

Japan Credit Rating Agency, Ltd. (JCR) announces the following Green Finance Framework Evaluation Results.

Shinhan Bank Japan

Green Finance Framework

Assignment



Issuer/Borrower	Shinhan Bank Japan
Subject	Shinhan Bank Japan Green Finance Framework

Evaluation Overview

▶▶▶ 1. Overview of Shinhan Bank Japan

Shinhan Bank Japan (hereinafter referred to as "the Bank" or "SBJ") is a Japanese subsidiary bank, which is wholly owned by Shinhan Bank, a core commercial bank in Shinhan Financial Group with its deposit exceeding 1.1 trillion yen. Shinhan Bank had developed its business in Japan as a branch since 1986; however, it has established the Bank as a local corporation, which has taken over the operations in the branch in 2009. The Bank mainly provided loans to Korean small- and medium-sized companies, which was the main business in the branch in Japan when it initially started its operations; however, the Bank has expanded its business through the development of new areas; for instance, it has started "ANY mortgage loans" since 2012. The sales network consists of 10 branches developed mainly in large cities, such as Tokyo or Osaka and four exchange offices located at Haneda Airport, and automated teller machines (hereinafter referred to as "ATM") are available nationwide as affiliated services with other financial institutions, including banks by retailers. The Bank has also been making efforts to provide services through non-face-to-face channels.

▶▶▶ 2. The Bank's ESG management and decarbonization initiatives

Shinhan Financial Group has recognized the need to reduce greenhouse gases (hereinafter referred to as "GHG") so as to respond to the rapid progress of global warming and has set forth "Zero Carbon Drive" as an environmental impact issue. Shinhan Financial Group has identified the followings: (1) "Governance for climate change response and establishment of a risk management system" and (2) "Sophistication of proactive environmental management strategies, policies, systems and disclosures" as environmental materialities (important issues.)

The Bank has been making efforts toward ESG based on SBJ SDGs/ESG Principles, "the Bank Beloved by the Earth" in light of these group-wide policies. From the environmental perspective, the Bank has set its "GOAL," aiming for "environmentally friendly corporate behavior by making sustainable efforts to harmonize environmental conservation with corporate activities" and has defined the two promotion issues: "Zero Carbon Drive" and "Environmentally Conscious Management." The Bank, as a financial institution, has recognized the need to promote efforts to mitigate global warming by reducing carbon emissions in its investment and loan portfolio and it has positioned "investments in and loans to projects on the development, construction and operation of solar power generation facilities" as defined in this Framework as a driver to promote zero carbon emissions.

ESG Strategy Committee and Risk Management Committee have been established under the Board of Directors for the sustainability promotion system in Shinhan Financial Group. The Group ESG CSSO Council or the Group Risk Council have established a system to formulate specific practical plans and put them into practice under the direction of the ESG Promotion Committee in which CEOs of all group companies participate so that group companies can implement sustainability policies. The Bank does not belong to any group and therefore has not participated in these Committees; however, it has incorporated these policies through its parent bank, Shinhan Bank.

▶▶▶ 3. About the Green Finance Framework

The subject of this evaluation is a green finance framework (hereinafter referred to as "this Framework") established by the Bank to use the proceeds to be financed through green bonds or green loans (green bonds and green loans are collectively referred to as "green finance") only to expenditures to the projects to improve environment. JCR evaluates whether this Framework aligns with the Green Bond Principles¹, the Green Loan Principles², the Green Bond Guidelines³ and the Green Loan Guidelines⁴. These principles and guidelines are voluntarily published by the International Capital-Marketing Association (ICMA), Loan Market Association (LMA) etc., and the Ministry of Environment, respectively, and are not legally regulated based on evidences. JCR however refers these principles and guidelines as they are referred to as unified standards domestically and globally.

¹ ICMA (International Capital Market Association) (2021) *Green Bond Principles*
<https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

² LMA (Loan Market Association), APLMA (Asia Pacific Loan Market Association), LSTA (Loan Syndications and Trading Association) (2023) *Green Loan Principle*
<https://www.lma.eu.com/>

³ Ministry of the Environment (2022) *Green Bond Guidelines*
<https://www.env.go.jp/content/000128193.pdf>

⁴ Ministry of the Environment (2022) *Green Loan Guidelines*
<https://www.env.go.jp/content/000128193.pdf>

The Bank has stipulated that the proceeds in this Framework will be used for investments in and loans to projects on the development, construction and operation of solar power generation facilities. It is also stipulated that appropriate measures shall be taken in consideration of the negative impacts on the environment and society when implementing eligible projects. Accordingly, JCR has evaluated that the use of proceeds in this Framework is expected to have environmental benefits.

