Accumulation rate of allowance for bad debts on normal insurance bonds	Insurance Industry Supervision Regulations
			Accumulation rate of allowance for bad debts on normal financial investment bonds	Financial Investment Business Regulations
		Accumulation rate of allowance for bad debts on normal bonds from the credit-specialized financial business	Regulations for Supervision of Financial Businesses Specialized in Credit	
		Accumulation rate of allowance for bad debts on normal bonds from mutual savings banking business	Regulations for Supervision of Mutual Savings Bank Business	
		Equity investment-opportunity cost	Social opportunity cost of equity investment	Korea Development Institute
		Innovative financial investment - contribution rate	Total capital investment efficiency	Bank of Korea
	Financial fraud	Innovative financial investment - value added	Value-added inducement coefficient in industry	Institute of Science and Technology Policy
			Commercialization success rate	Institute of Science and Technology Policy
			Prevention of financial fraud - occurrence	Percentage of financial fraud experiences over the age of 50
		Prevention of financial fraud - damage	Net damage per victim of financial fraud	Financial Supervisory Service

## General Metrics

Large classification	Middle classification	Minor classification	Metrics	Reference
General	Exchange rate	Exchange rate-general	Average foreign exchange rate	Shinhan Bank
	Present value	Present value-general	Social discount rate pension current value coefficient	Korea Development Institute
	Value added	Value-added rate-general	Value-added rate of corporate operators	National Tax Service
			Value-added rate of general operators	

# Human Rights Report

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# Shinhan's Human Rights Management

## Importance of Human Rights Management

Human rights are fundamental rights that must be guaranteed to all people. By protecting and respecting human rights, companies can fulfill their social responsibilities, promote sustainable growth, and earn the trust of their stakeholders.

In addition, as the impact of corporations on society and the environment increases, the role and responsibility of corporations as a solutions provider is being emphasized. In particular, human rights management is increasingly subjected to compliance with binding laws and norms related to human rights, powered by the establishment of human rights principles and guidelines for human rights management by international organizations, the enactment of regional laws, and stronger demand for information disclosure.

Our second annual Human Rights Report is based on the United Nations Guiding Principles on Business and Human Rights Reporting Framework and includes information on Shinhan's human rights declaration and principles, as well as the status of management of major human rights issues based on the results of the Human Rights Impact Assessment. Through the Human Rights Report, Shinhan aims to understand the views and opinions of various stakeholders and build a leading human rights-friendly management culture.

## Human Rights Management Policy

Shinhan Financial Group established the Human Rights Declaration in 2014 to respect and protect the human rights of all stakeholders, including its employees, and to comply with employment and labor laws in the regions where all its operations are located. We support the basic principles for protecting and respecting human rights set forth in the UN Human Rights Council's Universal Declaration of Human Rights and the Guiding Principles on Business and Human Rights. In addition, we have established the 'Human Rights Principles for Protecting the Rights and Interests of Stakeholders' and the 'Promise to Respect Human Rights' to respect the human rights of our stakeholders and strive to eliminate human rights violations in all areas of our business activities, including the sale of financial products and the provision of financial services. In the event of human rights violations, we conduct prompt and efficient remedial procedures through various reporting channels.

In addition, in order to continuously maintain and develop win-win relationships with customers and society, Shinhan Financial Group has established and operates the 'Group Code of Ethics' and the 'Code of Conduct for Partner Companies' which reflect the philosophy of respecting human rights, and each subsidiary implements human rights management through bylaws that comply with the Group's human rights principles.

The Human Rights Declaration and Human Rights Principles are disclosed on the Shinhan Financial Group website and are also applied to Group affiliates, subsidiaries, joint ventures, and partner companies within the Group.

## Human Rights Management Milestone



1) Universal Declaration of Human Rights

2) UN Guiding Principles on Business and Human Rights

# Shinhan's Human Rights Management



## Conduct a third-party human rights impact assessment

In June 2022, Shinhan Bank became the first Korean commercial bank to conduct a third-party human rights impact assessment. The assessment covered nine domains: establishing a human rights management system, non-discrimination in employment, ensuring freedom of association and collective bargaining, prohibiting forced labor, prohibiting child labor, ensuring occupational safety, responsible supply chain management, ensuring environmental rights, and protecting customer rights.

## Code of Ethics revisions

In August 2022, Shinhan Financial Group resolved through the BOD to completely revise the Group Code of Ethics in line with changes in the system and business methods, and reported on the progress of revising the Code in response to the opinions discussed. Eleven years after its initial enactment in 2011, the Code was revised to reflect the Group mission, the importance of ethical values, and its social mission by introducing a new preamble, and to enhance its communication and utilization, the Shinhan Code of Ethics was published.

[Guide to Shinhan Code of Ethics](#)



# Human Rights Management Governance

## Human Rights Management System

Shinhan Financial Group promotes unified human rights management at the group level through an ESG driving system that connects the board of directors to working groups and establishes a management system that enables practical human rights management, by reflecting ESG factors such as human rights in the strategy action plans of the CEOs of the holding company and its affiliates.

To promote effective human rights management, Shinhan Bank has designated the ESG Planning Office as the lead department and established the ESG Management Committee as the highest decision-making body. To spread a culture of respect for human rights, the ESG Planning Office listens to opinions from internal organizations and stakeholders and reflects them in the human rights management plan.

## Internalization of Human Rights Management

Shinhan Financial Group laid the foundation for human rights management by establishing a human rights declaration and management system, and manages negative human rights impacts through a human rights due diligence process in line with international human rights principles and guidelines. In addition, we regularly conduct human rights-related training for all employees to internalize human rights management.

In particular, in March 2022, we held a training program for Group CEOs and ESG managers on the topic of "Supply Chain Management and ESG Risk: Issues for Financial Companies" to educate them on various human rights risk management measures that can occur within the business. In the case of Shinhan Bank, we continue to prevent human rights risks and establish a human rights culture through online and offline trainings for all employees at least once a year, and in 2023, we created a special ESG training program, "Climate Finance, Diversity, Human Rights, and Disclosure", to improve employee accessibility to training.

In the future, we are preparing various projects and programs to jointly address various ESG risks, including human rights, through ESG engagement with various stakeholders in the supply chain, including suppliers, partner companies, and customers.

## Shinhan Bank Human Rights Management Governance



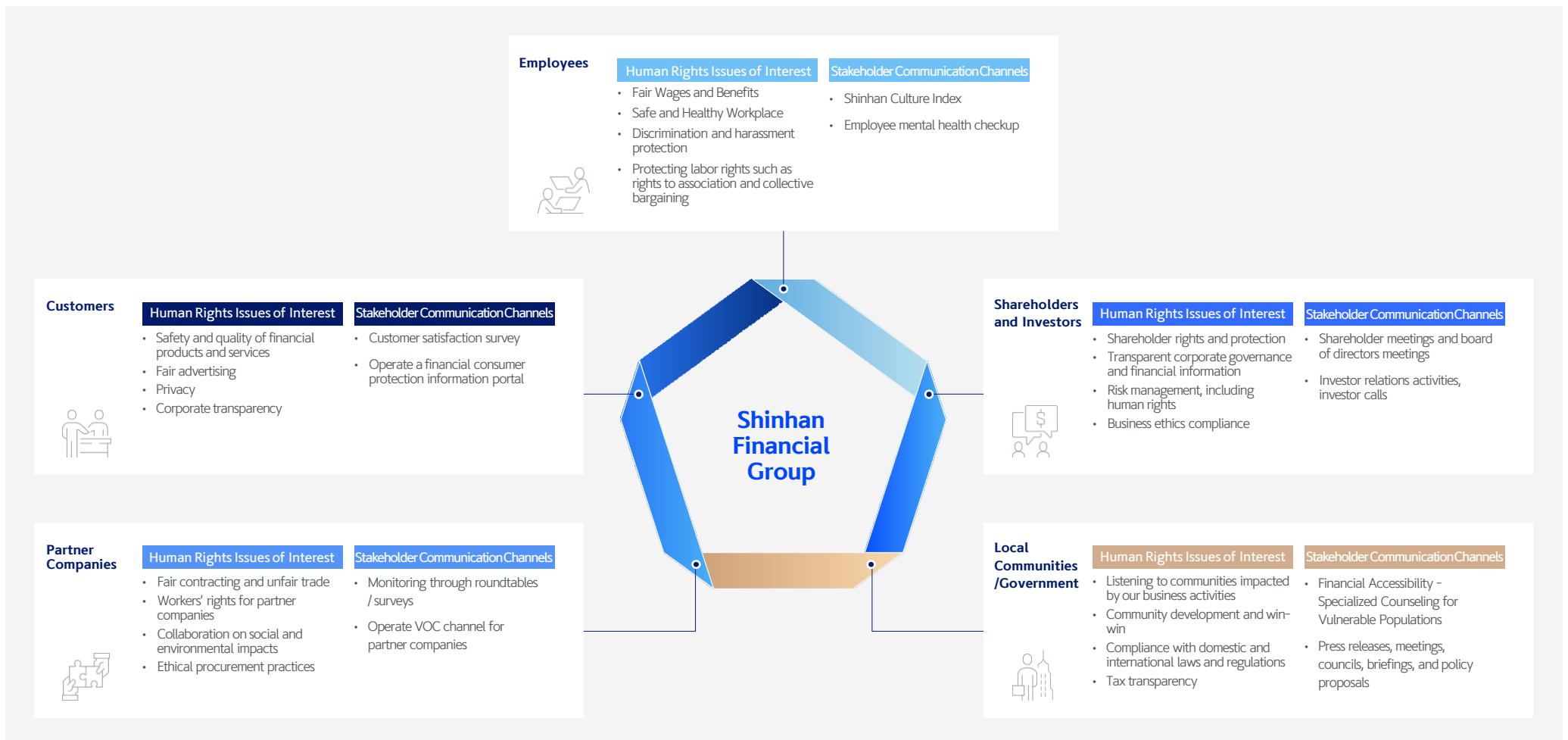
# Human Rights Management Governance

## Human Rights Management Communication Channel

Through the Human Rights Principles to Protect the Rights and Interests of Stakeholders, Shinhan Financial Group classifies employees, customers, shareholders investors, partner companies, local communities, and government-related associations as stakeholders related to human rights, and conducts regular communication activities to identify issues of interest to stakeholders through various grievance handling channels and prevent human rights risks from occurring.

[See more stakeholder communication channels](#)

### Human rights issues and communication channels for stakeholders

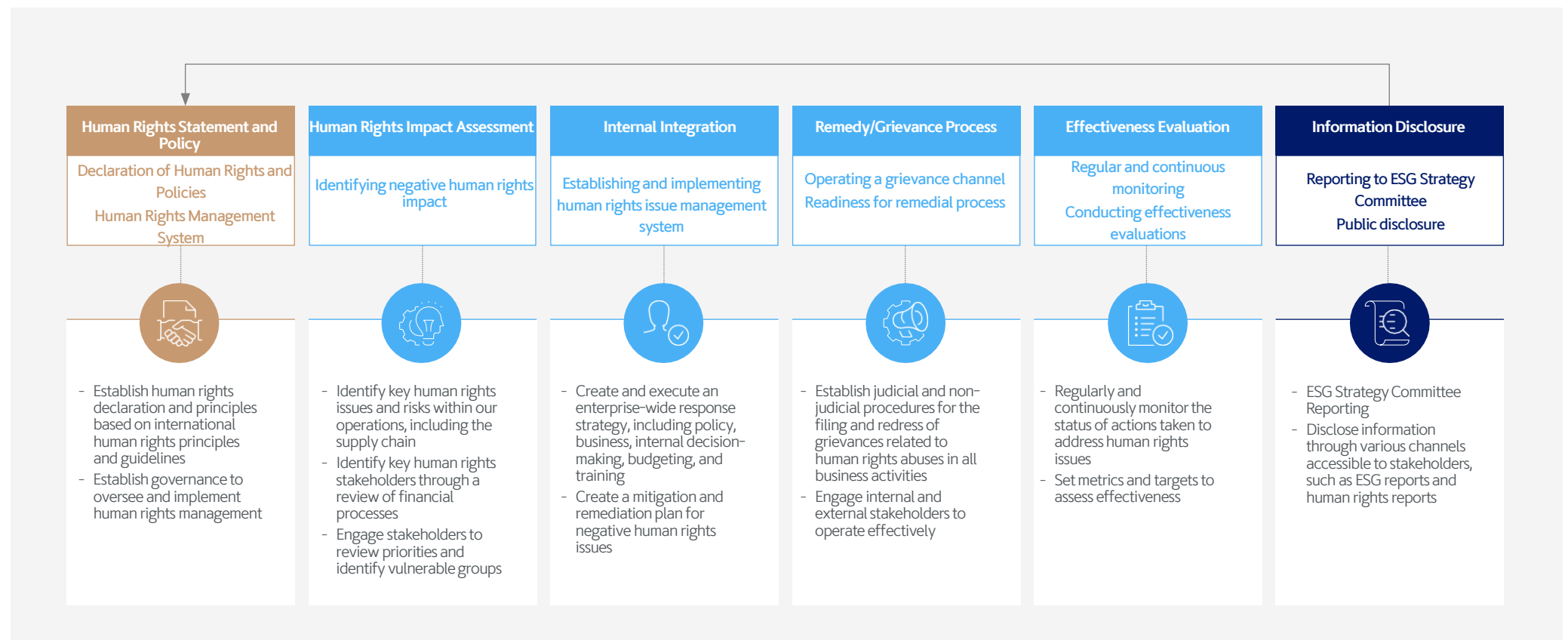


# Human Rights Risk Management

## Human Rights Due Diligence

Under the changing international regulatory environment, protecting human rights is one of the key issues in assessing a company's sustainability and an important factor in determining its performance and reputation. Financial institutions influence a wide range of sectors and businesses and play an important role in the global economy. Financial institutions are required to fulfill their responsibilities to human rights by establishing risk management policies for negative human rights impact and contributions arising from their business activities, as well as by establishing remedial procedures through human rights due diligence. Shinhan Financial Group continuously checks and manages matters related to human rights management for human rights-friendly management, and has established the Human Rights Management Implementation Framework to define the necessary elements for human rights management. Based on this, we have advanced the existing Human Rights Risk Management Process to strengthen the system for identifying negative impacts, minimizing risks, and preventing human rights violations.

### Human Rights Due Diligence Process





# Human Rights Risk Management

## Human Rights Impact Assessment

activities on human rights. The human rights impact assessment consists of a three-step process of identifying human rights issues, assessing risk impact, and identifying key human rights domains. We conduct improvement activities and monitoring to reduce direct and indirect human rights risks and impacts identified within the assessment.

### Identifying Human Rights Issues

In 2022, Shinhan Financial Group conducted a human rights impact assessment on 11 domains of human rights issues presented in the Human Rights Report to identify key human rights issues. While the 11 human rights domains are the basic domains of human rights due diligence presented in the Guideline for Business and Human Rights (Ministry of Justice), the scope of internationally identified human rights is broader. Therefore, it is necessary to identify and manage issues that take into account the industry and corporate characteristics of Shinhan in order to fully eliminate blind spots for human rights violations.

Therefore, based on the 11 basic human rights domains, Shinhan Financial Group has defined detailed human rights issues that reflect its industry and corporate characteristics, and based on this, it has defined human rights impacts that occur or may occur to stakeholders.

