

# Second-Party Opinion

## Shinhan Bank Sustainable Development Goals (SDG) Bond

### Evaluation Summary

Sustainalytics is of the opinion that the Shinhan Bank SDG Bond Framework is credible and impactful, and aligns with the Sustainability Bond Guidelines 2018. This assessment is based on the following:



**USE OF PROCEEDS** The eight green categories and the three social categories for eligible use of proceeds – (i) Renewable Energy, (ii) Energy Efficiency, (iii) Green Buildings, (iv) Pollution Prevention and Control, (v) Clean Transportation, (vi) Sustainable Water and Wastewater Management, (vii) Climate Change, (viii) Terrestrial and Aquatic Biodiversity Conservation, (ix) Access to Essential Services, (x) Employment Generation, and (xi) Socioeconomic Advancement and Empowerment – are aligned with those recognized by the Green Bond Principles 2018, the Social Bond Principles 2018, and the Sustainability Bond Guidelines 2018. Although the financing is not exclusively project-based, the use of proceeds will, in Sustainalytics’ opinion, have positive environmental and social impacts and advance the UN Sustainable Development Goals 1, 6, 7, 8, 9, 11, 12, 13, and 14.



**PROJECT EVALUATION / SELECTION** A dedicated SDG Bond Working Group (SBWG) will oversee Shinhan Bank’s internal process in evaluating and selecting projects. The SBWG will be coordinated by the Treasury Department and will consist of members from various departments, including the CSR Department. This is in line with market practice.



**MANAGEMENT OF PROCEEDS** Shinhan Bank will track the net use of proceeds through a project register. The net proceeds or an amount equal to net proceeds of the bonds will be allocated to eligible green and/or social projects. Pending allocation, proceeds will be invested in cash or cash equivalent following Shinhan Bank’s usual liquidity management policy. This is in line with market practice.



**REPORTING** Shinhan Bank intends to publish the information in its annual report within one year of issuance, and on an annual basis. Allocation reporting will include the allocated amount on a project-basis, the aggregate amount allocated to eligible projects, as well as the portion of financing and refinancing. Impact reporting will include relevant social and environmental metrics, where feasible. Sustainalytics views Shinhan Bank’s allocation and impact reporting as aligned with market practice.

<b>Evaluation date</b>	December 31, 2018
<b>Issuer Location</b>	Seoul, Korea

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## Introduction

Shinhan Bank (the “Issuer”) is one of the leading Korean commercial banks founded solely with private funds in 1982, and headquartered in Seoul, South Korea. Shinhan Bank is a subsidiary of Shinhan Financial Group Co., Ltd. (“SFG”, or the “Group”), which is a full-service banking group with operations in South Korea and internationally<sup>1</sup>. Shinhan Bank, along with its subsidiaries, provides a range of corporate banking, and small and medium enterprises banking services to corporate and retail customers. The Group offers a wide range of financial services, including retail banking, corporate banking, wealth management, investment banking, credit card services, brokerage services, life insurance, asset management, and digital banking.<sup>2,3</sup>

Shinhan Bank has developed the Sustainable Development Goals (SDG) Bond Framework (the “Framework”) under which it is issuing multiple Green, Social, or Sustainability bonds to refinance or finance, in whole or in part, existing or new eligible projects and/or lending to business or facilities falling within one of the eligible categories below that provide clear environmental and social benefits.

The Framework defines eligible green categories in the following eight areas:

1. Renewable Energy
2. Energy Efficiency
3. Green Buildings
4. Pollution Prevention and Control
5. Clean Transportation
6. Sustainable Water and Wastewater Management
7. Climate Change
8. Terrestrial and Aquatic Biodiversity Conservation

The Framework defines eligible social categories in the following three areas:

1. Access to Essential Services
2. Employment Generation
3. Socioeconomic Advancement and Empowerment

Shinhan Bank engaged Sustainalytics to review the SDG Bond Framework and provide a second-party opinion on the Framework’s environmental and social credentials, as well as its alignment with the Green Bond Principles 2018 (“GBP 2018”), Social Bond Principles 2018 (“SBP 2018”) and Sustainability Bond Guidelines 2018 (the “SBG 2018”),<sup>4</sup> as administered by the International Capital Market Association (the “ICMA”)<sup>5</sup>. This Framework and SPO will be uploaded on Shinhan Bank’s corporate website.

As part of this engagement, Sustainalytics reviewed relevant public and non-public documentation to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of Shinhan Bank’s SDG Bond proceeds.

This document contains Sustainalytics’ opinion of the Shinhan Bank SDG Bond Framework and should be read in conjunction with that Framework.