The Bank has a system in which internal specialized departments or the management have been appropriately involved in the selection processes of projects for which proceeds will be used and a framework for internal and external audit has been established and controlled in addition to that how to manage proceeds has been appropriately designed. Items on the allocation of proceeds and environmental benefits will be appropriately defined and disclosed on the Bank's website in terms of reporting. Accordingly, JCR has evaluated that the Bank has kept transparency as its management and operation system has been established.

Based on JCR Green Finance Evaluation Methodology, JCR assigned "g1(F)" for "Greenness Evaluation (Use of Proceeds)" and "m1(F)" for "Management, Operation and Transparency Evaluation." As a result, JCR assigned "Green 1(F)" for the overall "JCR Green Finance Framework Evaluation."

The Framework meets the standards for the items required in the Green Bond Principles, the Green Loan Principles, the Green Bond Guidelines, and the Green Loan Guidelines.

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I. The Use of Proceeds

JCR's Key Consideration on This Factor

In this section, JCR first confirms whether the proceeds set out in the Framework is used for green projects that have clear environmental improvement effects. Then, in cases where the use of proceeds is expected to have a negative impact on the environment and society, JCR confirms whether the impact is fully examined by an internal specialist department or an external third party and whether necessary measures have been taken for its workaround and mitigation. Finally, JCR confirms the consistency with the Sustainable Development Goals (SDGs.)

▶▶▶ Current Status of Evaluation Targets and JCR's Evaluation

The Bank's investments in and loans to projects on the development, construction and operation of solar power generation facilities for which it will use proceeds in this Framework are initiatives that contribute to reducing CO₂ emissions in its own financial portfolio and the Japanese government's target, and to realizing a carbon-free society, and are expected to have environmental benefits.

The Framework for Use of Proceeds

2.1 Use of Proceeds

- The Bank will use the proceeds financed through green finance to allocate to new and existing investments in and loans to projects that meet the following eligibility criteria.
- In determining eligibility, alignment shall be made with the Green Bond Principles (GBP) 2021 (ICMA,) the Green Loan Principles 2023 (LMA,) the Green Bond Guidelines 2022 (Ministry of the Environment,) the Green Loan Guidelines 2022 (Ministry of the Environment) and market standards, assuming that clear environmental benefits are recognizable.

Business Division on GBP	Eligibility Criteria	Environmental Benefits
Renewable energy	Investments in and loans to projects on the development, construction and operation of solar power generation facilities	Reduction of CO ₂ emissions

The following companies are not eligible even through their target projects meet the aforementioned eligibility criteria.

- Companies that engage in operations that may have significant negative impacts on the environment or society (cluster bullet manufacturing business, inhumane weapons manufacturing business, child/compulsory labor business and businesses with negative impacts on biodiversity or world heritage)
- Companies that are unloanable by the Bank such as anti-social forces

JCR's Evaluation for the Framework

1. Environmental improvement effects of the project

Use of proceeds is investments in and loans to projects on the development, construction and operation of solar power generation facilities. This project falls under "Renewable energy" in the Green Bond Principles and the Green Loan Principles, and "Projects for renewable energy" among the use of proceeds illustrated in the Green Bond Guidelines and the Green Loan Guidelines.

Solar power generation refers to clean energy in place of fossil fuels by using solar power as energy sources, has GHG reduction effects and does not depend upon finite resources such as fossil fuels. Therefore; solar power generation is expected to play an important role in the 6th Strategic Energy Plan, which was approved by the Cabinet in October 2021. According to the aforementioned Plan, the government will make sure to use renewable energy as the main power source, prioritize to make efforts on renewal energy and promote its introduction to the maximum extent possible while minimizing the burdens on citizens and coexisting with communities on the premise that stable supply is ensured or energy costs is reduced (S+3E) in the renewable energy sector, aiming at "Carbon neutral declaration" in 2050, a 46 percent reduction in CO₂ emissions in 2030 and a new challenge that continuously aims at an even higher level of a 50 percent reduction in CO₂ emissions. In the Plan, the renewable energy has been positioned as the main power source in FY 2030, and solar power generation accounts for the largest power production in renewable energy sources.