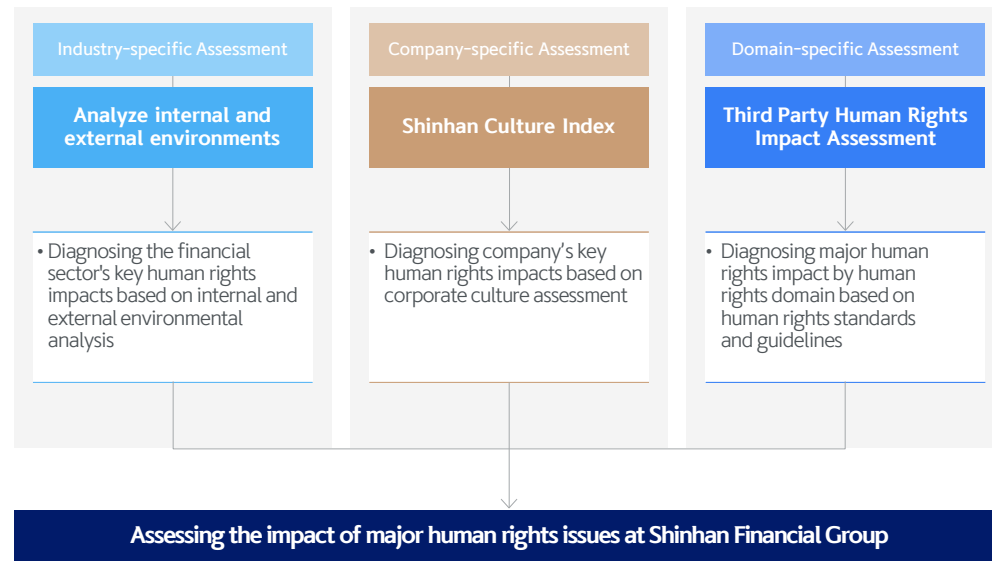
Domains	Domain Description	Key Human Rights Risks in the Financial Industry	Key Stakeholders
Establishment of human rights management system	Reliability and effectiveness of business and human rights systems	<ul style="list-style-type: none"> <li>- Establishment and implementation of human rights management system considering the characteristics of the financial industry</li> <li>- Absence of specific remedial procedures for human rights damages as well as an independent organization dedicated to the role</li> </ul>	Employees, customers, partner companies, local community
Non-discrimination in hiring	Discrimination based on race, religion, disability, gender, place of birth, position of employment, etc.	<ul style="list-style-type: none"> <li>- Race, religion, obstacle, gender, place of birth, discrimination in recruitment and personnel evaluation based on employment status, etc.</li> <li>- Discrimination based on contract type, such as partner companies, temporary work, non-regular worker contracts</li> </ul>	Employees
Freedom of association and collective bargaining	Guaranteed freedom for the formation and activities of labor unions	<ul style="list-style-type: none"> <li>- Obstruction of labor union formation and restriction of activities</li> <li>- Lack of effectiveness of labor-management communication channels</li> </ul>	Employees
No forced labor	No forced labor	<ul style="list-style-type: none"> <li>- Risks arising from investment decisions that do not reflect child labor, forced labor, etc.</li> <li>- Coercive demand for long hours of work by workers, including partner companies</li> </ul>	Employees, partner companies
No child labor	No child employment	<ul style="list-style-type: none"> <li>- Exploitation of child labor force and non-provision of educational opportunities</li> <li>- Risks arising from investment decisions that do not reflect child labor, forced labor, etc.</li> </ul>	Employees, partner companies
Ensuring occupational safety	Implementation of measures to ensure occupational health and safety	<ul style="list-style-type: none"> <li>- Protecting the rights of workers in the banking industry and creating a safe working environment</li> <li>- Violation of labor rights against partner companies, dispatched workers, etc.</li> </ul>	Employees, partner companies

Domains	Domain Description	Key Human Rights Risks in the Financial Industry	Key Stakeholders
No workplace harassment	Anti-harassment behaviors against coercive orders, disciplining, and verbal abuse	<ul style="list-style-type: none"> <li>- Protecting the rights of workers in the banking industry and creating a safe working environment</li> <li>- Rules and procedures for preventing harassment and violence in the workplace</li> </ul>	Employees, partner companies
Responsible supply chain management	Efforts to maintain business relationships that do not cause human rights violations	<ul style="list-style-type: none"> <li>- Violation of labor rights against partner companies, dispatched workers, etc.</li> <li>- Issues through transactions with regions or industries where human rights issues have occurred</li> </ul>	Partner companies
Human rights protection of local residents	Protection of the human rights of residents in the region in global office locations	<ul style="list-style-type: none"> <li>- Damage to local communities due to large-scale infrastructure and land development, as well as to investment in high-carbon industries</li> </ul>	Local community
Ensuring environmental rights	Efforts to prevent environmental pollution and prevent global warming	<ul style="list-style-type: none"> <li>- Infringement of environmental rights due to large-scale infrastructure and land development, as well as to investment in high-carbon industries</li> </ul>	Employees, customers, partner companies, local community
Protection of customer human rights	Ensuring product safety and protecting various customer rights and interests	<ul style="list-style-type: none"> <li>- Discrimination in the accessibility and the use of financial services</li> <li>- Customer damage due to financial fraud such as voice phishing</li> <li>- Customer damage through incomplete sales and unfair trade (transparency of financial products)</li> <li>- Data breaches and privacy breaches</li> </ul>	Customers

# Human Rights Risk Management

## Human Rights Risk Impact Assessment






Shinhan Financial Group uses analysis of internal and external assessment criteria, the Shinhan Culture Index, and assessments in the human rights domain to form the basic elements of human rights impact assessment appropriate for Shinhan Financial Group, and human rights risks are evaluated by considering the likelihood and severity of occurrence. In addition, the impact assessment is used to identify human rights risks that may arise in the company's business and value chain, including the supply chain, and in new business relationships such as mergers, acquisitions, and joint ventures.



## Industry-specific Assessments

Shinhan Financial Group has analyzed human rights issues in the industries it operates and defined stakeholders for relevant human rights issues. As a financial holding company, Shinhan operates in various industries, including banking, credit, insurance, investment and asset management, and digital and infrastructure, requiring a multifaceted analysis of human rights issues. The main human rights issues were derived based on the human rights reports of the United Nations Office of the High Commissioner for Human Rights (OHCHR) and global financial groups, as well as domestic and international laws and regulations including human rights.

### Examples of Key Human Rights Issues by Industry

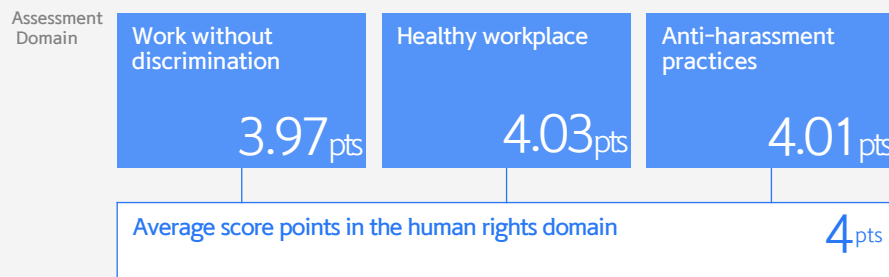
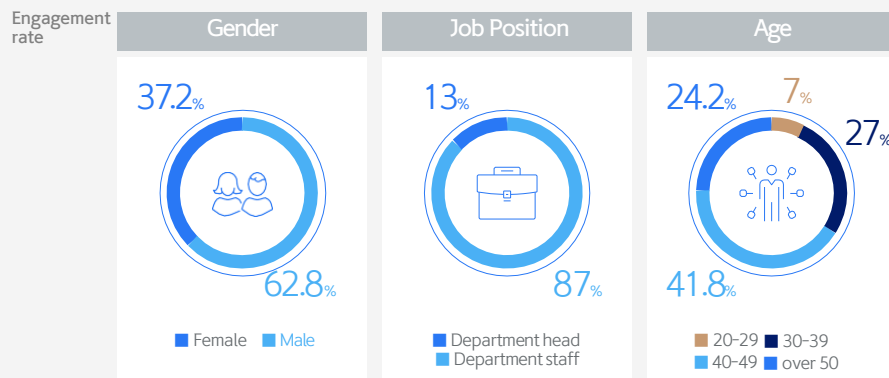
Industry	Key Human Rights Issues in Finance
<b>Banking</b> 	<ul style="list-style-type: none"> <li>• Discrimination in the accessibility and the use of financial services</li> <li>• Customer damage due to financial fraud such as voice phishing</li> <li>• Protecting the rights of banking workers and creating a safe working environment</li> </ul>
<b>Credit &amp; Leasing</b> 	<ul style="list-style-type: none"> <li>• Discrimination based on gender and race during the loan screening process</li> <li>• Leakage of customer information collected for loan review</li> <li>• Problems with fines and fees due to difficult financial jargon and procedures</li> <li>• Unfair debt collection</li> </ul>
<b>Insurance</b> 	<ul style="list-style-type: none"> <li>• Nondiscrimination in access to and use of insurance services</li> <li>• Incomplete sales of insurance products</li> </ul>
<b>Investment &amp; Asset Management</b> 	<ul style="list-style-type: none"> <li>• Infringement of environmental rights due to investment in high-carbon industries</li> <li>• Risks arising from investments that do not consider ESG factors such as human rights when making investment decisions</li> </ul>
<b>Digital &amp; Infrastructure</b> 	<ul style="list-style-type: none"> <li>• Leakage of employee and customer information due to data security incidents</li> <li>• Violation of labor rights against partner companies, dispatched workers, etc.</li> </ul>

# Human Rights Risk Management

## Company-specific Assessments

Shinhan Financial Group utilizes the Shinhan Culture Index in its biannual assessment to identify the status and level of ESG management, including human rights, within the company, and measures the qualitative and quantitative impact of sustainability issues, including human rights, through surveys for ESG diagnosis. We conduct regular human rights checks by measuring employees' awareness of the company's human rights policies and practices, including discrimination against disability, religion, gender, and place of birth, healthy working environment, and harassment prevention policies and support activities, through a quarterly survey.

### Results of the Shinhan Culture Index in the second half of 2022



\* On a 5-point scale

## Domain-specific Assessments

In its human rights impact assessment process, Shinhan Financial Group reflects the results of Shinhan Bank's third-party human rights impact assessment to identify key human rights issues. Shinhan Bank's human rights impact assessment covers the human rights domains suggested by the Guideline for Business and Human Rights, enabling the identification of issues in basic human rights domains, as well as universal human rights issues that can be applied to Shinhan, leveraging on Shinhan Bank's position as an affiliate with the largest number of employees. In addition, Shinhan Bank was the first commercial bank in Korea to conduct a human rights impact assessment under the supervision of a specialized third-party entity\*, enhancing the credibility of the assessment.

### Compliance Rate per Domain



<sup>1)</sup> Conducted by DNV Korea, a global inspection and certification organization, based on the Human Rights Impact Assessment Checklist, domestic labor laws and regulations, with a final compliance rate of 93.7% for a total of nine domains.

# Human Rights Risk Management

## Human Rights Impact Assessment Results

The Human Rights Impact Assessment comprehensively considered key human rights issues identified by industry, company, and domain to identify key human rights domains that have a significant impact on Shinhan Financial Group. Accordingly, the key human rights domains requiring management were identified to be: ensuring occupational safety, ensuring environmental rights, and protection of customer human rights.

○: Low impact   ◐: Moderate impact   ●: High impact

Human Rights Domain		Key Stakeholders	Industry-specific	Company-specific	Domain-specific*	Focus Issue
Establishment of human rights management system		Employees, customers, partner companies, local community	○	◐	●	
Non-discrimination in hiring		Employees	●	◐	◐	
Freedom of association and collective bargaining		Employees	○	◐	○	
No forced labor		Employees, partner companies	◐	○	◐	
No child labor		Employees, partner companies	◐	○	○	
Ensuring occupational safety		Employees, partner companies	◐	●	●	✓
No workplace harassment		Employees, partner companies	●	◐	○	
Responsible supply chain management		Partner companies	◐	◐	●	
Human rights protection of local residents		Local community	●	◐	○	
Ensuring environmental rights		Employees, customers, partner companies, local community	●	●	○	✓
Protection of customer human rights		Customers	●	●	○	✓

# FOCUS ISSUE

Shinhan Financial Group discloses management activities and indicators in three major human rights domains derived from the Human Rights Impact Assessment. In the future, we will continue to lead human rights-friendly management through more specific and detailed human rights reporting in these domains.

## Protection of Customer Human Rights

Stakeholders	Response Action	Details	KPIs
Customers, partner companies	Inspection of data protection status	<ul style="list-style-type: none"> <li>Inspect data protection status for affiliate companies and partner companies</li> <li>Conduct data protection management fact-finding surveys on consignees when outsourcing banking business</li> </ul>	<ul style="list-style-type: none"> <li>Percentage of inspection for Shinhan Bank's subcontractor/consignment company subject to inspection in 2022: 100%</li> <li>773 cases of data security check for approx. 200 subcontractor/consignment companies</li> </ul>
Employees	Data security training for employees	<ul style="list-style-type: none"> <li>Implement security education and awareness-raising activities</li> <li>Required training hours: 9 hours for ICT positions, 6 hours for general duties, 3 hours minimum for executive-level</li> </ul>	<ul style="list-style-type: none"> <li>Information security training for employees                             <ul style="list-style-type: none"> <li>Training hours: 125,415</li> <li>Participants: 20,332 persons</li> </ul> </li> </ul>
Employees, customers	Strengthened prevention of financial fraud	<ul style="list-style-type: none"> <li>Establish an early detection and preventive system for financial fraud</li> <li>Run campaign to prevent damages from financial fraud</li> <li>Send out notification messages to customers</li> </ul>	<ul style="list-style-type: none"> <li>Voice phishing damage prevention volume (combination of profit from preventing voice phishing and detecting fraudulent use of credit cards and insurance fraud): KRW 149.82 billion</li> </ul>
Employees, customers	Placement of dedicated staff for the vulnerable	<ul style="list-style-type: none"> <li>Operate counseling service for elderly and disabled customers</li> <li>Publish response manual for socially vulnerable customer</li> </ul>	<ul style="list-style-type: none"> <li>Customized teller windows: 649 windows</li> </ul>
Customers	Financial education platform	<ul style="list-style-type: none"> <li>Operate Shinhan Easy, an integrated financial education platform for group affiliates to effectively convey financial knowledge to all generations</li> </ul>	<ul style="list-style-type: none"> <li>Number of Shinhan Easy users as of 2022: 219,082 persons (2022 goal: 100,000 persons)</li> </ul>

# FOCUS ISSUE

## Ensuring Occupational Safety

Stakeholders	Response Action	Details	KPIs
Employees	Conducting employee mental health check-up	<ul style="list-style-type: none"> <li>- Shinhan Bank: operates Mindfulness Open Counseling Center, runs role-specific stress tests</li> <li>- Shinhan Card: mobile Employee Assistance Program (EAP)</li> </ul>	Number of employees that completed role-specific stress test in 2022: 12,844 persons
Employees	Operation of Shinhan Guardian	<ul style="list-style-type: none"> <li>- Receive employee human rights grievance reports through Shinhan Guardian's year-round operation</li> </ul>	Number of human rights-related reports: 0 cases
Partner companies	Operation of emotional worker protection system	<ul style="list-style-type: none"> <li>- Grievance hot line: Grievance Handling Committee, anonymous grievance service on intranet</li> <li>- Counseling and therapy program: counseling and coaching by experts from the Korea Employee Assistance Program (EAP) Association, operation of a healing center program</li> <li>- Distribute manuals for protection of emotional workers and provide healthcare education</li> </ul>	Percentage of operating Emotional Worker Protection System among 7 relevant group affiliates: 100%
Partner companies	ESG performance evaluation for partner companies	<ul style="list-style-type: none"> <li>- Apply ESG metrics to procurement contracts (5-10%)</li> </ul>	Percentage of new contracts for ICT purchases that reflect ESG performance assessment: 100%
Partner companies	Diagnostic survey of social responsibility management for partner companies	<ul style="list-style-type: none"> <li>- Perform occupational safety level check-up for partner companies through questionnaires in four areas: respect for workers' basic human rights, workplace safety and health, environment, business ethics and stakeholder communication</li> </ul>	Number of partner companies that performed social responsibility management diagnostic questionnaire: 48 entities
<a href="#">📄 Social Responsibility Management Questionnaire</a>			
Partner companies	Operation of VOC channels for partner companies	<ul style="list-style-type: none"> <li>- Grievance line: Grievance Handling Committee, center representative meeting, senior committee member meeting, grievance reception</li> <li>- Run company intranet, receive submittal for personal counselling (strictly confidential)</li> </ul>	Number of Grievance Handling Committee representative meetings held in 2022: 4

# FOCUS ISSUE

## Ensuring Environmental Rights

Stakeholders	Response Action	Details	KPIs
Employees, customers	Loan/investment considering ESG	<ul style="list-style-type: none"> <li>- Establish the Group's Environmental and Social Risk Management Policy Framework</li> <li>- ESG assessment model to integrate ESG into the loan/investment review process</li> <li>- Examine the impact of potential environmental and social risks, and conduct a strict Equator Principles review in the event of large-scale development projects</li> </ul>	Number of Equator Principles reviews in 2022: 5 cases
Employees, customers, partner companies, local community	Expansion of eco-friendly finance for low-carbon economy transition	<ul style="list-style-type: none"> <li>- Set a goal of KRW 30 trillion in green financing by 2030</li> <li>- Actively participate in organizing a Climate Fund to invest in climate areas such as climate change solutions, clean energy, green technology, etc.</li> <li>- Establish the Shinhan Greenway Fund</li> <li>- Invest in domestic and global green energy and C-tech related funds/companies</li> </ul>	Green Finance track record: KRW 8.19 trillion
Employees, customers, partner companies, local community	Establishment and implementation of financial emission reduction targets	<ul style="list-style-type: none"> <li>- Set a 2050 net zero goal based on a 2°C scenario using the SBTi Sectoral Decarbonization Approach (SDA)</li> <li>- Build and operate a financed emissions measurement system</li> <li>- Monitor reasons for climate risk through the Financed Emissions Dashboard</li> </ul>	Financed emissions (carbon intensity) as of 2022 year-end: 20.8 (tCO <sub>2</sub> eq/KRW 100 million)
Employees, customers, partner companies, local community	Establishment and implementation of internal carbon emission reduction targets	<ul style="list-style-type: none"> <li>- Based on a 1.5°C scenario using SBTi's absolute volume reduction approach</li> <li>- Set a 4.2% reduction goal each year</li> <li>- Implement various activities to reduce greenhouse gas emissions and save energy, including RE100 declaration, zero-emission vehicle conversion, paperless, and green campaigns</li> </ul>	Internal carbon footprint 100,080 tCO <sub>2</sub> eq

# Diversity Report

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# Shinhan Financial Group DEI Framework



# Shinhan's Diversity, Equity, and Inclusion (DEI)

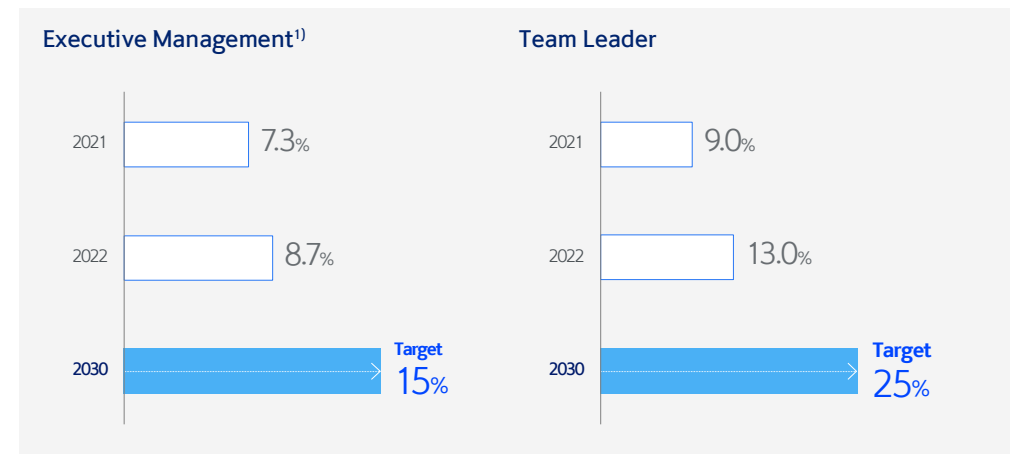
## Importance of DEI Management

Diversity, equity, and inclusion (DEI) is a core value and an important pillar of our corporate strategy that supports Shinhan's mission, "Compassionate Finance, Your Companion for the Future". A corporate culture of fair opportunities and empowerment enables us to attract top talent, and can lead to long-term growth of the company, including new business opportunities and improved reputation, as well as sustainable development of our society. As a result, DEI is emerging as a key investment criterion under responsible investment principles, and disclosure requirements for related indicators are expanding. Previously passive companies are taking proactive steps to meet the expectations and demands of their various stakeholders, including customers, investors, and rating agencies. This shift demonstrates that the concepts of diversity, equity, and inclusion (DEI) are being recognized as more than socially correct values, but as factors that enhance corporate competitiveness.