<sup>1</sup> Bloomberg, Company Overview of Shinhan Financial Group Co., Ltd.: <https://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=1933724>

<sup>2</sup> Shinhan Bank, Organization: <https://www.shinhan.com/en/index.jsp#300102000000>

<sup>3</sup> Bloomberg, Company Overview of Shinhan Bank: <https://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=877134>

<sup>4</sup> Sustainability Bonds are aligned with the four core components of both the Green Bond Principles and Social Bond Principles, with the former being especially relevant to underlying Green Projects and the latter to underlying Social Projects.

<sup>5</sup> ICMA’s Sustainability Bond Guidelines 2018 <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the Shinhan SDG Bond Framework

#### Summary

Sustainalytics is of the opinion that the Shinhan Bank SDG Bond Framework is credible and impactful, and aligns with the SBG 2018 and the four core components of the GBP 2018 and the SBP 2018. Sustainalytics highlights the following elements of the SDG Bond Framework:

- Use of Proceeds:
  - The eight green categories and the three social categories eligible for the use of proceeds are recognized as impactful by the GBP 2018, SBG 2018, and the SBP 2018.
  - The eligible projects under the green use of proceeds will provide meaningful environmental contributions.
    - The eligibility criteria for hydroelectric generation include only run-of-river or small hydro facilities (maximum 25 MW) reducing the potential risks of negative environmental, social and regulatory challenges. Sustainalytics believes that these eligibility criteria will prevent proceeds from being directed to large hydro projects with substantial negative impacts.
    - The eligibility criteria for geothermal energy include projects with direct emissions of a maximum of 100 gCO<sub>2</sub>/kWh. Sustainalytics believes that this emission threshold will prevent the proceeds from being directed to geothermal projects with substantial greenhouse gas emissions.
    - Sustainalytics notes that fuel cell systems may be powered by hydrogen derived from natural gas, however, it produces energy with near-zero GHG emissions. Furthermore, as renewable energy sources (solar, wind, and biomass from sustainable feedstock) are economically scaled, the potential for increasing use of these alternative resources exists for hydrogen production. Sustainalytics views positively this use of proceeds sub-category as fuel cells support the transition to a low-carbon energy, yet encourages Shinhan Bank to consider the lifecycle impact of sourced fuels for fuel cell projects.
    - Under energy efficiency projects, Shinhan Bank has set a minimum of 15% energy efficiency improvement compared to its baseline for buildings, machineries, or factories. Additionally, Shinhan Bank has confirmed to Sustainalytics, through its exclusionary criteria, that the energy efficiency improvement of buildings, machineries, or factories will not be related to fossil fuel generation facilities. Sustainalytics recognizes that Shinhan Bank aligns with market practice by setting the minimum threshold for energy efficiency improvements.
    - Shinhan Bank's green buildings eligibility criteria are based on third-party certification standards such as LEED (Gold or above), BREEAM (Excellent or above), or other equivalent standards. Sustainalytics has conducted an evaluation of the certifications and considers such certification standards as having a positive impact (see Appendix 1 for additional details on the certification schemes).
    - Under the pollution prevention and control category, Shinhan Bank has confirmed to Sustainalytics that, in line with its exclusionary criteria, projects in the areas of air purification units, harmful matter monitoring and environmental purification will not be linked to fossil-fuel generation facilities. Sustainalytics believes that this exclusion strengthens the Framework.
    - The waste-to-energy process has significant environmental benefit relative to landfilled waste and is essential to derive useful forms of energy. However, Sustainalytics recommends that Shinhan Bank consider measures to separate plastics and other recyclable materials from the waste stream moving into the incineration process in order to reduce the negative impact of carbon emissions.
    - Shinhan Bank has confirmed that a Climate Change Impact Evaluation will be conducted to determine the need for intended adaptation measures. Sustainalytics views this assessment to be aligned with market practice.
  - The Framework has defined targeted populations for social use of proceeds, as recommended by the SBP 2018. Sustainalytics views positively the following definitions:
    - Low-income individuals are those defined by the Korean Ministry of Health and Welfare (MOHW) and the Ministry of Education (MOE) based on household income.