		(FY2019 ⇒ previous energy mix)	Energy mix in FY2030 (ambitious outlook)
Energy efficiency improvement		(16.55 million kl ⇒ 50.30 million kl)	62 million kl
Final energy consumption (without energy conservation)		(350 million kl ⇒ 377 million kl)	350 million kl
Power generation mix	Renewable energy	(18% ⇒ 22-24%)	36-38%
Electricity generated: 1,065 TWh ⇒ Approx. 934 TWh	Hydrogen/Ammonia	(0% ⇒ 0%)	※If progress is made in utilization and implementation of R&D of renewable energy currently underway, 38% or higher will be aimed at. (details of renewable) solar 14~16% wind 5% geothermal 1% hydropower 11% biomass 5%
	Nuclear	(6% ⇒ 20-22%)	
	LNG	(37% ⇒ 27%)	
	Coal	(32% ⇒ 26%)	
	Oil, etc.	(7% ⇒ 3%)	
(+ non-energy related gases/sinks)			
GHG reduction rate		(14% ⇒ 26%)	46%
			Continuing strenuous efforts in its challenge to meet the lofty goal of cutting its emission by 50%

Figure 1: Overview of the 6th Strategic Energy Plan⁵

On one hand, the renewable energy (hydropower, solar, wind, geothermal and biomass) already accounted for roughly 21.7 percent of the total power generation in FY 2022, and solar power generation is made up of approximately 9.2 percent of the total power generation, a larger share than that of hydropower⁶. On the other hand, in order to achieve the aforementioned goal, the

⁵ Source: Agency for Natural Resources and Energy (2021) *The 6th Strategic Energy Plan*

⁶ Ministry of Economy, Trade and Industry, Agency for Natural Resources and Energy (published on November 29, 2023) *Energy Supply and Demand Results of FY2022 (Preliminary Report)*
https://www.enecho.meti.go.jp/statistics/total_energy/pdf/gaiyou2022fysoku.pdf

total solar power generation needs to increase to 14 to 16 percent by 2030, and further expansion of solar power generation has been continuously required. In light of the above, this use of proceeds will not only contribute to the reduction of CO₂ emissions in the Bank's financial portfolio but also considered to be of great social importance.

JCR has confirmed that most of the cost on the development and construction of solar power generation facilities will be allocated to the proceeds financed based on this Framework although the cost on the operation of solar power generation facilities developed and constructed will be partially included in the proceeds financed based on this Framework. JCR has determined that it is appropriate to include some operating costs in the use of proceeds as they are essential for the long-term utilization of solar power generation facilities.

JCR has also confirmed that the Bank is not to stipulate a specific look-back period, assuming that the depreciation of the economic value of the investments and loans for solar power generation over time is incorporated in a reasonable and appropriate manner. JCR has determined that the environmental value of solar power generation facilities will continuously be developed for the redemption or repayment period of green finance based on this Framework as the environmental value of solar power generation facilities will not significantly decrease over time.

Accordingly, JCR has evaluated that this use of proceeds has environmental benefits as the expansion of solar power generation is an initiative that contributes to reducing CO₂ emissions in the Bank's financial portfolio and the Japanese government's target and to achieving a carbon-free society.

2. Negative Impacts on the Environment and Society

The Framework for Negative impacts on the environment and society

The Bank is to confirm the negative environmental and social impacts of eligible projects and the avoidance and mitigation measures when selecting the projects. In particular, the following items have been confirmed.

<Negative Impacts>

- Adverse effects on the ecosystem or water resources such as groundwater in the business areas (from the environmental perspective)
- Consideration for noise/vibration along with construction and labor safety (from the social standpoint)

<Avoidance/Mitigation Measures>

- Comply with due diligence reports for each power plant and environment-related laws and regulations, ordinances or guidelines, such as the Air Pollution Control Law (from the environmental viewpoint)
- Provide residents in the surrounding areas with sufficient explanations and take measures to ensure safety under construction by operators (from the social perspective)

JCR's Evaluation for the Framework

The Bank has stipulated in its framework that projects for which the proceeds will be used do not include companies whose businesses may have significant negative impacts on the environment or society or companies unloanable by the Bank such as antisocial forces. JCR has confirmed the followings as the contents assumed as negative impacts on the environment and society, and the workarounds.