Through the resolution of the ESG Strategy Committee, Shinhan Financial Group has established mid- to long-term goals and roadmaps for the proportion of female leaders and employees, and strengthened the execution of DEI by evaluating the CEOs of subsidiaries to foster female leaders. In addition, we are implementing a project to internalize the values of DEI into our organizational culture to create a culture where talented people with diverse backgrounds can fully demonstrate their capabilities and grow without any bias or discrimination.

As we publish our third Diversity Report in 2023, we will continue to communicate with our stakeholders to spread the values of DEI and ensure that everyone is respected and provided fair opportunities, just as the slogan of Shinhan's DEI campaign, "Do the Fair Thing for a Wonderful World".

## Status and Goals for Female Leaders



<sup>1)</sup> Executive and General Manager

\*Based on personnel reflection at the end of 2022, target: Holding/Bank/Card/Securities/Life/Capital/Asset Management/8 companies in total

# DEI Policy

## Principles of Diversity and Inclusion

To create a society free of discrimination and prejudice and to utilize diversity as an opportunity for corporate growth, Shinhan Financial Group has established DEI as a core value. We have also published Shinhan Financial Group's Commitment to Diversity and Inclusion to express our commitment to spreading DEI values and continue our implementation efforts.

### Shinhan Financial Group's Commitment to Diversity and Inclusion ]

Shinhan Financial Group will not take prejudice or discriminate against any personal characteristics, background, identity, or cultural differences including, but not restricted to, gender, disability, nationality, personal ties, religion, and sexual orientation, in all of its operations.

- 1 We provide equal opportunities and make fair and transparent evaluations in employee recruitment and personnel management.
- 2 We pursue diversity in board and management. We will primarily establish gender diversity targets, and focus on achieving these targets
- 3 We create an inclusive culture where all members can work with respect and a sense of belonging.
- 4 We respect the individuality of all our business partners including clients, and treat them equally.
- 5 We embrace the socially vulnerable and actively support them to enrich their hope as members of the society.

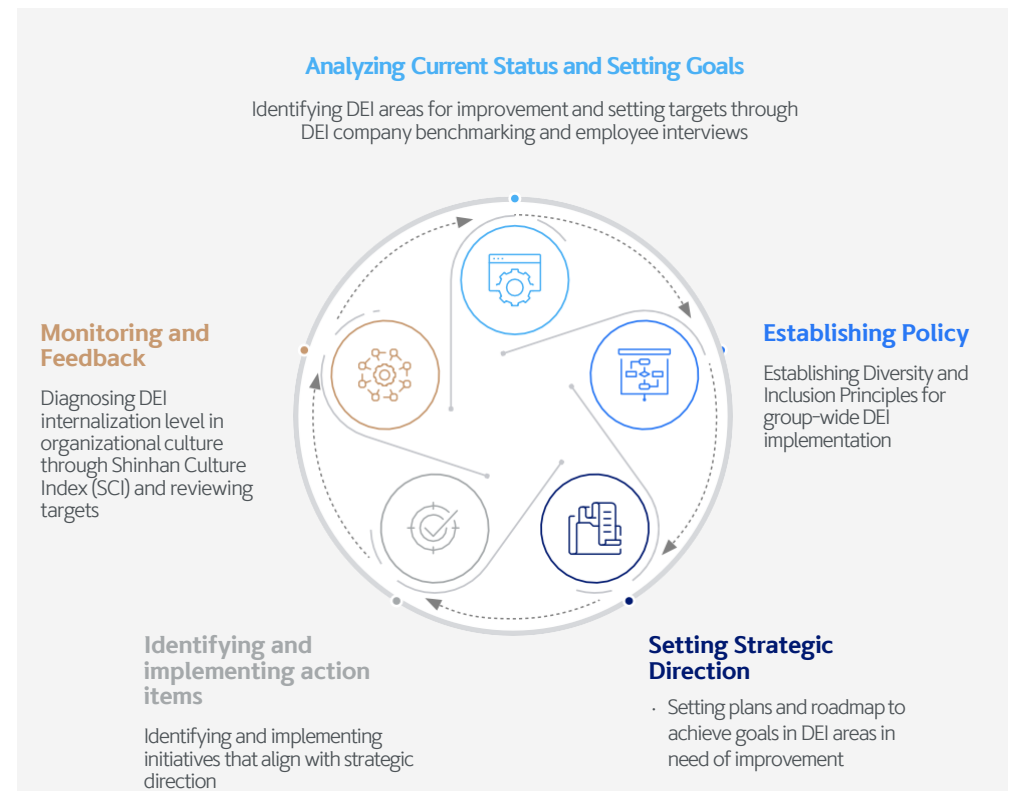


Shinhan Financial Group's Commitment to Diversity and Inclusion ]

# DEI Management System

## DEI Management Process

Shinhan Financial Group has established a group-wide DEI management process to internalize and spread the value of DEI. To reduce discrimination against gender, age, and background due to causes of social structure and cultural backgrounds, we analyzed the current status of diversity through a comparative analysis with global financial groups that are leading the way in DEI as well as interviews with employees. Based on the results, we identified DEI areas that need improvement and established improvement targets, and established policies to enhance the value of DEI across the Shinhan Financial Group by establishing the Principles of Diversity and Inclusion. In addition, we set three directions for DEI strategy based on the Group's principles to identify and carry out action items, and established a feedback system to diagnose and check DEI within the organizational culture by utilizing the Shinhan Culture Index.



# DEI Management System

## ESG Driving System for DEI Management

Shinhan Financial Group has established an ESG Driving System for the management, supervision, and implementation of sustainability management including DEI, to strengthen DEI management capabilities and spread its value across the Group. The driving system is a governance system that not only manages and supervises DEI through robust communication between the Board of Directors, management, and the working-level, but also strengthens the execution capabilities of the entire Group. On this basis, we set metrics and targets for realizing DEI, and continuously strive to build a corporate culture that provides fair opportunities and opportunities for diverse talents to demonstrate their capabilities, including fostering female leaders, supporting people with disabilities, and multicultural families.

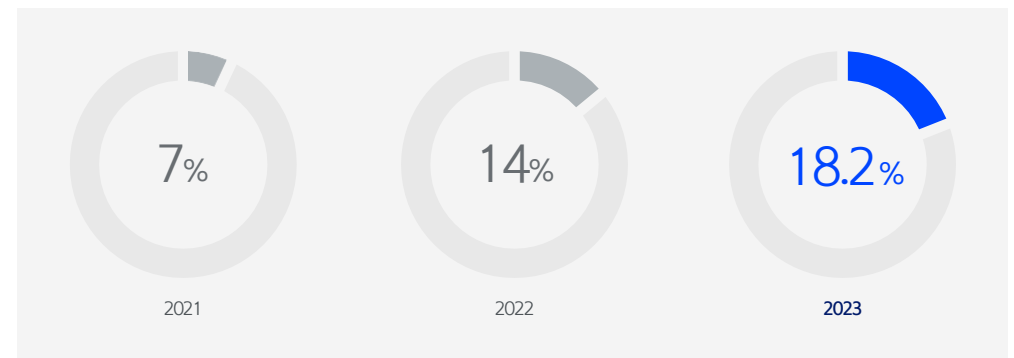
	명칭	주요 역할
Board Sub-committee	<b>ESG Strategy Committee</b>	<ul style="list-style-type: none"> <li>Deliberate on DEI strategy and related agenda items</li> <li>Decide key policy and business commitments for DEI</li> </ul>
CEO Council	<b>Group ESG Implementation Committee</b>	<ul style="list-style-type: none"> <li>Pursue and monitor DEI strategy</li> </ul>
Executive Officer	<b>GCSO (Group Chief Strategy and Sustainability Officer)</b>	
Group Affiliate Council	<b>Group ESG CSO Council</b>	<ul style="list-style-type: none"> <li>Discuss direction of DEI actions and group response plan</li> <li>Manage DEI</li> </ul>
Working Group	<b>Group ESG Working Group Council</b>	<ul style="list-style-type: none"> <li>Identify action items to spread DEI value</li> <li>Analyze and monitor DEI trends</li> </ul>

## Ensuring Governance Diversity

Shinhan Financial Group stipulates the Board Diversity Principle in its Corporate Governance Code to realize diversity and expertise in governance and to ensure that the BOD is not biased toward certain backgrounds and professions. In addition, given the characteristics of a financial holding company, we strive to appoint outside directors with multi-faceted expertise. As of the end of March 2023, 11 BOD members were comprised of experts in seven specialized fields: finance, business management, economics, accounting, law, information technology (IT), and global affairs.

We also adhere to the Board Diversity Guidelines, which stipulates that we should seek candidates with diverse perspectives and experiences across nationalities, genders, ages, and backgrounds in order to make decisions based on the interests of diverse stakeholders. We have clarified the criteria to ensure that at least 20% of the candidates for independent directors are female, and have composed the BOD with independent directors of various genders, nationalities, and countries of operation, including two female independent directors.

### Percentage of Female Directors (2021)



\* As of March 2023

### Number of Female Independent Director Candidates (Percentage)

Year	2019	2020	2021	2022
Number of Candidates	30	29	49	50
Percentage	(27.9%)	(24.8%)	(37.4%)	(35.7%)

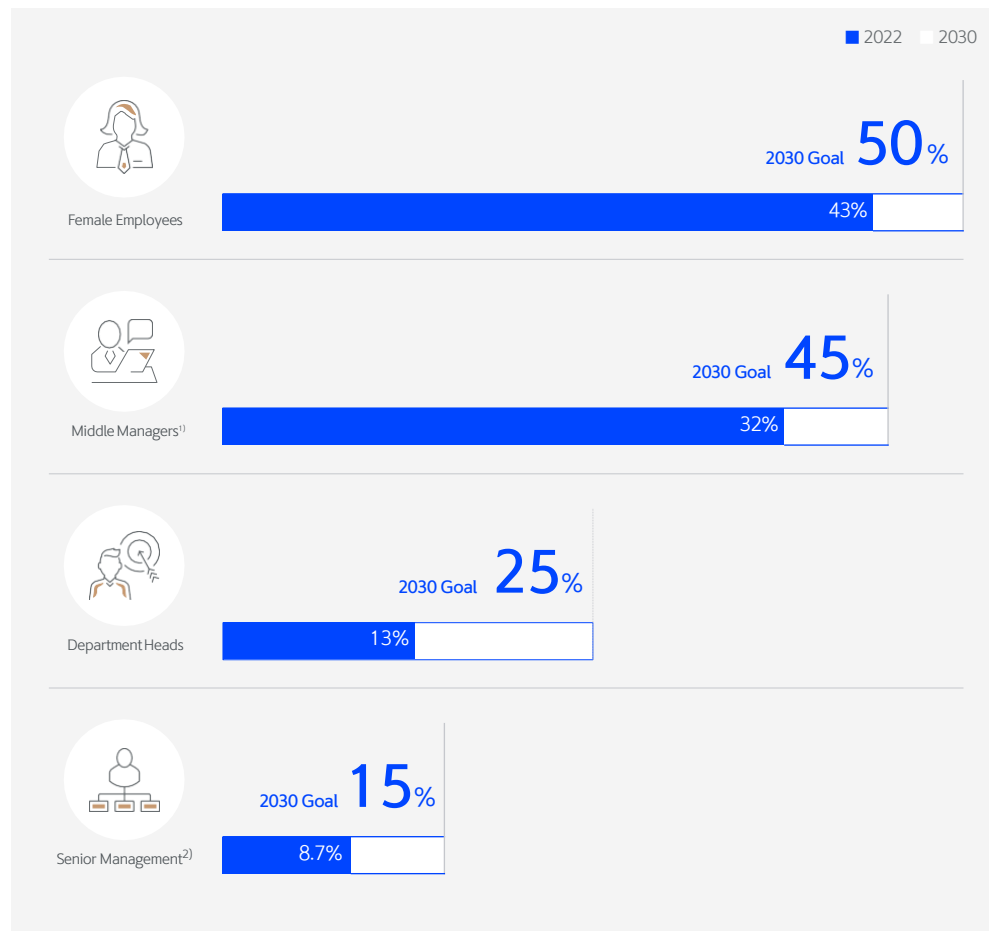
# Diversity Metrics and Targets

<sup>1)</sup> Science, Technology, Engineering, Math

## Establishing Diversity Metrics and Targets

Based on our gap analysis on diversity, Shinhan Financial Group established a mid- to long-term roadmap for enhancing DEI value and set metrics and targets to implement it.

### Diversity by Gender: Status and Goals



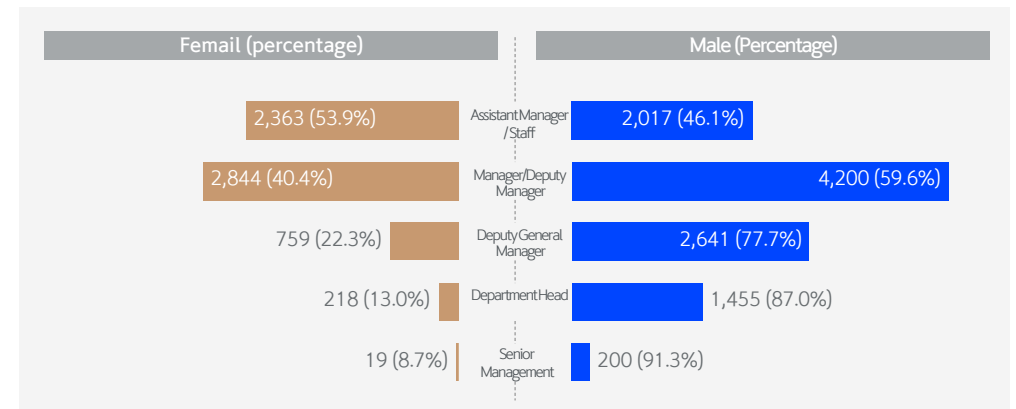
\* Based on 8 companies: Holding, Bank, Card, Securities, Life, Capital, Asset Management, and Jeju Bank

<sup>1)</sup> Manager to Deputy General Manager

<sup>2)</sup> Executive and General Manager

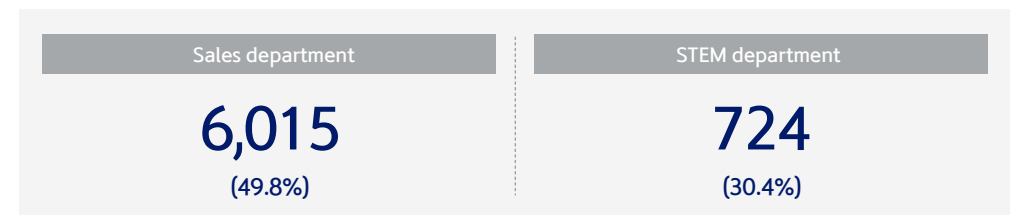
Among them, metrics related to diversity by gender, management level, and role are managed by establishing mid- to long-term targets through 2030 (Target: 50:50 gender ratio for all departments, including sales, STEM<sup>1)</sup>, and support functions). In addition, diversity by nationality and localization rate at overseas worksites are managed as monitoring metrics in line with global trends and changes in investment standards.

