



SHINHAN
FINANCIAL GROUP

Shinhan Financial Group

Environmental and Social
Risk Management Policy Framework

CEO Message

Dear respected customers and shareholders,

Since its founding, Shinhan Financial Group has emphasized its role as a responsible corporate citizen. Beginning with the publication of the first Social Responsibility Report in the financial industry in 2005, SFG has been implementing sustainable management policy by establishing socially responsible strategies which are linked to the group's mission, participating in global initiatives and operating the Social Responsibility Management Committee in the Board.

Mankind is faced with enormous economic, environmental and social challenges. The United Nations has proposed the Sustainable Development Goals(SDGs) to be achieved by 2030 and SFG will actively participate in this global movement. SFG carefully analyzes the environmental and social impacts of our financial services and conducts thorough review in accordance with international standards in case of large-scale Project Finance.

Shinhan Financial Group will always strive for the growth in value of customers, Shinhan and society together.

Thank you.



Cho Yong-byoung

Chairman and CEO
Shinhan Financial Group



Need for environmental and social risk management

01

Stronger demand for social responsibility



- After a global consensus on sustainable development was made in 1992 in Rio Summit, the UNEP FI (UN Environment Program Finance Initiative), an organization exclusively for environmental problems, was established under the umbrella of the UN.
- The United Nations-supported Principles for Responsible Investment were developed in 2006 for the consideration of environmental and social issues at the time of decision of investment by financial institutions. The financial institutions around the world are called upon to participate in the application of the principles, and Shinhan Bank in Shinhan Financial Group joined UNEP FI in 2008 and has made effort to fulfill the Principles for Responsible Investment.
- The UNEP FI plans to develop the Sustainable Banking Principles by 2019, and it is expected that the level of demand for the social responsibility of banking institutions will keep increasing.

02

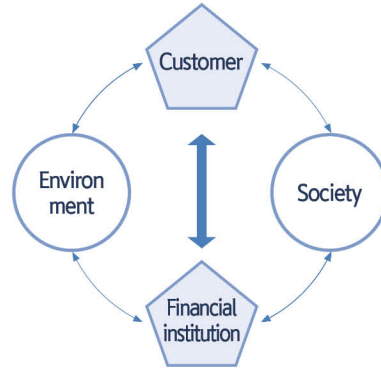
Expanding the scope and the ability of risk management

- The possibility of a company's becoming insolvent due to an environmental issue is a representative non-financial risk. Though such an incident does not occur frequently, extensive damage may be caused once it happens and thus such a matter requires special attention.
- It is possible to manage not only financial risk but also potential non-financial risk and even the reputation of the financial institution by managing environmental and social risks.
- It becomes possible to cope with the industrial and technological changes according to environmental and social requests, discover new markets in the environment-friendly sector, etc., and propose the direction of strategy for portfolio rearrangement.
- The opportunity to participate in leading PF markets will expand through the observation of international standards being universalized at the time of providing large scale PF.

Environmental and social risk management system

01

Overview



- Environmental and social risk management means a series of activities analyzing and managing the influences made on environment and society by the business activities of customers related to the financial assistance of financial institutions.

The environmental and social risk management system of Shinhan Financial Group

ESRM (Environmental and social risk management policy framework) _____

- The overall system including the purpose and principle of environmental and social risk management and important matters to be fulfilled

Sector Policy (Areas of interest management policy) _____

- Environmentally and socially important areas which need attention with many issues are selected for management

ESRP (Environmental and social risk review procedure) _____

- Risk assessment and management for large development PF which has much environmental and social influence

Environmental and social risk management system

02

Areas of interest management policy

How to select areas of interest

- 12 areas of interest including global warming, fine dust, biodiversity and industrial safety and health have been selected on the basis of the guidelines of IFC (International Finance Corporation) and referring to the criteria of global financial institutions, ESG evaluation agencies and research institutes.

* IFC (International Finance Corporation)



How to manage risks in the areas of interest

- Monitoring is done in many aspects such as exposure of areas of interest, industries with environmental and social issues and technological change and trend of regulation.
- Some areas which have significant environmental and social influence are excluded from our financial assistance or provided financial assistance on condition.

Areas of interest



Forestry
(water pollution, destruction of ecology)



Mining
(heavy metal, water pollution)



Drift-net fishing
(destruction of ocean ecology)



Crop production
(pollution of soil and water)



Tobacco
(child labor, health)



Coal processing
(air pollution)



Oil refining
(ocean pollution)



Power generation
(air pollution, radioactivity)



Infrastructure
(air pollution, migration of indigenous people)



Arms and munition
(mass destruction)



Chemicals
(harmful material)



Waste water / wastes
(water pollution)

Environmental and social risk management system

03

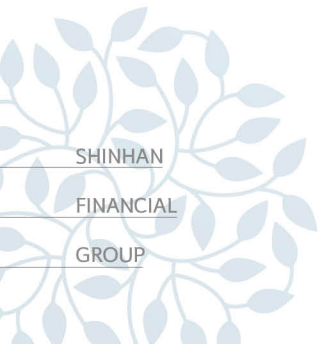
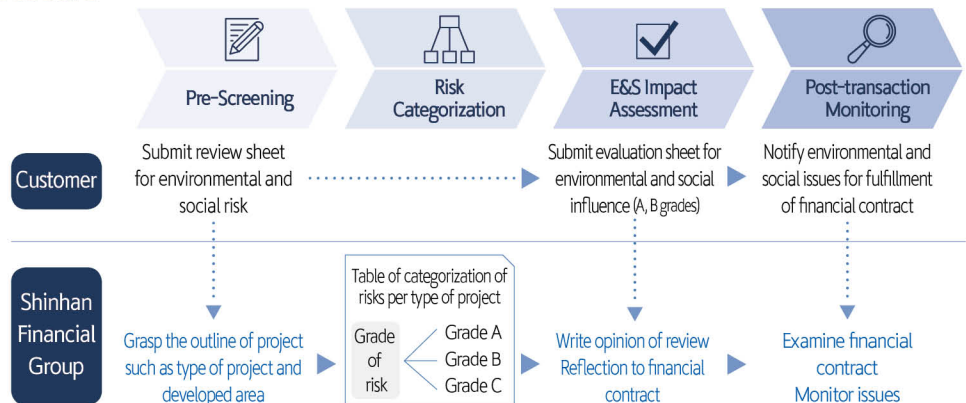
Environmental and social risk review procedure



- When providing financial services for a large scale PF which has a significant environmental and social influence, we evaluate the level of environmental and social risk related to the project and manage it by reflecting risk mitigation measures in the financial contract.
 - **Distinctiveness of PF** : ① Large scale ② Long time ③ Nonurban location to have significant environmental and social influence
- We review if the selection of the objects, categorization of the degree of risk and evaluation of environmental and social influence are done according to the Equator Principles*.

* Equator Principles : Voluntary agreement among financial institutions not to provide financial assistance for a PF if there is a possibility of destruction of environment or violation of human rights

Review Procedure



Environmental and social risk management system

04

For new businesses
and products



- Environmental and social influence is examined in the reviewing procedures when the company is starting a new business or a product or service is released.
- For substantial review, the opinion of review of risks are written by the business division and independent review is done by the risk division in consideration of the opinion of review of risks presented by the business division.
- Post-transaction monitoring is conducted regularly after the implementation of the business or introduction of the product for the occurrence of environmental and social issues.



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