- The Bank has assumed negative impacts, including adverse impacts on the ecosystem in the business areas, impacts on water resources such as groundwater and risks of damage, loss or deterioration of assets under management caused by natural disasters from the environmental perspective. As a workaround, the Bank's Investment Banking Team will confirm and verify the probability based on the materials provided by agents of projects and AM or OM companies in charge of business operations. In particular, the Team will obtain due diligence reports for each power plant and carry out on-site inspections to confirm whether the Bank has complied with environmental laws, ordinances and guidelines such as the Air Pollution Control Law.
- The Bank has assumed negative impacts, such as noise and vibration along with construction work and considerations for labor safety on the social side. The Bank will confirm that thorough explanation has provided to residents in neighboring areas or that safety measures have been taken under construction by operators as workarounds.

JCR has also confirmed the Bank's internal standards in proceeding with projects in the solar power generation project, and that the Bank has considered the credit capability of EPC companies or whether they have bought insurance or not. Accordingly, JCR has evaluated that the negative impacts on the environment and society have been considered for all eligible projects and that appropriate measures have been taken.

3. Consistency with SDGs

JCR evaluated the use of proceeds set out in the Framework contributes to the following SDGs' goals and targets in reference to ICMA's SDGs mapping.



Goal 3: Good Health and Well-being

Target 3.9: By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination



Goal 7: Affordable and Clean Energy

Target 7.2: By 2030, increase substantially the share of renewable energy in the global energy mix
 Target 7.3: By 2030, double the global rate of improvement in energy efficiency



Goal 9: Industry, Innovation and Infrastructure

Target 9.1: Develop quality, reliable, sustainable and resilient infrastructure, including regional and trans border infrastructure, to support economic development and human well-being with a focus on affordable and equitable access for all
 Target 9.4: By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities



Goal 11: Sustainable Cities and Communities

Target 11.6: By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management



Goal 12: Responsible Consumption and Production

Target 12.4: By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment



Goal 13: Climate Action

Target 13.1: Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

I. Selection Standards and Processes for Use of Proceeds

JCR's Key Consideration on This Factor

In this section, JCR confirms that the objectives to be achieved through green financing, the appropriateness of green project selection standards and processes, and whether or not a series of processes are properly disclosed to investors/lenders and others.

▶▶▶ **Current Status of Evaluation Targets and JCR's Evaluation**

JCR has determined that departments with specialized knowledge and the management have been appropriately involved in the goals, selection criteria for green projects and processes in this Framework and that transparency has also been kept.

1. Goals

The Framework for Goals

1.5. Significance of Green Finance

- The Bank will also focus on financing in low-carbon emissions industries and a foundation for a sustainable society through financing via green finance, aiming for its further growth as "the Bank Beloved by the Earth."
- The Bank will increase investments in and loans to environment-related projects as a medium- to long-term initiative to promote "zero carbon emissions." The Japanese government aims to increase the proportion of renewable energy to 36 to 38 percent by FY 2030 to achieve carbon neutrality in 2050. The Bank has also been focusing on financing in the development of renewable energy and will continue to support the energy transition financially hereafter.
- The Bank has recently developed a framework for financing for these initiatives in accordance with the Green Bond Principles of the International Capital Market Association (hereinafter referred to as "ICMA") and has formulated the framework. The Bank has considered that this Framework is aligned with the significance of green finance and will bring about positive impacts to a society.

JCR's Evaluation for the Framework

Shinhan Financial Group to which the Bank belongs, has recognized the need to reduce GHG emissions so as to address the rapid progress of global warming. Based on this recognition, the Bank has set forth "Zero Carbon Drive" as an environmental impact issue and has been promoting to achieve net zero by cutting down and offsetting CO₂ emissions. Furthermore, Shinhan Financial Group has identified the followings: (1) "Governance for climate change response and establishment of a risk management system" and (2) "Sophistication of proactive

environmental management strategies, policies, systems and disclosures" as environmental materialities (important issues.) Specific numerical targets include a cumulative environmental investment and loan amount of 30 trillion won from 2020 to 2030, a 33.7 percent reduction in carbon emissions in its investment and loan portfolio (financed emissions) by 2030 (from 2020,) a 59.5 percent reduction by 2040 (from 2020) and a net zero by 2050.

The Bank has been making efforts toward ESG based on SBJ SDGs/ESG Principles, "the Bank Beloved by the Earth" in light of these group-wide policies. From the environmental perspective, the Bank has set its "GOAL," aiming for "environmentally friendly corporate behavior by making sustainable efforts to harmonize environmental conservation with corporate activities" and has defined the two promotion issues: "Zero Carbon Drive" and "Environmentally Conscious Management." The Bank, as a financial institution, has recognized the need to promote efforts to mitigate global warming by reducing carbon emissions in its investment and loan portfolio and it has positioned "investments in and loans to projects on the development, construction and operation of solar power generation facilities" as defined in this Framework as a driver to promote zero carbon emissions. The project has environmental benefits as mentioned above and contributed to reducing CO₂ emissions in the bank's financial portfolio; therefore, it is considered to be an initiative that represents "environmentally friendly corporate behavior."