### Diversity by Management Level



\* Based on 8 companies: Holding, Bank, Card, Securities, Life, Capital, Asset Management, and Jeju Bank (excluding in-office/specialized staff)

### Diversity by Role



# Diversity Metrics and Targets

## Diversity by Nationality

Nationality	No. of employees	Number of managers <sup>1)</sup>	Nationality	No. of employees	Number of managers <sup>1)</sup>
Vietnam	2,972	440	Hong Kong	20	7
Indonesia	954	293	Singapore	9	3
Korea	666	431	Germany	7	7
China	471	177	U.K.	6	3
Cambodia	444	64	Australia	5	2
Myanmar	347	76	Russia	5	2
India	296	9	Malaysia	4	4
Japan	179	68	Kenya	1	1
USA	156	91	Taiwan	1	1
Kazakhstan	145	96	Poland	1	-
Mexico	41	24	New Zealand	1	1
Canada	40	17	Hungary	1	-
The Philippines	23	3			
<b>Total</b>				<b>6,795</b>	<b>1,820</b>

\* Based on Shinhan entities and operations in global locations for Bank, Card, Securities, Life, Wealth Management, and DS

<sup>1)</sup> Manager or above

## Localization at Overseas Worksites

Nationality	Number of employees	Number of locally hired employees	Employees with Korean nationality	Employees with non-Korean nationality (Percentage)	Number of managers <sup>1)</sup> (Percentage)
Japan	318	283	104	179 (56.3%)	68 (48.9%)
China <sup>1)</sup>	498	464	3	461 (92.6%)	174 (82.5%)
Vietnam	3,059	3,003	31	2,972 (97.2%)	440 (85.6%)
USA	293	266	111	155 (52.9%)	102 (54.0%)
India	361	338	-	338 (93.6%)	73 (76.0%)
Indonesia	973	958	4	954 (98.0%)	293 (94.2%)
Canada	113	108	58	50 (44.2%)	19 (48.7%)
Germany	27	24	18	6 (22.2%)	6 (50.0%)
Cambodia	455	446	2	444 (97.6%)	64 (86.5%)
Kazakhstan	168	162	1	161 (95.8%)	93 (93.0%)
Mexico	46	41	-	41 (89.1%)	24 (82.8%)
Hong Kong	65	47	25	22 (33.8%)	8 (20.0%)
London	34	25	18	7 (20.6%)	4 (23.5%)
Singapore	30	21	9	12 (40.0%)	3 (20.0%)
Manila	27	24	3	21 (77.8%)	3 (37.5%)
Dubai	10	8	4	4 (40.0%)	2 (50.0%)
Sydney	14	10	6	4 (28.6%)	4 (50.0%)
Yangon	301	297	1	296 (98.3%)	9 (69.2%)
Hungary	2	1	-	1 (50.0%)	- (-)
Uzbekistan	1	1	-	1 (100.0%)	- (-)
Poland	-	-	-	- (-)	- (-)
<b>Total</b>	<b>6,795</b>	<b>6,527</b>	<b>398</b>	<b>6,129 (90.2%)</b>	<b>1,389 (76.3%)</b>

\* Based on Shinhan entities and operations in global locations for Banking, Card, Securities, Life, Asset Management, and DS

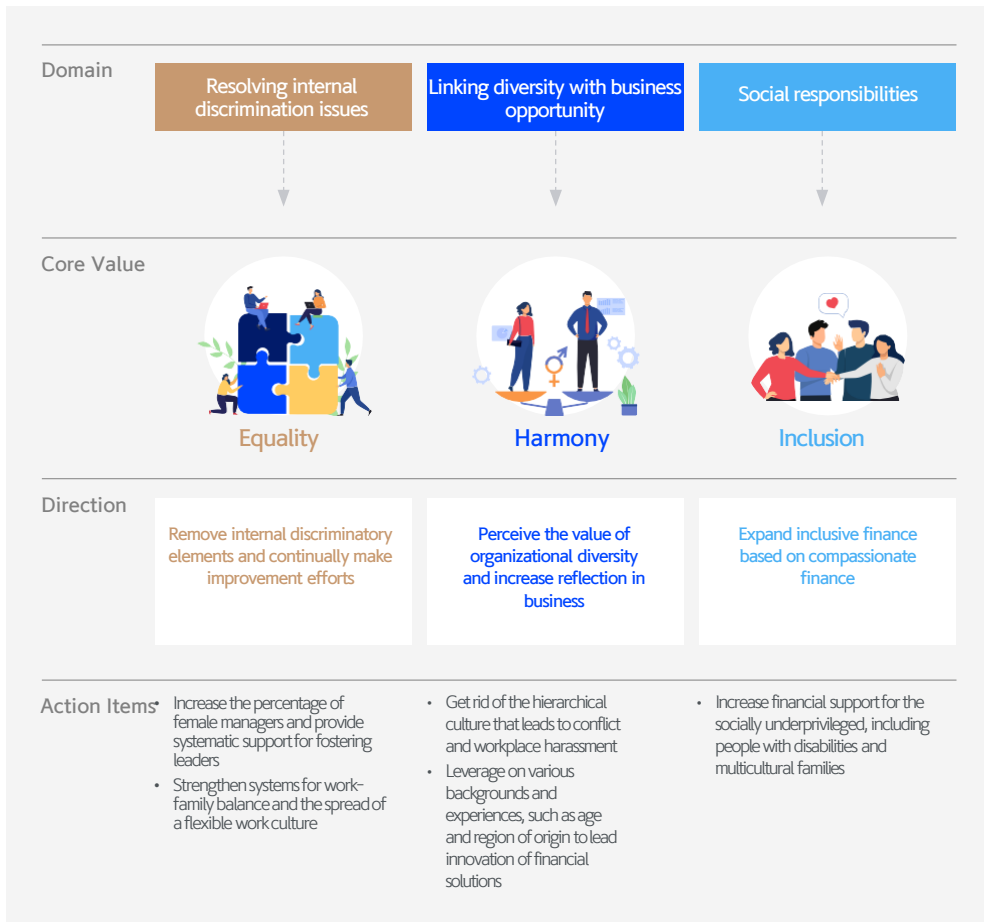
<sup>1)</sup> Manager and above

# DEI Strategy and Tasks

## DEI Implementation Strategy

Shinhan Financial Group has established policies and targets in the areas of non-discrimination, fostering female leaders, and organizational culture for securing talent diversity derived from the analysis of the current state of diversity, and has set three main directions for its diversity strategy: resolving in-house discrimination issues, linking diversity to business opportunity, and social responsibility.

### DEI Strategy Implementation Direction



Based on such directions, five action items have been selected and implemented, and Shinhan's DEI is managed by continuously checking the implementation status of the action items.

### # Key Tasks



# DEI Strategy and Tasks

## DEI Implementation Outcome

Shinhan Financial Group has taken the lead in Korea in establishing specific policies and goals related to DEI, and has been making efforts to internalize and spread its value. As part of the DEI value internalization project, the group's value system, Shinhan WAY, was restructured, and the assessment criteria to determine the validity of all thoughts and actions within the company have been set as Right, Nimble, and Different. In addition, in order to settle DEI into the organizational culture early, we set and disseminate the appropriate behavior for leadership based on the group value system, and conduct improvement activities and training to periodically diagnose and analyze the level of organizational culture.

In particular, in 2022, we attended the International Corporate Governance Network (ICGN) Seoul Conference and the UN Global Compact's Gender Equality Forum to announce our DEI promotion activities and dissemination plans, and to transparently communicate our diversity-related activities and achievements with our stakeholders. In 2023, Shinhan Bank became the first Korean company to successfully issue the Social Bond for Gender Equality, valued at USD 500 million, to support vulnerable female borrowers, producing DEI results in line with the essence of the financial industry.

## Outstanding DEI Performance



Recognized as a Bloomberg Gender Equality Index (GEI) Leader for the fifth consecutive year in 2023



signed partnership for Gender-Balanced and Inclusive Growth with the Ministry of Gender Equality and Family in 2019



Selected as a Family-friendly Company by the Ministry of Gender Equality and Family  
(Shinhan Bank, Shinhan Asset Management, Jeju Bank, Shinhan Credit Information, Shinhan Capital)



# Establishing DEI Culture and Influence

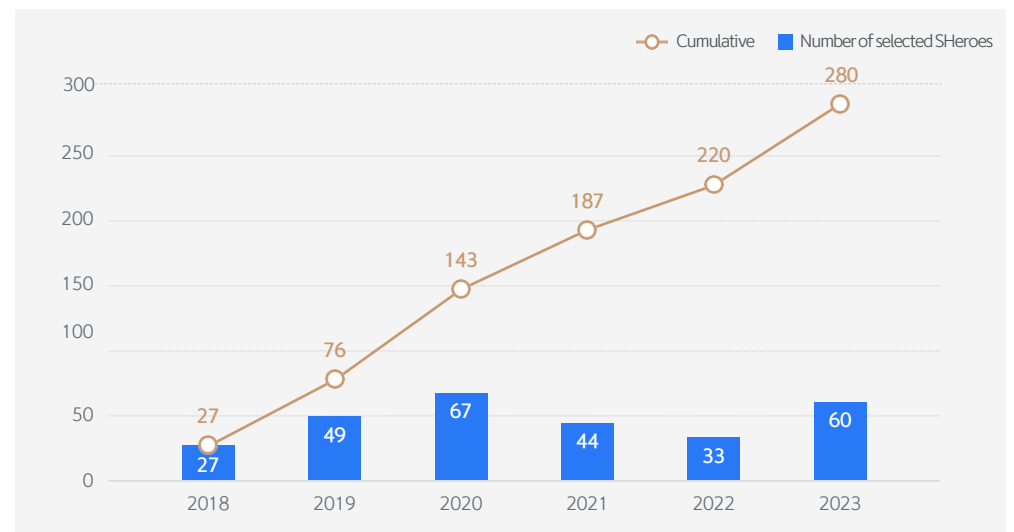
## Nurturing Female Leadership

In 2018, Shinhan Financial Group launched Shinhan SHeroes, the first female leader development program in the financial sector, to establish a system for fostering and expanding the foundation for female leadership. Since its launch until 2022, 220 female leaders at the level of department heads and above have been selected to be given support for career growth through mentoring, academies, conferences, and networking, and in 2023, 60 members were selected to participate in the 6th annual season of SHeroes.

In 2022, having strengthened the capabilities of the group's female leaders through SHeroes as well as secured a number of female mentors, Shinhan Financial Group reorganized the principle of fostering female leaders into C.O.R.E. under the strategy of attracting female leaders into the core function of the Shinhan Financial Group. To this end, the group is diversifying and enhancing existing programs to strengthen the expertise of female leaders and promote their qualitative growth.

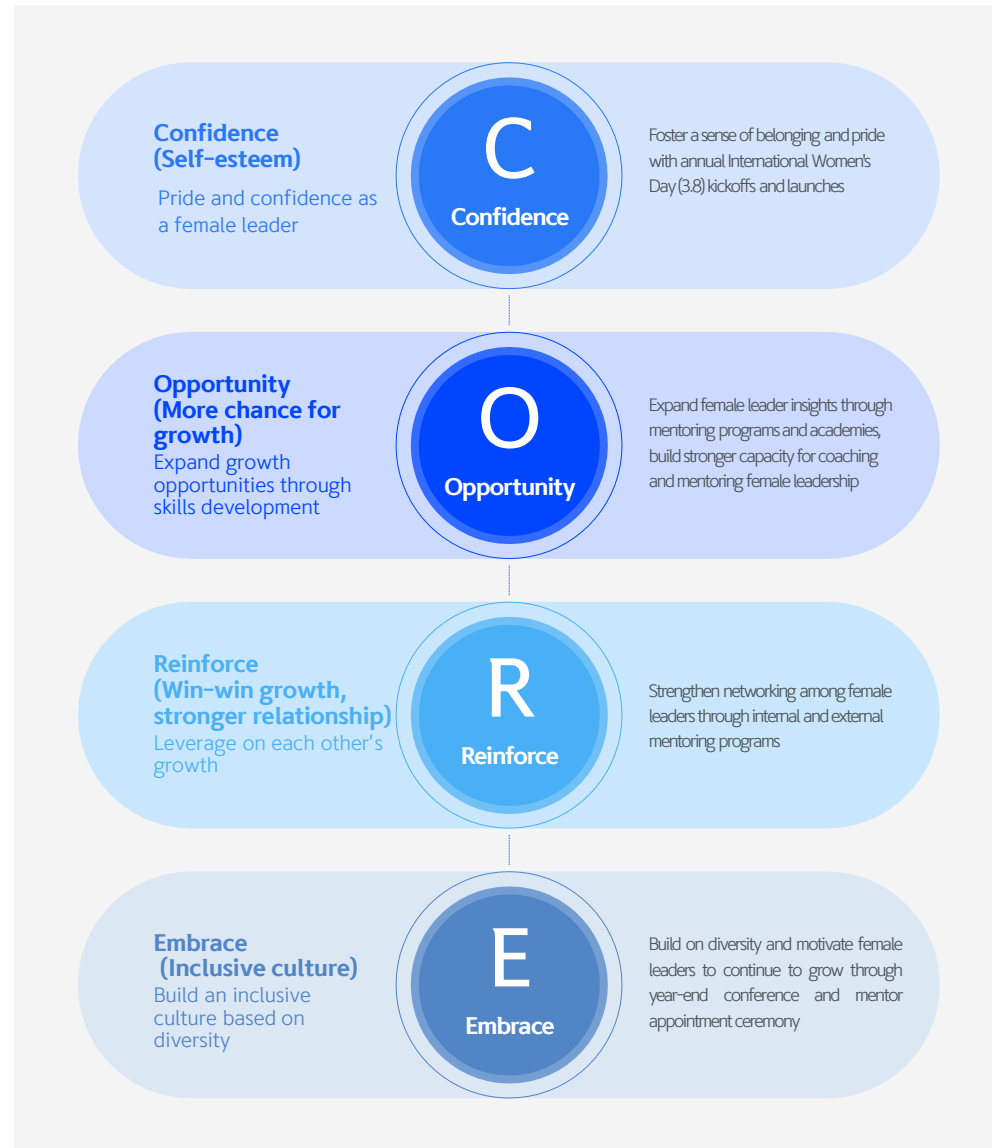
In addition, Shinhan Financial Group founded Women in Tech (WIT), a community of female leaders in the digital and ICT fields, to interconnect female employees in the tech sector and contribute to the development of future female tech talent. Since its establishment in August 2022, WIT, which includes female leaders in the fields of digital, ICT, and information protection, has been providing a forum for communication among female leaders and supporting their leadership development through regular mentoring and sponsorship.

## Progress of the SHeroes Program



# Establishing DEI Culture and Influence

## Operational Pillars of SHeroes in 2023



## Female Talent Development Program





# Establishing DEI Culture and Influence

## Supporting People with Disabilities

To reduce inequality and improve universal access for people with disabilities, Shinhan Financial Group operates various projects focused on job creation and education for the disabled community. We also implement various programs to improve the living standard for people with disabilities and lay the foundation for their economic independence.

### Major Programs to Support People with Disabilities

<p><b>Improve financial accessibility</b></p> 	<ul style="list-style-type: none"> <li>Run dedicated channels for the disabled                     <ul style="list-style-type: none"> <li>Disability-friendly sales offices and have dedicated staff</li> <li>Exclusive call center for people with disabilities (Digital ARS sign language helpdesk)</li> <li>Electronic complaint receipt system and quick service</li> </ul> </li> <li>Improve convenience for people with disabilities                     <ul style="list-style-type: none"> <li>Support for booking counselling and transportation for people with disabilities</li> <li>Text-to-speech barcodes for booklets and product terms and conditions</li> <li>Braille product terms and conditions and braille blocks</li> </ul> </li> </ul>			
<p><b>Provide education</b></p> 	<ul style="list-style-type: none"> <li>Provide intern training and employment/business startup education for people with disabilities                     <ul style="list-style-type: none"> <li>Disabled Youth Dream Team global training</li> <li>S<sup>2</sup> Bridge : Youth</li> </ul> </li> <li>Provide finance and software training                     <ul style="list-style-type: none"> <li>Financial Education Center program for persons with developmental disabilities</li> <li>Hope School Software Class for students/parents of specialized schools</li> </ul> </li> </ul>			
<p><b>Create jobs</b></p> 	<ul style="list-style-type: none"> <li>Provide jobs for people with disabilities and sponsor their employment                     <ul style="list-style-type: none"> <li>Hire the hearing-impaired for Café S with</li> </ul> </li> <li>Special recruiting for people with disabilities and veterans</li> </ul>			
<p><b>Provide infrastructure support</b></p> 	<ul style="list-style-type: none"> <li>Provide management support software                     <ul style="list-style-type: none"> <li>Providing digital braille pads</li> </ul> </li> <li>Support artists with disabilities                     <ul style="list-style-type: none"> <li>Exhibitions at Shinhan Gallery, recitals, etc.</li> </ul> </li> </ul>			
<p><b>Support social enterprises</b></p> 	<table border="0"> <tr> <td data-bbox="381 1279 619 1520"> <p><b>Purchase goods and use services</b></p> <ul style="list-style-type: none"> <li>Support workplaces for people with disabilities                             <ul style="list-style-type: none"> <li>Purchase goods and services from manufacturers that hire employees with severe disabilities, and art pieces from artists with disabilities</li> </ul> </li> <li>Run employee programs in connection with social enterprises</li> </ul> </td> <td data-bbox="630 1279 845 1520"> <p><b>Provide financial support</b></p> <ul style="list-style-type: none"> <li>Invest in social enterprise funds                             <ul style="list-style-type: none"> <li>Shinhan AIM Social Enterprise Funds 1, 2, and 3</li> </ul> </li> <li>Discounted retirement plan fees for social enterprises</li> </ul> </td> <td data-bbox="857 1279 1118 1520"> <p><b>Foster social enterprises</b></p> <ul style="list-style-type: none"> <li>Foster social and local enterprises in cooperation with the Ministry of Land, Infrastructure, and Transport                             <ul style="list-style-type: none"> <li>Cheongsujeong in Suncheon, Saebat in Busan, Chimsan Village in Sejong</li> </ul> </li> </ul> </td> </tr> </table>	<p><b>Purchase goods and use services</b></p> <ul style="list-style-type: none"> <li>Support workplaces for people with disabilities                             <ul style="list-style-type: none"> <li>Purchase goods and services from manufacturers that hire employees with severe disabilities, and art pieces from artists with disabilities</li> </ul> </li> <li>Run employee programs in connection with social enterprises</li> </ul>	<p><b>Provide financial support</b></p> <ul style="list-style-type: none"> <li>Invest in social enterprise funds                             <ul style="list-style-type: none"> <li>Shinhan AIM Social Enterprise Funds 1, 2, and 3</li> </ul> </li> <li>Discounted retirement plan fees for social enterprises</li> </ul>	<p><b>Foster social enterprises</b></p> <ul style="list-style-type: none"> <li>Foster social and local enterprises in cooperation with the Ministry of Land, Infrastructure, and Transport                             <ul style="list-style-type: none"> <li>Cheongsujeong in Suncheon, Saebat in Busan, Chimsan Village in Sejong</li> </ul> </li> </ul>
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## Supporting Multicultural Families

To promote community integration and coexistence of foreign workers and multicultural families, Shinhan Financial Group provides employment and entrepreneurship support to vulnerable groups in global locations, and operates programs to improve financial access for foreign workers and social integration for multicultural children.