Accordingly, JCR has evaluated that the investments in and loans to the solar power generation project, an eligible project in this Framework, is aligned with the efforts to solve the impact issues and materiality on the environment in Shinhan Financial Group and have been positioned as significant initiatives in achieving the Bank's goal.

2. Selection criteria

The eligibility criteria for this Framework are described in Evaluation Phase 1 of this report. JCR assesses that the selection criteria for the project are appropriate.

3. Processes

The Framework for Processes

2.2. Project evaluation and selection process

The following processes will be taken for eligible projects to which proceeds financed under this Framework will be allocated: (i) Investment Banking Team will formulate a candidate list for the eligible projects from investments and loans approved by the Credit Committee, (ii) Corporate Planning Team will confirm whether the list is aligned with the eligible criteria and (iii) Corporate Planning Team will select the eligible projects from the list. The final approval for the financing will be given by the Board of Directors. These project selection criteria/processes will be disclosed on the Bank's website.

JCR's Evaluation for the Framework

In selecting projects that are subject to the use of green finance proceeds, firstly, Investment Banking Team with customer contact will formulate a candidate list for eligible projects based on the candidate projects approved by the Credit Committee in which executives participate. Subsequently, Corporate Planning Team will confirm whether the list is aligned with the eligibility criteria and will select projects from the candidate list. Then, the final approval for the proceeds

financed will be given by the Board of Directors. JCR has confirmed that Corporate Planning Team, which will select the candidate list, has accumulated specialized knowledge on environmental and social issues through communication with specialized departments in Shinhan Bank.

Accordingly, JCR has evaluated that the management and specialized departments have been appropriately involved in the project selection processes specified in this Framework.

The Bank's green finance goals, selection criteria and processes will be disclosed in this evaluation report and on its website. The Bank plans to disclose the target projects when carrying out green finance via IR or statutory disclosure documents. JCR therefore has evaluated that the Bank has ensured its transparency to investors.

II. Management of the Proceeds

JCR's Key Consideration on This Factor

It is usually assumed that the management of the proceeds varies widely depending on issuers/borrowers. JCR confirms whether the proceeds are surely appropriated to the green project and whether a mechanism and internal system are in place to make tracking easy.

JCR also focuses on whether the proceeds are scheduled to be used for green projects at an early stage and the management and operation methods for unallocated proceeds.

▶▶▶ Current Status of Evaluation Targets and JCR's Evaluation

JCR has evaluated that the Bank has been highly transparent as its proceeds management system has been properly established, how to manage proceeds financed will be disclosed in this evaluation report and the framework will be disclosed on its website.

The Framework for Management of the Proceeds

2.3. Management of Proceeds Financed

The Bank plans to allocate the proceeds financed through green finance based on this Framework to new and existing investments and loans that satisfy the eligibility criteria with the equivalent amount or higher. Corporate Planning Team will aggregate reports from respective related departments such as Investment Banking Team and will continuously monitor the appropriation of the proceeds financed with Excel files. In cases where there is an outstanding balance of unallocated proceeds due to sale, early repayment or installment redemption of the green bonds before it is redeemed (or repaid in case of a loan) even after the full allocation is made, it will be managed in cash or cash equivalents and then will be allocated to other projects that meet the eligibility criteria.

JCR's Evaluation for the Framework

The system is designed to ensure that the proceeds financed through green finance will be continuously tracked and managed by Corporate Planning Team in coordination with the relevant departments with management methods including Excel sheets. The policy is to allocate the proceeds financed to projects that satisfy the eligibility criteria as soon as possible. In cases where there is an outstanding balance of unappropriated proceeds, it will be managed in cash or cash equivalents until the proceeds will be fully appropriated.

The management of the proceeds financed is subject to internal and external audit. The books on the management of proceeds financed will be kept for 10 years in compliance with the Bank's internal rules. JCR has confirmed that the Bank makes the term of proceeds financed presently assumed be 10 years or less; however, it intends to consider changing its internal rules in cases where it will finance proceeds for the period of more than 10 years.

Accordingly, JCR has evaluated that the Bank has been highly transparent as its proceeds management system has been properly established and that how to manage proceeds financed will be disclosed in this evaluation report.

III. Reporting

JCR's Key Consideration on This Factor

In this section, JCR evaluates whether the disclosure system for investors/lenders before and after financing based on the Framework, is planned in detail and in an effective manner.

▶▶▶ Current Status of Evaluation Targets and JCR's Evaluation

JCR has evaluated that the Bank plans to appropriately disclose both the appropriation of proceeds and the environmental benefits to investors in terms of its reporting.

The Framework for Reporting

2.4. Reporting

The Bank will annually disclose reporting for proceeds allocation and impact reporting on its website to the extent practicable. The Bank will annually report the following disclosure details only to a loan lender in case of a loan and only to a lender via an agent in case of a syndicated loan.

The initial disclosure will be made within one year of financing proceeds under this Framework. In cases where there is any major change in the appropriation plan for the proceeds financed, or there is any change in the situation that has significant impacts on the plan after the proceeds financed is allocated, the Bank will disclose that effect in a timely manner.

2.4.1 Proceeds Allocation Reporting

The Bank will disclose the following information on the appropriation of proceeds as long as there is an outstanding balance of green bonds (until it will be paid off in case of a loan.) In cases where there is any significant change in the situation after the appropriation is fully made, the Bank will promptly disclose that effect.

	Disclosure	Disclosure Timing
Proceeds Allocation	<ul style="list-style-type: none"> · Appropriation amount · Unappropriated amount · Balance of green bond (or loan) 	Once a year as long as there is an outstanding balance of green bonds (until it will be paid off in case of a loan)

2.4.2. Impact Reporting

Impact reporting will be annually disclosed as long as there is an outstanding balance of green bonds (until it will be paid off in case of a loan) by referring to the indicator example in the table below. The Bank plans to disclose the number of investment and loan projects (cases) and the total amount of their execution.

Eligible Criteria	Indicator Example
Investments in and loans to projects on the development, construction and operation of solar power generation facilities	<ul style="list-style-type: none"> · Power Generation · CO₂ emission reduction (t- CO_{2e})

JCR's Evaluation for the Framework

Reporting on the allocation status of the proceeds

The Bank plans to annually disclose the contents stipulated in this Framework with regard to the appropriation of proceeds financed through green finance on its website. In cases where there is any significant change in the financial situation after the proceeds financed are fully allocated, that effect will be disclosed in a timely manner.

Reporting on environmental improvement effects

The Bank plans to annually disclose the details defined in this Framework as reporting on the environmental benefits of green projects on its website. These disclosure items include quantitative indicators, such as annual power generation and CO₂ reduction.

Accordingly, JCR has evaluated that the reporting system in the Bank has been adequate.

IV. Organization's Sustainability Initiatives

JCR's Key Consideration on This Factor

In this section, JCR evaluates whether the management of the issuer/borrower positions sustainability issues as a high priority for management and whether the sustainability policy, process and selection criteria for green projects are clearly positioned through the establishment of a department specializing in environmental issues or in collaboration with external organizations.

▶▶▶ Current Status of Evaluation Targets and JCR's Evaluation

JCR has highly evaluated that Shinhan Financial Group has positioned sustainability issues as important management challenges, has a meeting body on sustainability issues, has been making efforts from the practical and management perspective and has been promoting initiative on sustainability while taking in specialized knowledge on environmental or social issues mainly in collaboration with Shinhan Bank.

Shinhan Financial Group's Sustainability Initiatives

Shinhan Financial Group has established "Shinhan Way2.0," which consists of its mission, core values and vision as a value system that indicates the goal for which the Group aims, the way of thinking by all employees of Shinhan Financial Group and behavioral standards. Based on these policies, the Group has set forth its ESG principle, "FINANCE for IMPACT" and its ESG slogan, "Do the Right Thing for a Wonderful World" in the ESG strategy framework and has designated three strategic directions - Environment, Coexistence and Trust. The Bank has systematically and timely identified important issues of ESG - Environment, Society and Governance through materiality assessments, has divided those into three strategic directions - Environment, Coexistence and Trust and has strived to fully disclose information on its efforts and accomplishments.