### Multicultural Support Programs

<p><b>Support the underprivileged in global locations</b></p> 	<ul style="list-style-type: none"> <li>Overseas scholarship programs and fostering of future talent                     <ul style="list-style-type: none"> <li>Provide scholarships and stable learning opportunities in connection with Shinhan branch offices in eight Asian countries (China, Vietnam, Cambodia, Indonesia, Myanmar, India, Kazakhstan and Uzbekistan)</li> </ul> </li> </ul>
<p><b>Support global employment/startups</b></p> 	<ul style="list-style-type: none"> <li>Provide employment training for global positions in connection with hiring opportunities                     <ul style="list-style-type: none"> <li>Operate the Global Young Challenger program</li> <li>Provide domestic and global training and global job-matching for young talent in want of a global job</li> </ul> </li> <li>Discover and foster global startups                     <ul style="list-style-type: none"> <li>Launched Shinhan Future's Lab in Vietnam, Indonesia and Japan, selecting and investing in local startups</li> <li>Provide office space and support for marketing, equity investment, joint business, etc.</li> </ul> </li> </ul>
<p><b>Improve financial accessibility</b></p> 	<ul style="list-style-type: none"> <li>Improve financial accessibility of foreign workers and offer specialized services                     <ul style="list-style-type: none"> <li>Run a project to support industrial trainees to open bank accounts who received an employment permit in connection with the Human Resources Development Service of Korea</li> <li>Provide a mobile platform dedicated to foreigners (SOL Global) and an exclusive counseling service</li> </ul> </li> </ul>
<p><b>Support social inclusion</b></p> 	<ul style="list-style-type: none"> <li>Provide children from multicultural families with opportunities to experience cultures and connect                     <ul style="list-style-type: none"> <li>Korean language education and psycho-emotional counselling support for multicultural families</li> <li>Opened the "Areumin Library", an eco-friendly book environment, in partnership with the Multicultural Family Support Center</li> </ul> </li> </ul>

# Establishing DEI Culture and Influence

## Supporting Work-Family Balance

### Work-family Support Systems and Programs

Health and wellness 	Work schedule 	Family benefits 
<p>Key Businesses</p> <p><b>Managing stress</b></p> <ul style="list-style-type: none"> <li>• Open Therapy Center                     <ul style="list-style-type: none"> <li>- Provide online meditation and healing content to relieve stress and support online therapy</li> </ul> </li> </ul> <hr/> <p><b>Improving health</b></p> <ul style="list-style-type: none"> <li>• Wellness Program                     <ul style="list-style-type: none"> <li>- Blood pressure and diabetes management programs to prevent major illnesses, and weight management challenge programs to help employees adopt a healthy lifestyle</li> </ul> </li> <li>• In-house hospital (internal medicine and dentist's)</li> </ul>	<p><b>Flexible work hours</b></p> <ul style="list-style-type: none"> <li>• Flexible work hours                     <ul style="list-style-type: none"> <li>- Operating hours according to a shift schedule (unit period of 3 months or less)</li> </ul> </li> <li>• Optional work hours                     <ul style="list-style-type: none"> <li>- 8 standard working hours per day multiplied by the number of valid working days within paid working days is calculated to be the total number of hours worked</li> </ul> </li> </ul> <hr/> <p><b>Smart work hours</b></p> <ul style="list-style-type: none"> <li>• Remote work                     <ul style="list-style-type: none"> <li>- Freedom to choose where you work, such as at home, the library, a café, or a smart working center</li> <li>* Smart Working Center: a shared remote workspace where employees with various needs can work freely, such as employees who commute to work from afar and employees who need a space for intensive work immersion (Gangnam Center, Ilsan Center)</li> </ul> </li> <li>• Flexible schedule                     <ul style="list-style-type: none"> <li>- A system that adjusts commuting time to accommodate employees' lifestyles or time conflicts with business partners</li> </ul> </li> </ul> <hr/> <p><b>Compressed work hours</b></p> <ul style="list-style-type: none"> <li>• Compressed work schedule                     <ul style="list-style-type: none"> <li>- Centralized headquarters to increase employee engagement, concierge managers, compliance, internal controls, etc</li> </ul> </li> </ul>	<p><b>Childcare facility and childcare costs</b></p> <ul style="list-style-type: none"> <li>• Workplace daycare                     <ul style="list-style-type: none"> <li>- Group Childcare Centers: ShiniHani Gangbuk, Shinhan Dream Tree, Shinhan Kids Ilsan</li> <li>- Shinhan Bank Childcare Centers: Shinhan Bank Sprout, ShiniHani Songpa, ShiniHani Yangcheon</li> </ul> </li> </ul> <hr/> <p><b>breastfeeding room</b></p> <ul style="list-style-type: none"> <li>• On-site breastfeeding room                     <ul style="list-style-type: none"> <li>- Operate women's break rooms and breastfeeding rooms</li> </ul> </li> </ul> <hr/> <p><b>Maternity and parenthood</b></p> <ul style="list-style-type: none"> <li>• Maternity leave                     <ul style="list-style-type: none"> <li>- 110 days of paid leave in total for before and/or after the birth of a child (longer than the 90 days of required statutory leave)</li> </ul> </li> <li>• Parental Leave                     <ul style="list-style-type: none"> <li>- Equal period of paid parental leave for both parents of children up to age 9 or in the 3rd grade (equal for primary and secondary caregivers)</li> <li>- Duration: Up to 2 years of guaranteed parental leave, maternity leave included (can be taken in two installments)</li> <li>* Up to 2.5 years of parental leave for the birth of a premature baby or a child with disabilities, depending on the doctor's note</li> </ul> </li> </ul> <hr/> <p><b>Family care</b></p> <ul style="list-style-type: none"> <li>• Petition leave of absence                     <ul style="list-style-type: none"> <li>- Up to and including one year of paid leave for purposes such as family caregiving and infertility-related affairs</li> </ul> </li> </ul> <hr/> <p><b>Compressed workweeks</b></p> <ul style="list-style-type: none"> <li>• Compressed workweeks for pregnant employees                     <ul style="list-style-type: none"> <li>- Allow a work hour reduction of 2 hours per day</li> </ul> </li> <li>• Back-to-school compressed hours                     <ul style="list-style-type: none"> <li>- Allow a 10:00 start time for the month of March if you have a child in elementary school</li> </ul> </li> <li>• Compressed Parental Leave (Flexible, 4 Hours)                     <ul style="list-style-type: none"> <li>- Allow employees with children up to age 9 or children in the 3rd grade to reduce their workweek by 4 hours during the parental leave period</li> </ul> </li> </ul>

# Establishing DEI Culture and Influence

## Building a Horizontal Corporate Culture

Shinhan Financial Group aims for a horizontal corporate culture where the values of diversity, equity, and inclusion are respected. Launched in 2021, RE:Boot Shinhan is a corporate culture transformation project that boldly discards the old (Delete) and reloads the essential (Reload). DEI is a core value necessary for Shinhan's corporate culture and is created through the empathy and participation of all generations. Through RE:Boot Shinhan, Shinhan has established various systems and programs to ensure that employees' DEI is respected, and conducts semi-annual diagnosis of the level of DEI awareness in the organization to improve it.

 <p>Corporate culture innovation</p>	<p><b>Suggesting the direction of development of Shinhan culture through RE:Boot Shinhan</b></p> <ul style="list-style-type: none"> <li>- Remove barriers to horizontal communication and implement HR practices that foster performance engagement and creativity</li> <li>- Gain strategic insights from different generations and create an environment where employees can express their creativity and show initiative</li> <li>- Share major achievements with all employees through the Shinhan Culture Forum and suggest future development directions</li> </ul>
 <p>Operation of DEI implementation organization</p>	<p><b>Running a Who-riend committee</b></p> <ul style="list-style-type: none"> <li>- Organized by voluntary participation of employees in their 20s and 30s within Shinhan Holdings to express their creativity and show initiative</li> <li>- Ensure independence by giving Millennial and Gen Z members full decision-making power over committee operations</li> </ul>
 <p>Improving work environment</p>	<p><b>Creating a flexible workplace</b></p> <ul style="list-style-type: none"> <li>- Continue to remove barriers to horizontal communication, such as management levels and titles, dress codes, etc</li> <li>- Adopt flexible work schedule to support work-life balance</li> </ul>
 <p>Corporate culture assessment</p>	<p><b>Assessment of the level of organizational culture through Shinhan Culture Index</b></p> <ul style="list-style-type: none"> <li>- Use biannual surveys to diagnose the level of organizational culture as perceived by employees</li> <li>- Organizational culture survey responded by about 22,000 executives and employees through the twice-performed Shinhan Culture Index in 2022</li> <li>- Organization of CEO Culture Round, where the Group's CEOs discussed the direction of improvement, and promoted culture improvement activities, based on assessment results</li> </ul>



# Shinhan Materiality Analysis Report

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# Materiality Management, the Beginning of Shinhan ESG Way

For Shinhan, ESG management is a standard of daily life.

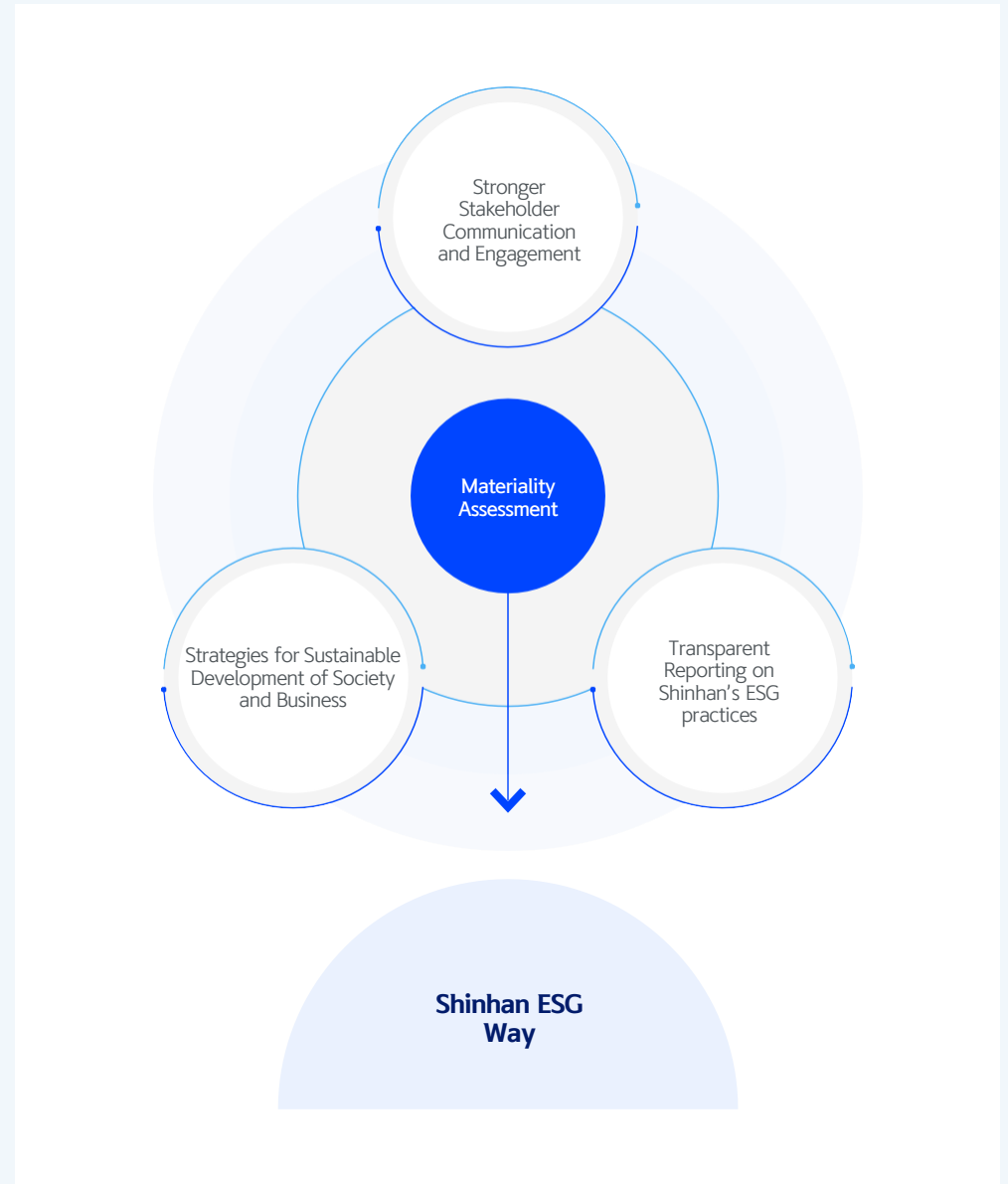
Shinhan is committed to creating its ESG Way with new challenges and implementations for ESG toward a sustainable future. To grow together with stakeholders, deliver good influence, and practice the true ESG value of empathy and win-win, we would like to introduce the material issues in detail in the '2022 Materiality Assessment Report' to manage our focus challenges and opportunities.

## Reporting Purpose and Meaning

From climate crisis and biodiversity loss to growing social inequality and resource scarcity, our society and planet are facing unavoidable challenges for a sustainable future. In response, the international community is establishing a system of global cooperation to build a sustainable society based on social development, environmental protection, and inclusive economic growth, as seen from the adoption of the UN Sustainable Development Goals (UN SDGs). In addition, various sustainability issues are evolving beyond simple ethical imperative to become new market momentum and regulations across all areas of corporate management. Companies are required to fulfill their social responsibilities by conducting sustainable businesses with long-term perspectives.

In a society where the scope and influence of ESG issues are increasing, the most important thing is to understand and manage their positive and negative impacts in a transparent and objective way. Since the first materiality assessment reported through Shinhan Bank's 2007 CSR report, Shinhan Financial Group is annually identifying and managing material issues, awareness of our performances, and areas of improvement, from data collected from our stakeholders. In addition to the 'materiality' principle proposed by the Global Reporting Initiative (GRI) Standards, the 'double materiality' assessment of the European Sustainability Reporting Standards (ESRS) was introduced and released in the ESG report last year for more advanced management of material issues.

This materiality assessment report introduces the approach and results of Shinhan Financial Group's Double Materiality Management and Assessment based on Shinhan's activities and performance in 2022. With the results, Shinhan Financial Group clearly understood stakeholder expectations and concerns, reviewed our ESG goals, adjusted priorities, and examined our material issue management strategies, building Shinhan Financial Group's sustainability to be more tangible.

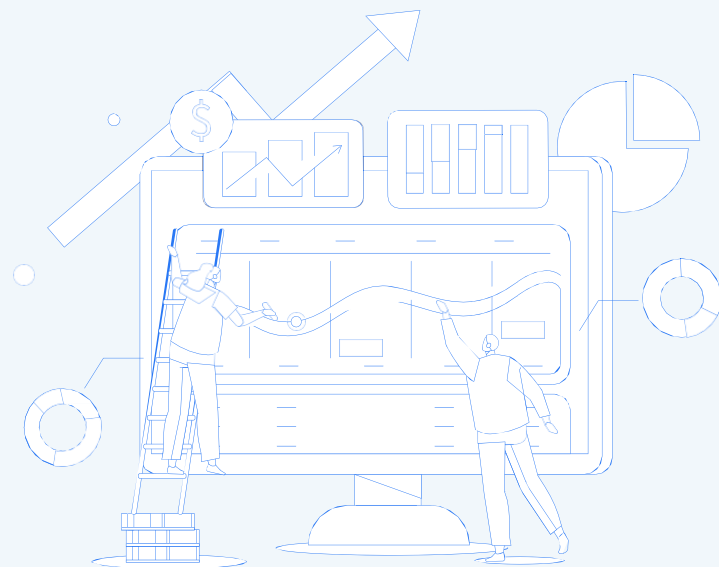


# Materiality Management, the Beginning of Shinhan ESG Way

## Reporting Standard

Since the EU Commission first introduced the concept of Double Materiality in 2019, it has been adopted by various global reporting standards and has become a standard for companies to manage their sustainability performance and goals, to measure impact, and to report performances. In line with the modernization of sustainable business, a clear understanding and application of Double Materiality is becoming more important to establish sustainability strategies across corporate operations. Shinhan Financial Group conducts materiality assessment and management based on the concept of Double Materiality, considering its significant impact, risk, and opportunity factors.

The concept of Double Materiality indicates that a company's operation should consider both external sustainability factors that may have financial impacts on the company (Financial Materiality, "Outside-in") and the impact of the company's activities on society and the environment (Impact Materiality, "Inside-out"). The ESRS suggests in its reporting principles that Impact Materiality and Financial Materiality are interdependent and related.



## Key Takeaways from 2022 Materiality Assessment Report

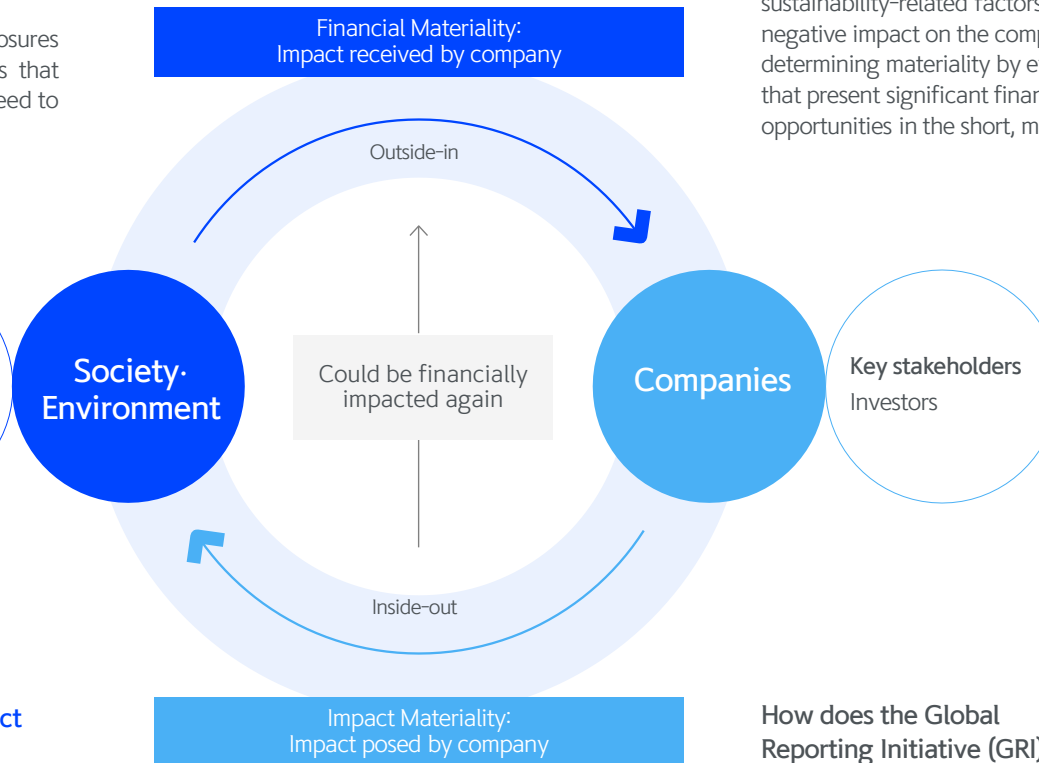
Key improvements to the selection, management, and assessment readiness process of Shinhan Financial Group's material issues are as follows:

1	<b>Expanding and grouping issue pools (levelled approach)</b>	<ul style="list-style-type: none"> <li>Expanded the number of identified potential issues to reflect the diversification of ESG issues and social changes (from 56 issues in 2021 to 75 issues in 2022)</li> <li>Grouped issues in line with their hierarchical structure and interrelationship to establish an issue management system optimized for Shinhan Financial Group                             <ul style="list-style-type: none"> <li>- Level 1 issues are applied the double materiality assessment process, while Level 2 issues are prioritized to establish actual issue-specific action strategies.</li> <li>- Double materiality assessment is performed with grouped issues, minimizing errors and issue duplication and omission due to inconsistent hierarchy and relationship between each issue.</li> </ul> </li> </ul>
2	<b>Advancing the decision-making process</b>	<ul style="list-style-type: none"> <li>Review of the appropriateness of issues by the major departments of the holding company and subsidiaries when issue pool is organized, to identify ESG issues related to Shinhan Financial Group's execution of ESG strategies, risk management, and business</li> <li>More frequent reporting to the Board of Directors on the design and publication of ESG disclosure documents, including the process for selecting material issues and key reported issues (3 related board agenda per year)</li> </ul>
3	<b>Segmenting impact measurement areas</b>	<ul style="list-style-type: none"> <li>Detailed impact measurement criteria to more clearly reflect the requirements of global standards and improve the accuracy of issue-specific impact                             <ul style="list-style-type: none"> <li>- We measure positive and negative impact for each issue separately.</li> <li>- We measure the severity and likelihood of positive and negative impacts for each issue.</li> </ul> </li> </ul>

# Materiality Management, the Beginning of Shinhan ESG Way

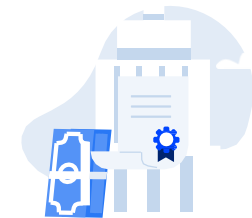
## How does the International Sustainability Standards Board (ISSB) define Materiality?

ISSB requires companies to make financial disclosures about sustainability-related risks and opportunities that investors, the primary users of financial reporting, need to make investment decisions and value companies.



## Financial Materiality

(Outside-in) refers to the extent to which external sustainability-related factors may have positive or negative impact on the company's financial position, determining materiality by evaluating the impact of issues that present significant financial and strategic risks or opportunities in the short, medium, and long term.



## Social and Environmental Materiality or Impact Materiality

(Inside-out) refers to the extent of positive and negative impacts on society and the environment in the short, medium, and long term, originating from business operations across the corporate value chain.

## How does the Global Reporting Initiative (GRI) define Materiality?

GRI requires disclosure of sustainability information on the actual and potential material impacts, both positive and negative, of a company's operations on the economy, society, environment, and company's various stakeholders.

\* The GRI is based on the concept of Social and Environmental Materiality from a multi-stakeholder perspective but does not exclude financial materiality, maintaining the ESRS' Double Materiality perspective (GRI 'The double-materiality concept - Application and issues')

# Shinhan Materiality Management Process

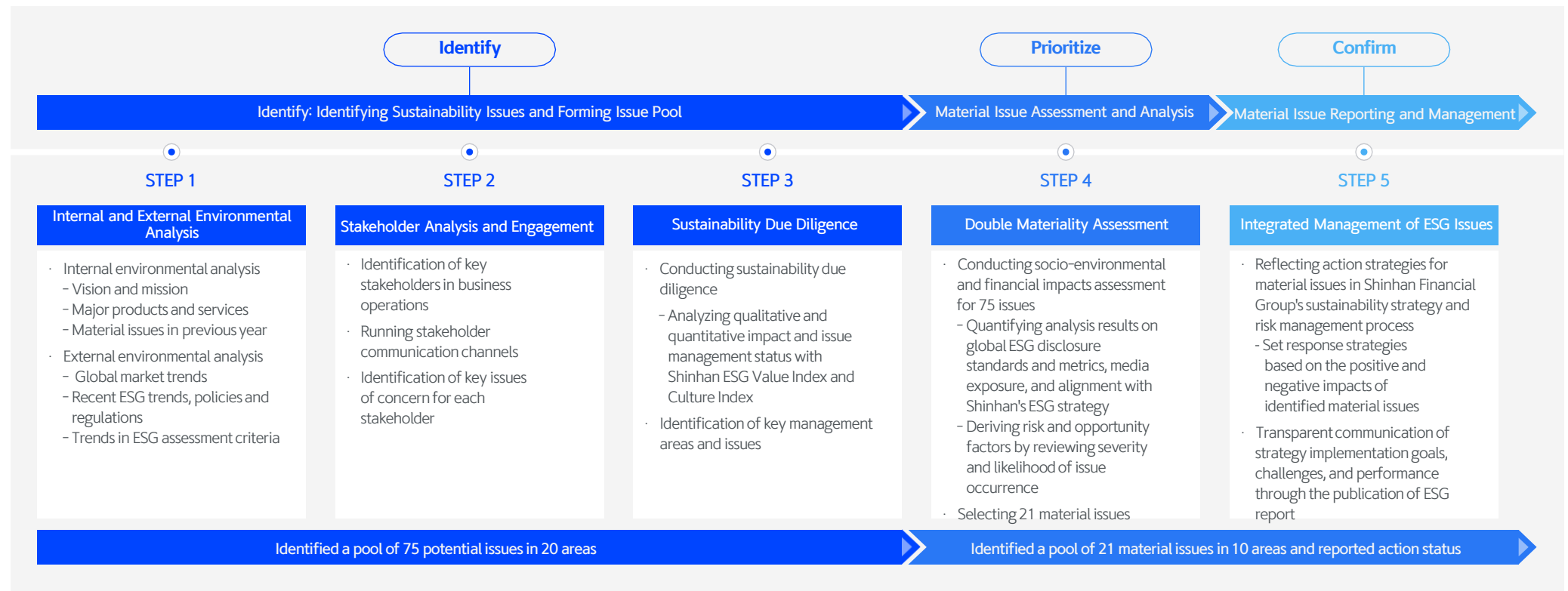
## Defining and Managing Materiality at Shinhan

Defining materiality specific to the Shinhan Financial Group and identifying material issues are the foundation of our consistent ESG strategy. To select and manage material issues, Shinhan Financial Group considers not only internal factors but also global market and ESG mega trends, policies and regulations, external indicators, new academic research on sustainability, peer analysis, and stakeholder concerns to continuously monitor social, environmental, economic, political, and technological changes.

Shinhan Financial Group defines and manages material issues as “issues that are of significant concern or expectation to key stakeholders and have a substantial and significant impact on Shinhan’s operations or the environment and society, and require the setting of short-, medium-, and long-term goals for systemic management.” Furthermore, in line with the GRI Standards’ definition of material issues, we identify issues that represent an organization’s most significant impacts on the economy, environment, and people, including impacts on their human rights.

While assessing both social and environmental and financial materiality for issues that are identified through internal and external environmental analysis and stakeholder analysis, we prioritize them by applying a Double Materiality methodology that identifies positive and negative impacts for each material issue and prepare response strategies optimized for Shinhan, identifying risks and opportunities.

### Materiality Management Process





# Identifying Sustainability Issues and Forming Issue Pool






## Internal and External Environmental Analysis

As the first step in managing material issues, Shinhan Financial Group conducts an internal and external environmental analysis of the financial industry including business areas of its each subsidiary. Based on the analysis of internal factors such as focus domains to achieve the Group ESG vision and mission, and key issues related to its products and services, we identify ESG management areas and issues that are optimized for the Group's operating environment through discussions with relevant representatives of the holding company and each subsidiary.








From the issue identification stage onward, Shinhan Financial Group proactively conducts external environment analysis to reflect important topics across ESG areas, including global ESG disclosure standards, external rating agency indicators, and industry-specific initiatives.

In addition, to select and manage ESG issues from a more macro perspective, Shinhan Financial Group analyzes areas that may pose new risks or opportunities for Shinhan and require counterplans by assessing market economy and the mega-trend. By analyzing the various economic and financial market outlook including rising global interest rates, digital deregulation and increasing preference for digital transactions, expanding cross-industry collaboration, changing demographics, and the expansion of ESG legislation on carbon border tax and climate disclosure, we are laying the foundation for Shinhan's sustainable finance practices to "transform stakeholders for sustainable growth."







## Shinhan Financial Group's External Environmental Analysis

	<b>Economic environment</b>	[International] U.S. interest rate hikes, global dollar strength, international confrontations and conflicts [Domestic] Economic (real estate) downturn, demographic cliff, household and business failure concerns
	<b>Regulatory environment</b>	Opportunity factors including ESG legislation on carbon border taxes and climate disclosure, digital deregulation and enhanced capital market competitiveness, and support for global expansion
	<b>Customer shift</b>	Increased preference for digital transactions, segmented and diversified customer demand for goods and services, and corporate social responsibility expectations
	<b>Competition</b>	Comparing proactive responses to global issues, expanding cross-industry collaboration, and increasing competition from bigtech / fintech
	<b>Group-wide</b>	Volatility concerns due to profit and loss structure, increasing needs for digital, global, and capital market talents, and corporate culture check from organizational growth











Global ESG disclosure criteria and standards

- GRI Sustainability Reporting Standards 
- Sustainability Accounting Standards Board – Commercial Bank, Asset Management & Custody Activities, Consumer Finance, Insurance, Investment Banking & Brokerage Industry Indicators 
- Task Force on Climate-related Financial Disclosures (TCFD) 
- Task Force on Nature-related Financial Disclosures (TNFD) 
- World Economic Forum International Business Council – Stakeholder Capitalism Metrics 
- EFRAG (European Financial Reporting Advisory Group) – ERSR (European Sustainability Reporting Standards) 
- ISSB (International Sustainability Standards Board) – S1 & S2 
- ISO 26000, UN SDGs

Global evaluation metrics

- Dow Jones Sustainability Index 
- MSCI ESG Index 
- CDP (Carbon Disclosure Project) Climate Change 
- ISS-ESG 
- KCGS, Sustinvest  한국ESG기준원 

Global initiatives

- UN Global Compact  United Nations Global Compact
- UNEP FI  FINANCE UNEP INITIATIVE
- UNEP FI PRB, PSI  UNEP FINANCE PARTNERSHIP  PRB PARTNERSHIP FOR CLIMATE-RELATED FINANCING
- Equator Principles 
- PCAF, PBAF  PBAF 
- SBTi  SCIENCE BASED TARGETS
- Value Balancing Alliance  NBZA, NZAMI, NZIA  GFANZ Climate Financial Alliance for Net Zero

# Identifying Sustainability Issues and Forming Issue Pool

## Stakeholder Analysis and Engagement

Stakeholder engagement in managing material issues is an effective way to increase transparency and credibility, while managing the risks to which the company is exposed or likely to be exposed. Furthermore, it is essential to quickly understand each stakeholder group's area of interest and expectation originating from risk exposure and to develop a proactive response strategy.

Shinhan Financial Group categorizes key stakeholder groups into employees, customers, shareholders and investors, partner companies, local communities, and government that directly or indirectly interact with its operations, identifying and managing issues of interest through active stakeholder communication and reflecting them in its ESG activities.

Also, Shinhan Financial Group selected representatives from each major stakeholder group to conduct focus interviews to organize a pool of potential issues from various perspectives. Through this process, we examined Shinhan's ESG activities in diverse ways, both internally and externally, and gathered in-depth opinions on ESG issues and expectations from stakeholders who interact with Shinhan. Shinhan Financial Group will continue to review stakeholders' opinions and actively reflect them in its operations to practice ESG management for empathy and win-win.