Figure 2: ESG Strategy Framework of Shinhan Financial Group⁷

⁷ Source: Shinhan Financial Group (2022) *ESG Highlights* https://www.sbjbank.co.jp/about_sbj/csr/pdf/2022_esg.pdf

In 2020, the Bank announced "Zero Carbon Drive" for the first time as a financial group in East Asia and declared to realize carbon neutrality in 2050 including its investment and loan portfolio from the perspective of the environment. The Bank has been actively working toward its 2025 goal of becoming an "Asia's Leading ESG Financial Group;" for instance, in November 2022, it obtained approval for its carbon reduction target by SBTi⁸. The Bank has been actively participating in initiatives to formulate rules for the ESG agenda, such as UNEP FI⁹, PCAF¹⁰ or NZBA¹¹.

ESG Strategy Committee and Risk Management Committee under the Board of Directors have deliberated sustainable management and environmental/social risk management strategies and have resolved the sustainability policy as a sustainability promotion system in Shinhan Financial Group, as shown in the figure below. Group ESG CSSO Council or Group Risk Council under the direction of ESG Promotion Committee in which CEOs of all group companies participate, has established a system to formulate specific practice plans and implement them from 2021 onward to enable group companies to execute the sustainability policy. The Bank does not belong to any group and therefore has not participated in these Committees; however, it has incorporated these policies through its parent bank, Shinhan Bank.



Figure 3: Sustainability Promotion System of Shinhan Financial Group¹²

Sustainability Initiatives by the Bank

The Bank is a locally incorporated company of Shinhan Bank in Japan, which forms the core of Shinhan Financial Group. The Bank's active promotion of its ESG strategy has been positioned

⁸ Science Based Targets initiative (SBTi.) An initiative that calls for companies to set "CO₂ emission reduction targets" based on "scientific evidence." It was established in September 2014 by CDP (formerly the Carbon Disclosure Project,) a collaboration of institutional investors who have promoted disclosure on climate change measures, World Resources Institute (WRI,) World Wildlife Fund (WWF) and the United Nations Global Compact (UNGC.)

⁹ The United Nations Environment Programme Finance Initiative (UNEP FI.) An initiative to promote to transform to the financial system that integrates economic development by the United Nations Environment Programme (UNEP) established in 1992 and roughly 200 or more banks, insurance companies and securities firms around the world with consideration for ESG (environmental, social and governance.)

¹⁰ Partnership for Carbon Accounting Financials (PCAF.) A global industry-led initiative to standardize the measurement and disclosure of investees' emissions.

¹¹ Net-Zero Banking Alliance (NZBA.) An international initiative between banks that aim to achieve carbon neutrality (net zero GHG emissions) in investment and loan portfolios by 2050.

¹² Source: Shinhan Financial Group website
http://www.shinhangroup.co.kr/jp/esg/2021/esg_governance.jsp

as a highly significant role for the Group to aim to be an Asia's leading ESG financial group in light of its further expansion into the Asian region as Asian countries account for roughly half of the Shinhan Bank network, and Japan is one of the most important hubs in the Asian financial market.

The Bank has established its own CSR basic policy, SDGs declaration or SDGs/ESG principles in cooperation with its parent company, Shinhan Bank so that it can implement its ESG strategy in accordance with the sustainability policy of the aforementioned Shinhan Financial Group. Corporate Planning Team has formulated behavioral guidelines that incorporate efforts per fiscal year as specific action targets for the SDGs/ESG principles from FY 2023 onward. The Bank has defined its "GOAL," aiming for the environment, society and governance, respectively and has identified issues to be promoted to achieve them.

Figure 4: The Bank Sustainability Initiatives

Please refer the website of The Bank (Japanese)¹³

The Bank and its parent company, Shinhan Bank have closely communicated between relevant departments and shared knowledge on environmental and social issues. With regard to the implementation of sustainable finance, Shinhan Bank has formulated the SDGs finance framework¹⁴ in March 2022, which has contributed to increasing awareness for the implementation of sustainable finance in the Bank. In Shinhan Financial Group, several other group companies have also implemented sustainable finance, including Shinhan Card and Shinhan Investment & Securities.

Accordingly, JCR has highly evaluated that Shinhan Financial Group has positioned sustainability issues as important management challenges, has a meeting body on sustainability issues, has been making efforts from the practical and management perspective and has been promoting initiative on sustainability while incorporating specialized knowledge on environmental or social issues mainly in collaboration with Shinhan Bank.