	 Employees	 Customers	 Shareholders and investors	 Partner companies	 Local communities and government
Key issues of interest	<ul style="list-style-type: none"> <li>Enhancement of employee expertise</li> <li>Fair organizational culture without discrimination</li> <li>Work-life balance and well-being</li> </ul>	<ul style="list-style-type: none"> <li>Customer-centric financial products and services</li> <li>Innovating customer experience through digital finance</li> <li>Managing customer information correctly</li> <li>Financial consumer protection</li> </ul>	<ul style="list-style-type: none"> <li>Business transparency and credibility</li> <li>Sound governance</li> <li>Increase shareholder value</li> <li>Developing and expanding products for a sustainable financial ecosystem</li> <li>Strengthening financed emissions management</li> </ul>	<ul style="list-style-type: none"> <li>Focus on win-win values</li> <li>Fair trade</li> <li>Strengthening communication</li> </ul>	<ul style="list-style-type: none"> <li>Social contribution activities and support for vulnerable groups</li> <li>Improving financial access</li> <li>Compliance and financial decision-making based on community impact</li> <li>Major response to key government policies and compliance with laws and regulations</li> <li>Transparent tax payments and corporate disclosures</li> </ul>
Communication channels and action status	<ul style="list-style-type: none"> <li>Internal employee training programs                             <ul style="list-style-type: none"> <li>MyFunction Designation System,</li> <li>Support for acquisition of certificates, Self-development Awards Program, etc.</li> </ul> </li> <li>Shinhan SHeroes: Women leadership program</li> <li>Shinhan Guardian: Whistleblower system</li> <li>Shinhan Culture Index (biannual): conducting employee survey</li> <li>Internal proposals on Intranet/portal</li> <li>Employee mental health care</li> <li>Labor-management council, CoPs/company clubs, internal broadcasts, headquarter-to-branch communication events/workshops, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Customer satisfaction surveys</li> <li>Mystery shopping, product signup happy calls</li> <li>Customer and external expert panels</li> <li>Receiving compliments, complaints, and suggestions (online, mobile, customer center, etc.)</li> <li>Operation of financial consumer protection information portal</li> <li>Operation of official YouTube and SNS channels (Shinhan Holding, Bank, Card, Securities, Life)</li> </ul>	<ul style="list-style-type: none"> <li>Shareholder meetings and board meetings</li> <li>IR Investor information portal and mobile IR - Management performance status, annual report, e-brochure, etc.</li> <li>IR activities, investor counseling</li> <li>Periodic, year-round, voluntary disclosure (DART, KRX, SEC, etc.)- Publishing ESG Report and Annual Report on Corporate Governance &amp; Remuneration System for holding company and subsidiaries (Bank, Card, Securities, Life)</li> </ul>	<ul style="list-style-type: none"> <li>Monitoring through roundtables and surveys</li> <li>Operation of a reporting channel (official website)</li> <li>Operation of the emotional worker protection system</li> <li>Operation of VOC channel for partner companies</li> <li>Diagnosis of socially responsible management, implementation of ICT purchase contract system reflecting ESG performance, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Social contribution foundations (Hope Foundation, Scholarship Foundation, Life Shining Foundation) and the company's internal programs</li> <li>Employee volunteer groups and social contribution and donation websites (Beautiful Bank, Areumin)</li> <li>Financial education: Group-integrated platform (Shinhan Easy), One Company-One Financial Education program, on-site education at each subsidiary, etc.</li> <li>Specialized consultation on financial access and vulnerable groups (teller, video consultation, customer center)</li> <li>Investment and loan engagement: net-zero shareholder letter, Stewardship Code, Equator Principles risk review, environmental and social risk review</li> <li>Press release, meetings, councils, briefings, policy proposals, etc.</li> </ul>

# Identifying Sustainability Issues and Forming Issue Pool

## Voice of Stakeholders

"I have been in charge of ESG in Shinhan Bank for over 10 years. The biggest change we have seen is that we have been able to build on the Group's ESG driving system to consistently implement ESG tasks. Now all business units have started to look at the business from an ESG perspective and find new opportunities, whereas in the past, only some departments such as Green Finance, Social Contribution, and Risk Management were sporadically focusing on ESG areas related to their own work. I am very proud to see the development of ESG as a new corporate growth engine, uniting Shinhan Financial Group beyond each subsidiary. Based on this governance to implement ESG management, we are advancing diverse implementation systems to integrate ESG management into Shinhan's daily life. As the importance of human rights among ESG issues has been highlighted in recent years, Shinhan Bank conducted the third-party human rights impact assessment for the first time as a commercial bank last year to inspect internal organizational human rights issues and prepare improvement measures. This year, we plan to review our 'diversity' driving system along with human rights management to further enhance our diversity policy as a leading ESG financial company."

**Min Kyung Yang**  
Head of ESG Planning Office, Shinhan Bank



"In recent years, regulations and systems in all areas of ESG, such as the Carbon Border Adjustment Mechanism, Scope 3 emissions disclosure, and supply chain due diligence law, have been strengthened in the global society, and we expect that they will act as new trade barriers for domestic companies from a manufacturing- and export-oriented economic structure.

Shinhan Financial Group is not only reducing its own carbon emissions, but also actively engaging in activities to respond to climate change, such as managing carbon emissions of its financial assets. It also contributes to solving environmental and social issues as a responsible financial institution through various programs for the financially vulnerable, including small businesses, youth, and citizens.

We believe that Shinhan's strength lies in its expertise in ESG management practices and its ability to impact various industries and sectors through investments, loans, and financial support. At a time when ESG has become an integral part of management not only for large and medium-sized enterprises in Korea and abroad but also for SMEs, driven by various ESG regulations, we look forward to Shinhan's expanding beneficial impact on society through financial and educational support to strengthen the capabilities of domestic SMEs in implementing ESG management practices.

**Youngjun Cho**  
Director of Institute of Sustainable Business, Korea Chamber of Commerce and Industry



# Identifying Sustainability Issues and Forming Issue Pool

"For me, Shinhan Financial Group has the image of a company that is stakeholder-centered and committed to keeping its customers' information safe. This trust has been built through Shinhan's continuous and transparent disclosure of ESG information, and has been further strengthened since I learned that the company applies ESG standards beyond systems and policies into actual practice.

Currently, ESG management has entered a period of stabilization and institutionalization, and many companies are scrambling to react. As a corporate client, Pulmuone is very impressed with Shinhan's leading ESG management practices and movements at the global level.

We look forward to Shinhan Financial Group's leadership in providing ESG services, research, and products to its clients, and providing a direction for the industry to view ESG management as a new opportunity rather than a risk."

**Hyeon Su Kim**  
- Team Manager of ESG Management Team, Pulmuone



"Shinhan Financial Group is implementing various support programs under the Swith campaign, to practice sustainable finance and to build a society where no one is left behind. Swith is a social cooperative created to help socially vulnerable groups such as people with disabilities to become economic independent, through which we believe Shinhan is putting ESG into practice by becoming a proactive social problem-solver by expanding stable employment for people with disabilities.

Café Swith is a prime example of this. By running an in-house café with a barista with hearing impairment, Shinhan is not only providing jobs for the disabled community but also boosting the well-being of its employees by placing the facility in the company building, which we thought was brilliantly creative.

Shinhan is looking beyond simple money-making as a company, but designing a business model to grow alongside the financially vulnerable or social minorities, as well as an eco-system with SMEs. We trust that Shinhan can demonstrate what sustainable growth means for a financial company by taking on a social role that only financial institutions can take, beyond just simple monetary donations."

Bearbetter, a social enterprise



"Shinhan's strengths are the comprehensive nature of their ESG programme, which encompasses the key material factors that face the financial industry today - climate change, biodiversity, diversity and inclusion, supporting purposeful business, employee engagement and governance. There is a clear ESG leadership role that Shinhan plays in the Korean financial industry, and it is heartening to see the steps that the company takes towards addressing these. To stay at the forefront of ESG developments and supporting and participating in global events to continually build its reputation as a sustainability leader in Korea. This is so that Shinhan remains as part of the MSCI ESG Leaders Index, which helps build long term value. We would like to see how Shinhan continues to evolve its disclosures and reporting particularly with the ISSB standards coming out in H2 of 2023."

An international investor based in Singapore



# Identifying Sustainability Issues and Forming Issue Pool

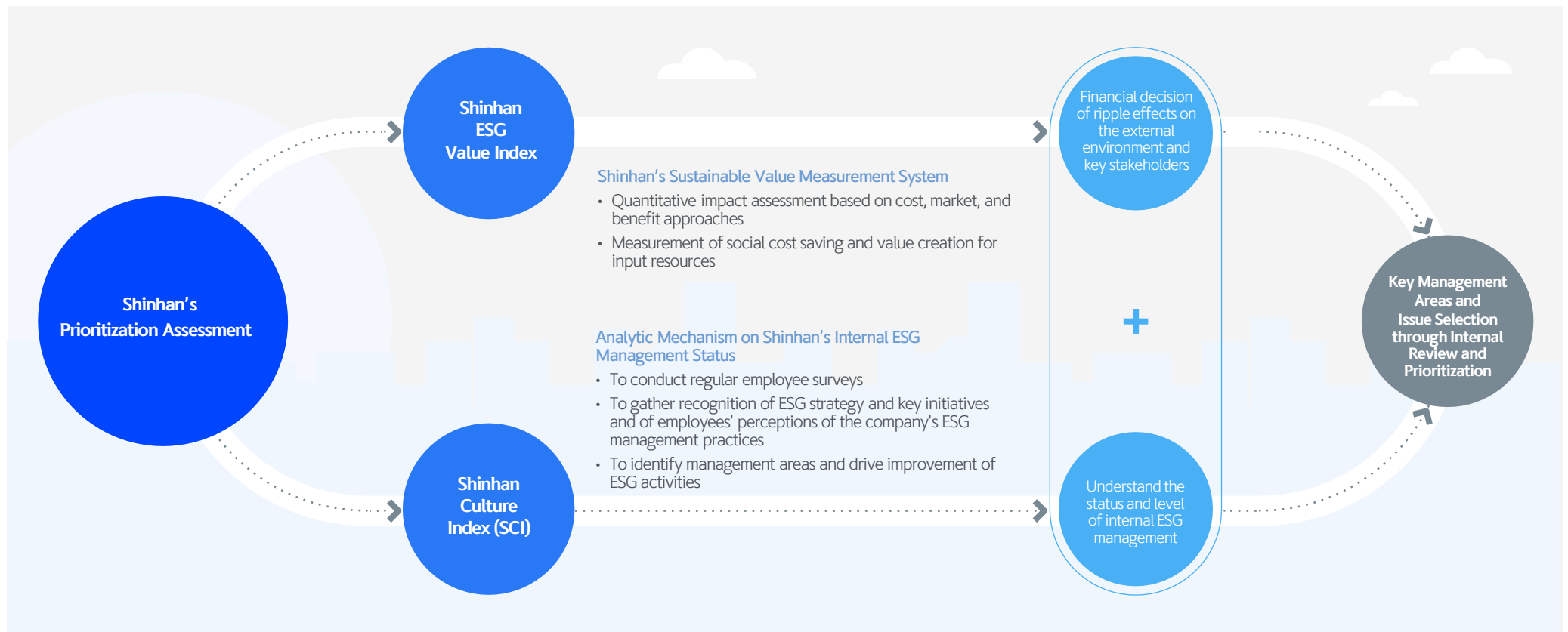
## Sustainability Due Diligence

Shinhan Financial Group conducts sustainability due diligence process to identify various actual and potential negative environmental and social impacts of corporate activities and to derive a more objective and authentic pool of sustainability issues. Shinhan's sustainability due diligence consists of the Shinhan ESG Value Index and the Shinhan Culture Index (SCI), which were developed internally to measure the qualitative and quantitative impact of potential issues.

Based on various sustainability issues with the internal and external environmental analysis and stakeholders' opinions, we conduct financial analyses on Shinhan's ripple effects on the external environment and key stakeholders, and quantify Shinhan's ESG management level and awareness of each issue to continuously understand the impact of ESG issues on the economy, environment, and people.

Furthermore, through discussions with relevant departments for each issue, we review the issues to be addressed practically and continuously in alignment with Shinhan's ESG strategy and businesses, meticulously identifying issues to be reflected in the company's overall operations.

Shinhan Financial Group's Sustainability Due Diligence Process



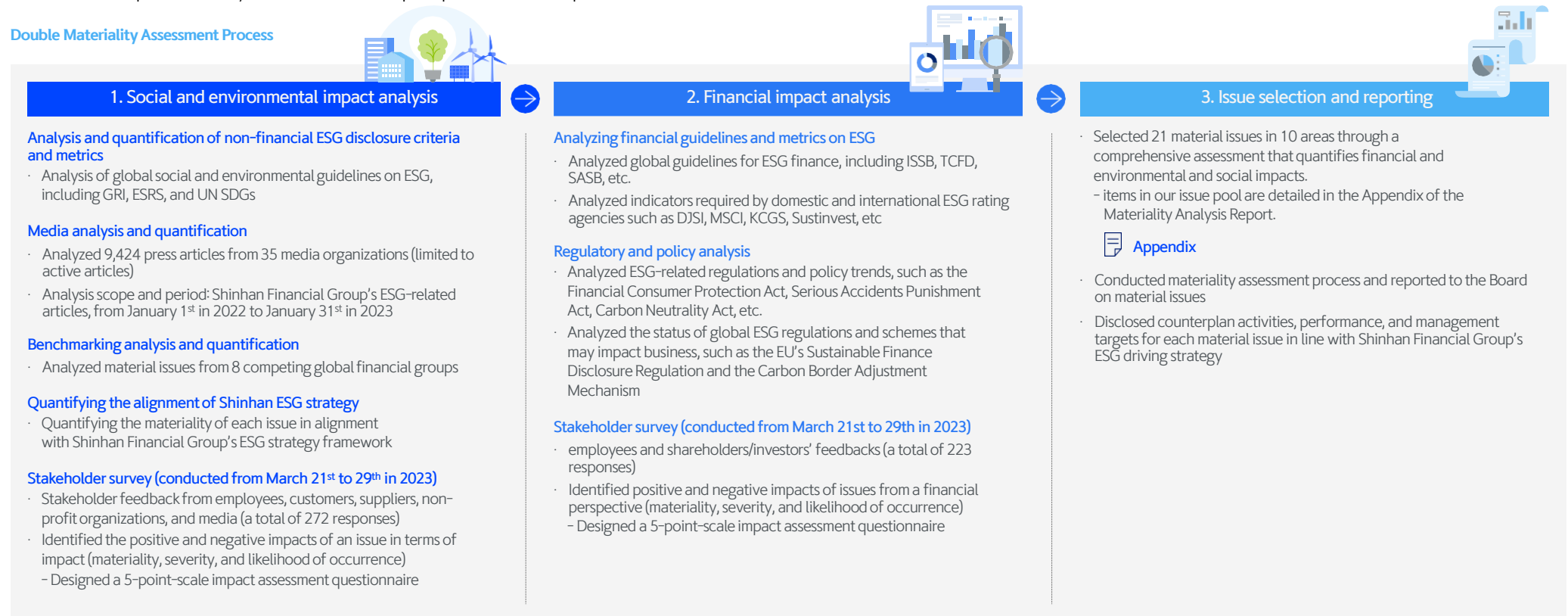
# Material Issue Assessment and Analysis

## Double Materiality Assessment

Shinhan Financial Group has been conducting double materiality assessments every year since the first assessment in 2022, measuring social, environmental, and financial impacts of 75 potential issues in 20 key management areas that are identified through internal and external environmental and stakeholder analysis, powered by analysis of global ESG disclosure and assessment standards, and sustainability due diligence. To assess the social and environmental impacts, we analyzed global guidelines for non-financial disclosure and our competing global financial groups' material issues and quantified the results of media analysis from a total of 35 media organizations' press releases. To assess financial impacts, we analyzed finance-related guidelines and assessment indicators that are related to ESG performance to measure the impact of sustainability practices on corporate financial performance, and analyzed global regulations and policies to understand the impact of social systems and stakeholder perceptions on financial performance.

This year, by measuring the severity and likelihood of risks (negative) and opportunities (positive) for each issue based on internal and external stakeholder surveys, we conducted a holistic and comprehensive analysis of each issue's positive and negative impacts in social, environmental, and financial aspects and the risks and opportunities that may derive from the issue, resulting in 21 material issues in 10 areas.

### Double Materiality Assessment Process



# Material Issue Assessment and Analysis

## Double Materiality Assessment Result

### Table of Impacts

As a result of the 2023 double materiality assessment, three issues were identified to have the highest social and environmental impacts and financial impacts: “Responding to Climate Change”, “Building an Ecosystem for Sustainable Growth” and “Strengthening Risk Management”. Shinhan Financial Group reports detailed results of the double materiality assessment, including the prioritization of each issue and the level of positive and negative impacts for a total of 10 material areas.



No.	Category	Material Issue (Level 1)	Impact Type	Impact Materiality		Financial Materiality		Double Materiality	GRI Match	Reporting Location <sup>1)</sup>
				Impact Detail	Impact	Impact Detail	Impact			
1	Eco-friendly (Green)	Responding to climate change	Positive Impact	· Help achieve carbon neutrality by financing green companies to accelerate the transition to a low-carbon economy	Severity ●●● Likelihood ●●●	· Identify green businesses and expand related portfolios through an aggressive low-carbon economy transition	Severity ●●● Likelihood ●●●	●●●	201-2, 305-3	P. 22-34
			Negative Impact	· Maintain support for high-carbon industries like coal and oil and gas, resulting in higher national carbon emissions level	Severity ●●● Likelihood ●●●	· Decrease the value of existing portfolio assets due to high-carbon industries' higher production costs and lower profits with strict greenhouse gas emissions regulations	Severity ●○○ Likelihood ●●○			
2	Eco-friendly (Green)	Expanding ESG finance	Positive Impact	· Expand the ESG market by developing ESG financial products and services that meet investor and client needs · Enable market-wide ESG management by encouraging companies to practice a certain level of ESG management	Severity ●●● Likelihood ●●●	· Make profit by issuing diverse ESG funds and ESG bonds with the qualitative and quantitative growth of sustainable finance market	Severity ●●● Likelihood ●○○	●●○	Non-GRI	P. 22-34
			Negative Impact	· Greenwashing (or ESG-washing) of financial products labeled as ESG that do not have a positive impact on sustainability due to subpar ESG investment and evaluation criteria	Severity ●●○ Likelihood ●●○	· Legal risks, such as lawsuits, from incomplete sales due to greenwashing (or ESG-washing) of sustainable finance	Severity ●●○ Likelihood ●●○			

<sup>1)</sup> Based on 2022 ESG Report

# Material Issue Assessment and Analysis

No.	Category	Material Issue (Level 1)	Impact Type	Impact Materiality		Financial Materiality		Double Materiality	GRI Match	Reporting location
				Impact Detail	Impact	Impact Detail	Impact			
3	Win-win (Brave)	Building an ecosystem for sustainable growth	Positive Impact	Contribute to economic vitalization and job creation by supporting small and innovative businesses, entrepreneurs and the financially vulnerable	Severity ●●○	Enhance corporate reputation and brand value through social contribution activities	Severity ●○○	●●●	203-1, 413-1	P. 55-75
			Likelihood ●●○		Likelihood ●●●					
		Negative Impact	Worsen financial access to small and innovative businesses, entrepreneurs and the financially vulnerable	Severity ●○○	Loss of corporate reputation and brand value due to lack of corporate social responsibility	Severity ●○○				
		Likelihood ●○○		Likelihood ●○○						
4		Improving customer communication and satisfaction	Positive Impact	Maximize financial consumer value by providing digital-only customized services and developing new products	Severity ●○○	Increase customers and achieve operational efficiency with an integrated data platform	Severity ●●○	●○○	Non-GRI	P. 131-136
			Likelihood ●●○		Likelihood ●●●					
		Negative Impact	Customer inconvenience and dissatisfaction due to products and services that are not aligned with market and customer needs, and existence of the digitally vulnerable	Severity ●○○	Lose market dominance due to products and services that does not reflect customer needs and market demand	Severity ●●○				
		Likelihood ●○○		Likelihood ●○○						
3	(Fair)	Establishing sound governance	Positive Impact	Enhance mid- and long-term corporate value and create shareholder value through transparent and sound governance	Severity ●●○	Enhance mid- and long-term corporate value through transparent and sound governance	Severity ●○○	●●○	2-9	P. 99-106
			Likelihood ●●●		Likelihood ●●●					
		Negative Impact	Violate independence of the board due to lack of adequate number of independent directors and ineffective management and oversight on executives and controlling shareholders	Severity ●○○	Undervaluation of company due to weak governance and lack of return to shareholders, etc. (e.g. "Korea Discount", etc.)	Severity ●●○				
		Likelihood ●○○		Likelihood ●●○						
4		Establishing an integrated ESG management system	Positive Impact	Create social and environmental value through a sustainability driving system that reflects ESG in the Group strategy	Severity ●○○	Create mid- and long-term corporate value by promoting strategic sustainability on the Group's ESG governance	Severity ●○○	●●○	2-9	P. 50-53
			Likelihood ●●○		Likelihood ●○○					
		Negative Impact	Short-term performance-driven management that does not consider the company's mid- and long-term growth and social and environmental impact	Severity ●●○	Downgraded credit rating due to poor management of ESG issues and risks	Severity ●○○				
		Likelihood ●●○		Likelihood ●○○						



# Material Issue Assessment and Analysis

No.	Category	Material Issue (Level 1)	Impact Type	Impact Materiality		Financial Materiality		Double Materiality	GRI Match	Reporting location	
				Impact Detail	Impact	Impact Detail	Impact				Impact
7	Strengthening risk management	Positive Impact	Reduce negative social and environmental impacts through strategically integrated risk management	Severity	●●○	Proactively and strategically respond to a call for integrated financial and non-financial risk management to drive business competitiveness	Severity	●●○	●●●	2-16, 25	P. 116-121
				Likelihood	●○○		Likelihood	●○○			
		Negative Impact	Issues (lawsuits, sanctions, etc.) due to a lack of emphasis on risk management or lack of system	Severity	●●○	Non-financial risks from enterprise risk management failures (e.g. operational risk, compliance risk, etc.)	Severity	●●○			
				Likelihood	●●○		Likelihood	●●○			
8	Compliance and ethics	Positive Impact	Prevent compliance violations with an internal control system	Severity	●●○	Secure stakeholder trust and increase company value by ensuring corporate compliance and ethical management	Severity	●○○	●○○	2-23	P. 107-115
				Likelihood	●○○		Likelihood	●●○			
		Negative Impact	Non-compliance harms customers and undermines financial stability	Severity	●●●	Reputational damage and financial losses (penalties, fines, etc.) due to non-compliance	Severity	●●●			
				Likelihood	●●○		Likelihood	●●●			
9	Tightening information security and privacy	Positive Impact	Prevent customer harm by establishing information security and privacy management systems and incident response processes	Severity	●●●	Enhance customer trust by establishing information security and privacy management systems and incident response processes	Severity	●●●	●○○	418-1	P. 137-145
				Likelihood	●●○		Likelihood	●●○			
		Negative Impact	Customer data breaches and harm due to poor information security management	Severity	●●●	Losses from customer information breaches and cybersecurity incidents (loss of trust, fines, etc.)	Severity	●●●			
				Likelihood	●●●		Likelihood	●●●			
10	Ensuring financial consumer protection	Positive Impact	Improve financial consumer protection capabilities by establishing a financial consumer protection system and educating employees	Severity	●○○	Ensure corporate trust and retain customers with protection of financial customers	Severity	●●○	●●○	Non-GRI	P. 122-130
				Likelihood	●○○		Likelihood	●●○			
		Negative Impact	Damage financial consumers due to incomplete sales, including violation of suitability rule and failure to fulfill the duty of explanation	Severity	●●○	Legal liability of financial institutions for fraud, including voice phishing	Severity	●●●			
				Likelihood	●●●		Likelihood	●●●			

\* Prioritization of issues: based on percentage, top 30% ●●● / 31~70% ●●○ / 71~100% ●○○



Trusted (Fair)

# Material Issue Reporting and Management

## Integrated Management of ESG Issues

Amidst various social, environmental, and economic changes surrounding the business environment, the integrated management of financial and non-financial issues is becoming increasingly important for sustainable growth with stakeholders and protection of corporate value. Shinhan Financial Group, based on its consistent ESG strategies and goals, recognizes and responds to non-financial issues as not only risk factors but also opportunities. In particular, considering **속** close connection between achieving ESG strategies and managing risk, we have established an integrated management system for non-financial issues between Strategy & Sustainability Headquarters and Risk Management Headquarters.




Under Shinhan's ESG driving system, which encompasses all subsidiaries, we have strengthened our ESG management implementation capabilities with governance spanning from the Board of Directors' ESG Strategy Committee to a dedicated ESG organization of each subsidiary. We run a monitoring system centering on each group CSSO (Chief Strategy & Sustainability Officer) on non-financial issues that have impact on business. Furthermore, the Group ESG Implementation Committee, to which all group CEOs attend, and the Group ESG CSSO Council establish a centralized response strategy, policies, and goals to manage non-financial issues and capture opportunities.

The Risk Management Committee oversees the Group's risk management, establishing and reviewing relevant policies and conducting proactive and integrated risk management of financial and non-financial risks to weave sustainability into corporate growth and risk management strategies. It defines corporate risks including ESG risks and manages the details of risk identification, measurement, and management, making use of external economic indicators and internal risk indicators. After risks are identified through sustainability due diligence and double materiality assessment, response strategy is established to mitigate risk exposure and impact, accompanied with continuous monitoring for the implementation status.

## Material Issue Management and Action Strategy

Shinhan Financial Group manages ESG issues based on its ESG strategy framework and conducts related response activities aligning the results of the double materiality assessment with the ESG strategy. Also, the results of the materiality assessment, including the impact of each issue, are considered and reflected in the review process of ESG strategy implementation and risk management status to establish a mutually organic system between materiality assessment and ESG strategy achievement.

With this Materiality Assessment Report, Shinhan Financial Group strives to accurately and truthfully communicate the management status and performance of all material issues to its stakeholders. Shinhan will continue to take the lead in demonstrating global leadership in 'right', 'nimble' and 'different' ESG management practices by sincerely responding to changes in global ESG reporting standards and trends, with transparent disclosure.

ESG Strategic Direction	Material Issue	Key Stakeholders	Shinhan Financial Group's Action	Key Activities in 2022	Metrics and Targets
 Eco-friendly (Green)	Responding to climate change	<ul style="list-style-type: none"> <li>Employees</li> <li>Customers</li> <li>Shareholders and investors</li> <li>Local communities and government</li> </ul>	In response to stakeholder's demands for specific climate action plans and active carbon neutrality, along with the strengthening regulations, Shinhan Financial Group is promoting various financial policies, products, and services to reduce carbon emissions and offset them with eco-friendly financial support through the declaration of "Shinhan Zero Carbon Drive," a carbon neutrality strategy in 2020, as an industry-first in East Asia.	<ul style="list-style-type: none"> <li>Reflected emissions reduction in executive KPIs</li> <li>Measured and disclosed emissions of financial assets of KRW 248.6 trillion through the Financed Emissions Measurement System as an industry-first in Korea</li> </ul>	<ul style="list-style-type: none"> <li>To reduce internal emissions (Scope 1, 2)* (42% by 2030, 100% by 2043)</li> <li>To reduce financed emissions (Scope 3)* (33.7% by 2030, 100% by 2050)</li> </ul>
	Expanding ESG finance	<ul style="list-style-type: none"> <li>Employees</li> <li>Customers</li> <li>Shareholders and investors</li> <li>Local communities and government</li> </ul>	Under the principle of Finance for IMPACT, Shinhan Financial Group has strengthened its expertise in promoting ESG finance by establishing the Green IB Promotion Lab and the ESG Global Desk organization, an industry-first in Korea. Also, it is enhancing the alignment of ESG to existing business lines through the expansion of green finance, microfinance, and innovative finance.	<ul style="list-style-type: none"> <li>New KRW 50 billion into Shinhan's Green Way Fund</li> <li>New KRW 4.27 trillion into microfinance in 2022</li> <li>New KRW 2.78 trillion into green finance in 2022</li> </ul>	<ul style="list-style-type: none"> <li>To reach KRW 30 trillion of green finance (by 2030)*</li> </ul>
 Win-win (Brave)	Building an ecosystem for sustainable growth	<ul style="list-style-type: none"> <li>Customers</li> <li>Partner companies</li> <li>Local communities and government</li> </ul>	As a first step in ESG management, Shinhan Financial Group is fulfilling its corporate social responsibility to create a sustainable society through various support programs such as growth and inclusive finance, support for the financially vulnerable, job support, community development, culture, and education to create a hopeful society where everyone can live well together.	<ul style="list-style-type: none"> <li>Opened Startup incubation platform 'Shinhan Square Bridge': Daejeon (May), Daegu (June)                             <ul style="list-style-type: none"> <li>Startup support target, 128% fulfilled (Target: 205 companies / Result: 262 companies)</li> </ul> </li> <li>Launched Shinhan Easy, a group-wide financial education platform: (January)                             <ul style="list-style-type: none"> <li>Surplus achievement of target visitor headcount for platform (Target: 100,000 visitors / Result: 219,082 visitors)</li> </ul> </li> <li>Expansion of nationwide senior-friendly ATMs</li> </ul>	<ul style="list-style-type: none"> <li>To reach KRW 33.3 trillion in total support for Companion Projects (2027)*</li> <li>Number of startups supported</li> <li>Number of customers with financial education</li> </ul>
	Improving customer communication and satisfaction	<ul style="list-style-type: none"> <li>Customers</li> <li>Partner companies</li> <li>Local communities and government</li> </ul>	To practice customer-centered management, Shinhan Bank has strengthened its specialized functions by establishing an independent Consumer Protection Group and separating the Consumer Protection Department from the Consumer Support Department, and operates a company-wide implementation system leading to the Consumer Protection Committee (group head-level), Council (department head-level), and Working Council (working-level), as well as various customer communication channels to listen to customers' opinions and reflect them in management.	<ul style="list-style-type: none"> <li>Opened SoboPlus+ System to manage and operate customer feedback dashboard that is visualized</li> </ul>	<ul style="list-style-type: none"> <li>Customer satisfaction</li> </ul>
 Trust (Fair)	Establishing sound governance	<ul style="list-style-type: none"> <li>Employees</li> <li>Customers</li> <li>Shareholders and investors</li> </ul>	We have strengthened the independence and transparency of the BOD by appointing an independent director as its chairman, and we comply with the Board Diversity Guideline.	<ul style="list-style-type: none"> <li>Appointed two female independent directors</li> </ul>	<ul style="list-style-type: none"> <li>Average attendance rate of board meetings</li> <li>Percentage of women among independent director nominees</li> <li>Percentage of female executives*</li> </ul>
	Establishing an integrated ESG management system	<ul style="list-style-type: none"> <li>Employees</li> <li>Shareholders and investors</li> </ul>	Since establishing its first committee within the board of directors (currently the ESG Strategy Committee), an industry-first in Korea in 2015, we have strengthened ESG execution across the group based on a driving system that includes the appointment of a CSSO (Chief Strategy & Sustainability Officer) and the ESG Implementation Committee, which meets monthly with the CEOs of all subsidiaries, developing various platforms to integrate ESG.	<ul style="list-style-type: none"> <li>Established Shinhan ESG Data Platform as an industry-first in Korea to systematically accumulate and manage ESG data</li> </ul>	<ul style="list-style-type: none"> <li>Number of BOD committee meetings held (ESG Strategy Committee and Risk Management Committee)</li> <li>Measurement by the Shinhan ESG Value Index*</li> </ul>
	Strengthening risk management	<ul style="list-style-type: none"> <li>Customers</li> <li>Partner companies</li> <li>Shareholders and investors</li> <li>Local communities and government</li> </ul>	Through a committee within the Board of Directors (Risk Management Committee), the Group Chief Risk Officer (GCRO), and a dedicated department (Risk Management Team), Shinhan's major financial and non-financial risks are managed in alignment with the Group's overall strategy. We have also established a proactive risk management system for ESG issues by utilizing corporate ESG activities in decision-making on loans and investment, etc.	<ul style="list-style-type: none"> <li>Developed ESG Assessment Model, an industry-first in Korea</li> <li>Established the Group ESG Risk Management Model Code and revised the Group ESG Risk Management Policy</li> </ul>	<ul style="list-style-type: none"> <li>Number of environmental and social risk reviews and Equator Principles reviews</li> <li>Number of meetings of the Board of Directors (Risk Management Committee)</li> </ul>
	Compliance and ethics	<ul style="list-style-type: none"> <li>Employees</li> <li>Shareholders and investors</li> <li>Local communities and government</li> </ul>	We have established a compliance response system to respond to the enactment and enforcement of laws and regulations and solidify ethical management through annual employee ethics and compliance training and ethical practice pledges.	<ul style="list-style-type: none"> <li>Completely revised Shinhan Financial Group's Code of Ethics based on the Board of Directors' report and resolution, producing and distributing the guide</li> </ul>	<ul style="list-style-type: none"> <li>Participation rate in signing the Pledge to Ethics &amp; Compliance</li> <li>Hours of ethics and compliance training</li> <li>Internal Controls Enhancement Index*</li> </ul>
	Tightening information protection and privacy	<ul style="list-style-type: none"> <li>Employees</li> <li>Customers</li> <li>Partner companies</li> </ul>	To provide secure financial services, we have established and operate a four-pillared information protection framework: 1. compliance standard, 2. technology standard, 3. security incident response system, and 4. breach and information leakage response system.	<ul style="list-style-type: none"> <li>Spread a culture of information security (surveys, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>Information Security Compliance Check Index*</li> </ul>
	Strengthening financial consumer protection	<ul style="list-style-type: none"> <li>Employees</li> <li>Customers</li> <li>Shareholders and investors</li> </ul>	To protect the assets of financial consumers, we are the first in the Korean financial sector to operate a nighttime and weekend monitoring system for voice phishing, and we introduced an AI-enabled monitoring system to protect KRW 15.4 billion in assets of 1,149 customers over the span of one year.	<ul style="list-style-type: none"> <li>Established AI monitoring system for voice phishing</li> <li>Establishment of AI-anomaly-detection ATMs</li> </ul>	<ul style="list-style-type: none"> <li>Financial Supervisory Service' Financial Consumer Protection Assessment (every 3 years)</li> </ul>

\* Items marked with an asterisk(\*) are reflected in executive KPI metrics

# Appendix

We transparently disclose the list of Shinhan Financial Group's top 10 ESG material issues (a total of 21) derived from the 2022 Double Materiality Assessment as follows:

- Comprised of 6 Eco-friendly (Green), 5 Win-win (Brave), and 10 Trusted (Fair) issues

ESG 전략방향	NO.	Level 1 Issue	Level 2 Issue	Change <sup>1)</sup>
 <p>Eco-friendly (Green)</p>	1	Responding to climate change	Strengthening the organization, operations and risk management to address climate change	
	2		Advancing the reduction of financed emissions (the carbon footprint of companies for investment and loan)	
	3		Internal carbon emissions and energy use	
	4	Expanding ESG finance	Developing and expanding ESG financial products (loans, investments, bonds, etc.)	New
	5		Expanding customer ESG engagement activities	
	6		Enhancing ESG loan and investment processes	
 <p>Win-win (Brave)</p>	7	Building an ecosystem for sustainable growth	Enhancing support for small and innovative businesses	New
	8		Supporting the financially vulnerable	
	9		Improving financial accessibility and conducting financial education	New
	10	Supporting local communities and microbusiness owners		
	11	Improving customer communication and satisfaction	Transforming customer experience with digital finance	
 <p>Trust (Fair)</p>	12	Establishing sound governance	Ensuring transparent, sound, and stable governance	
	13		Ensuring board independence, diversity, and expertise	
	14	Establishing an integrated ESG management system	Establishing a group ESG organization and operations	
	15	Strengthening risk management	Integrated financial and non-financial risk management	
	16		Creating a risk management culture (expanding risk management capabilities)	New
	17	Compliance and ethics	Establishing an ethics and compliance management organization and operating system	
	18		Business ethics compliance (Issues of anti-competition and unfair practices, anti-corruption, anti-bribery, etc.)	
	19	Tightening information security and privacy	Establishing an information security and privacy organization and operating system	
	20		Strengthening customer privacy controls	
	21	Strengthening financial consumer protection	Establishing a financial consumer protection organization and operating system	New

1) New: newly added issues in the 2022 issue pool, compared to 2021