¹³Source: Shinhan Bank Japan (2023) *Interim Disclosure Magazine*
https://www.sbjbank.co.jp/about_sbj/ir/pdf/disclosure/20240125_ir_info179_1.pdf

¹⁴Shinhan Bank (2022) *Shinhan Bank Sustainable Development Goals Financing Framework*
<https://www.shinhan.com/en/index.jsp#300405010000>

**Evaluation phase 3:
Evaluation result(Conclusion)**
Green 1(F)

Based on its JCR Green Finance Evaluation Methodology, JCR assigned "g1(F)" for the "Greenness Evaluation (Uses of Proceeds)" and "m1(F)" for the "Management, Operation and Transparency Evaluation." As a result, JCR assigned "Green 1(F)" for the "JCR Green Finance Framework Evaluation." The Framework meets the standards for the items required in the Green Bond Principles, the Green Loan Principles, the Green Bond Guidelines and the Green Loan Guidelines.

		Management, Operation, and Transparency Evaluation				
		m1(F)	m2(F)	m3(F)	m4(F)	m5(F)
Greenness Evaluation	g1(F)	Green 1(F)	Green 2(F)	Green 3(F)	Green 4(F)	Green 5(F)
	g2(F)	Green 2(F)	Green 2(F)	Green 3(F)	Green 4(F)	Green 5(F)
	g3(F)	Green 3(F)	Green 3(F)	Green 4(F)	Green 5(F)	Not qualified
	g4(F)	Green 4(F)	Green 4(F)	Green 5(F)	Not qualified	Not qualified
	g5(F)	Green 5(F)	Green 5(F)	Not qualified	Not qualified	Not qualified

(Responsible analysts for this evaluation) Atsuko Kajiwara, Haruna Goto

Important explanations of this Evaluation

1. Assumptions, Significance and Limitations of JCR Green Finance Framework Evaluation

JCR Green Finance Framework Evaluation, which is determined and provided by Japan Credit Rating Agency, Ltd. (JCR), covers the policies set out in the Green Finance Framework, and expresses JCR's comprehensive opinion at this time regarding the appropriateness of the Green Project as defined by JCR and the extent of management, operation and transparency initiatives related to the use of proceeds and other matters. Therefore, JCR Green Finance Framework Evaluation is not intended to evaluate the effects of specific environmental improvements and the management, operation and transparency of individual bonds and borrowings, etc. to be implemented based on these policies. In the event an individual bond or individual borrowing based on this Framework is subject to a green finance evaluation, a separate evaluation is needed. JCR Green Finance Framework Evaluation does not prove the environmental benefits of individual bonds or borrowings implemented under this Framework, and does not assume responsibility for their environmental benefits. JCR confirms the environmental benefits of proceeds financed under the Green Finance Framework measured quantitatively and qualitatively by the issuer/borrower or by a third party nominated by the issuer/borrower, but in principle it does not directly measure such effects.

2. Method used to conduct this evaluation

The methodologies used in this assessment are described in "JCR Green Finance Evaluation" on the "Sustainable Finance ESG" section of the JCR website (<https://www.jcr.co.jp/en>).

3. Relationship with Acts Concerning Credit Rating Business

JCR Green Finance Framework Evaluation is determined and provided by JCR as a related business, which is different from its activities related to the credit rating business.

4. Relationship with Credit Ratings

The Evaluation is different from the Credit Rating and does not assure to provide or browse a predetermined credit rating.

5. Third-Party Evaluation of JCR Green Finance Framework Evaluation

There are no capital and/or personnel relationships that may result in a conflict of interests between the subject of this evaluation and JCR.

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■ Glossary

JCR Green Finance Framework Evaluation: This evaluates the extent to which the proceeds financed through Green Finance are appropriated for green projects as defined by JCR and the degree to which the management, operation and transparency of the Green Finance are ensured. Evaluations based on a 5-point scale are given from top to bottom using the Green 1(F), Green 2(F), Green 3(F), Green 4(F), and Green 5(F) symbols.

■ Status of Registration as an External Evaluator of Green Finance

- Registered as an External Reviewer of Green Bonds by the Ministry of the Environment
- ICMA (registered as an observer with the Institute of International Capital Markets)

■ Status of registration as a credit rating agency, etc.

- Credit Rating Agency: the Commissioner of the Financial Services Agency (Rating) No.1
- EU Certified Credit Rating Agency
- NRSRO: JCR has registered with the following four of the five credit rating classes of the U.S. Securities and Exchange Commission's Nationally Recognized Statistical Rating Organization (NRSRO): (1) financial institutions, broker-dealers, (2) insurance companies, (3) general business corporations and (4) governments and municipalities. If the disclosure is subject to Section 17g-7 (a) of the Securities and Exchange Commission Rule, such disclosures are attached to the news releases appearing on the JCR website (<https://www.jcr.co.jp/en/>).

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