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- Working class individuals are those that comply with the criteria set by the Korea Inclusive Finance Agency: (i) those with annual income of KRW 35 million or below, or (ii) those with annual income of KRW 45million or below with credit rating of 6 or below. Target groups for microfinance comply with the criteria set by the Korea Inclusive Finance Agency: (i) those with credit rating of 6 or below (including those with no credit rating), (ii) the recipients of national basic livelihood guarantees (the lowest income class) or those classified as the 2<sup>nd</sup> lowest income class (those who live within 120% of the minimum cost of living), and (iii) those that fulfill requirements for employment subsidies.
    - SMEs are defined in accordance with Article 2 of the Enforcement Decree of the Framework Act on Small and Medium Businesses.
    - Small office and home office (SOHO) enterprises are defined as individual business operators or companies with a total asset size of KRW 2 billion or less.
    - Job creation companies are certified by or receive a guarantee from the government or government related entities, including but not limited to the Ministry of Employment and Labor, Ministry of SMEs and Startups, and Korea Technology Finance Corporation.
  - While the Framework includes project-based lending, it also considers the inclusion of non-project-based lending activities and expenditures. Sustainalytics recognizes that the GBP 2018, SBP 2018 and SBG 2018 prefer project-based lending and financing, and that there is, in general, less transparency with non-project-based lending. Nonetheless, Sustainalytics considers lending to the eligible categories as environmentally and socially impactful in Korea's local context.
  - The exclusionary criteria consider the following: child labour, adult entertainment, weapons/arms, alcohol, tobacco, fossil fuel generation and transportation of fossil fuels, biomass generation that uses feedstock suitable for food production, nuclear power generation, and new large-scale hydropower (>25 MW). Sustainalytics believes that these exclusions strengthen the Framework.
- Project Evaluation and Selection:
  - Shinhan Bank's project selection process involves initial project identification by Shinhan Bank's various business units, followed by review and approval by the SDG Bond Working Group (SBWG). SBWG will be coordinated by the Treasury Department and will consist of senior representatives from cross-functional departments, including the Corporate Banking Department, the Treasury Department, the Retail Banking Department, the Strategic Planning Department, the Corporate Supporting Department, the Project Banking Department 2, the Corporate Social Responsibility Department, the Group's Strategic Planning Department, and the SOHO Division. Sustainalytics considers that the collaboration between relevant business units is likely to strengthen the implementation of the Framework and is in line with market practice.
- Management of Proceeds:
  - Shinhan Bank will manage the project register through its internal information system to record the ongoing allocation of net proceeds. The net proceeds or an amount equal to net proceeds from the bonds will be allocated to eligible green and/or social projects.
  - The unallocated proceeds will be invested in cash or cash equivalent following Shinhan Bank's usual liquidity management policy. Shinhan Bank's process with respect to the management of proceeds is in line with market practice.
- Reporting:
  - Shinhan Bank has committed to provide annual allocation and impact reporting in its annual report, as long as the bonds are outstanding. Sustainalytics considers this in line with market practice.
  - The allocation reporting will include relevant transaction data such as the allocated amount on a project-basis, the allocated loans based on relevant eligible green and/or social categories, the aggregate amount allocated to eligible projects, and the portion of financing and refinancing.
  - The impact reporting will include environmental impact metrics such as annual energy savings, GHG emissions reduced; number of certified buildings funded, and the number of beneficiaries, as well as social impact metrics such as number of SME loans granted, number of loans granted to healthcare industry participants, and number of people benefitted.

### Alignment with Sustainability Bond Guidelines 2018

Sustainalytics has determined that the Shinhan Bank SDG Bond Framework aligns with the SBG 2018, and the four core components of the GBP 2018 and the SBP 2018. For detailed information please refer to Appendix 2: Sustainability Bond/ Sustainability Bond Programme External Review Form.

## Section 2: Sustainability Performance of the Issuer

### Contribution of SDG Bond Framework to the Group's sustainability strategy

Sustainalytics is of the opinion that SFG articulates a strong commitment towards a comprehensive approach to sustainability, including inclusive and responsible banking practices. SFG established the 2020 CSR Strategies based on its mission of 'Compassionate Finance' and three pillars—(i) 'Responsible Growth' to provide solutions to improve customer value, (ii) 'Social Partnerships' to improve financial inclusion, and (iii) 'Investments for the Future' to realize positive social responsibility. The Group has demonstrated its commitment to mitigate climate change and promote positive social impact in its Sustainability Report 2017 through the following efforts<sup>6</sup>:

- SFG identified resource and energy efficiency as material environmental issues, and thus committed to reduce greenhouse gas (GHG) emissions by 4.5% by 2030 below the 2016 levels. The bank met its 2017 GHG emission reduction target and holds quarterly working councils on environment/energy management and GHG emissions monitoring.
- SFG plans to develop funds for investing in renewable energy projects and has invested over KRW 960 billion between 2015 to 2017 in eco-friendly industries. The plan also aligns with the Korean government action plan<sup>7</sup> outlined in the 'Renewable Energy 3020' goal to increase the share of renewables in the national energy mix from its 2017 level of 7% to 20% by 2030.
- SFG has also reached an agreement with the Korea Energy Agency for the vitalization of the energy storage system (ESS) industry, and provided loans worth KRW 31.6 billion, as of the end of 2017, to ESS suppliers and customers.
- In 2013, SFG established an education centre dedicated to providing tailored financial economic education programs, including education for marginalized groups such as children from low-income families, youth, refugees, and young people with developmental disabilities. In 2017, the Group provided a remote video career mentoring program and company-school partnership program to 1 million participants, including retirees and university students. SFG also developed Korea's first digital financial graduate program, jointly with Korea University.
- The Group operates Shinhan Hope Centres to provide financial consulting services for working and marginalized communities, and expanded support to the working class with 'Hug Loan Linked Services'. SFG's cumulative lending through 'New Hope Spore Loan' and 'Mid-Interest Rate Loan' to working class (with low-credit rating and low income) amounted to KRW 2.6 trillion and KRW 3 trillion, respectively, by 2017.
- The Group's provision of technological financial support with 'Tech Credit Bureau Loan' to the SMEs and venture companies reached KRW 12.3 trillion as of the end of 2017. Shinhan Bank launched the 'Green Management Firm Loan Program' in partnership with South Korean Ministry of Environment and allotted USD 87 million to eco-friendly SMEs<sup>8</sup>.

Sustainalytics is of the opinion that SFG's sustainability strategy and actions demonstrate the importance the Group places on achieving positive environmental and social impacts. Sustainalytics also believes that Shinhan Bank's green and/or social use of proceeds are aligned with the Group's overall sustainability efforts and can support the transition towards a sustainable and financially inclusive economy.

### Well positioned to address common environmental and social risks associated with the projects

While Sustainalytics recognizes that the proceeds from Shinhan Bank's Framework will be directed towards eligible projects that are recognized by market norms (GBP 2018, SGP 2018, and SBG 2018) to have positive impact, Sustainalytics is aware that such projects could also lead to negative environmental and social outcomes. Some key environmental and social risks associated with the eligible projects are pollution control in construction and development projects, increased exposure of local communities to adverse effects, and biodiversity loss.

Sustainalytics is of the opinion that Shinhan Bank can mitigate such risks with its dedicated Risk Management Committee and the following elements of its strategy and operations<sup>9</sup>:

<sup>6</sup> Shinhan Financial Group Co., Ltd., Sustainability Report 2017:

[http://www.shinhangroup.com/kr/common/download/commonDownload.jsp?actionValue=PDF&pathKey=CSRREPORT&fileName=2017\\_report\\_eng\\_download.pdf](http://www.shinhangroup.com/kr/common/download/commonDownload.jsp?actionValue=PDF&pathKey=CSRREPORT&fileName=2017_report_eng_download.pdf)

<sup>7</sup> The Korea Herald, Supply of renewable energy more than doubled in Q1 in Korea: <http://www.koreaherald.com/view.php?ud=20180517000566>

<sup>8</sup> UNEP FI, UNEP FI Signatory Shinhan Bank Launches A New Green Loan Program: <http://www.unepfi.org/news/industries/banking/unep-fi-signatory-shinhan-bank-launches-a-new-green-loan-program/>

<sup>9</sup> Shinhan Financial Group 2014 Social Responsibility Report: [http://shinhangroup.com/en/sr/csrreport/csr\\_subsidary.jsp](http://shinhangroup.com/en/sr/csrreport/csr_subsidary.jsp)

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- The Socially Responsible Management Policy, including the Environmental Management Standards and the Shinhan BNP Paribas Asset Management Stewardship Code, for responsible management and corporate citizenship.
- The Environmental and Social Risk Management Policy Framework (ESRM) and the sector policy for designating and managing environmental and social risk-associated areas.
  - Based on the International Finance Corporation (IFC) guidance, SFG has identified 12 risky areas and excluded them from financial support and operated optional support as per their policies.
  - SFG has also implemented the Environmental & Social Risk Review Procedure (ESRP) to evaluate environmental and social risks of projects through target selection, risk level classification, environmental and social impact assessment based on the Equator Principles.
- SFG has a CSR Committee— comprised of one Executive Director and four Independent Directors— as a sub-committee under the Board of Directors.
  - Each subsidiary has its own “Integrated Green Management System” that quantitatively measures and manages GHG emissions and energy use with 12 environmental indicators.
  - Shinhan Bank has an Environmental and Energy Management Council to advise the Group’s efforts regarding energy use and GHG emissions.
- The Group is ISO 14001 certified and operates ISO 50001 for large buildings. The Group also joined the UN Environment Programme Finance Initiative (UNEP FI) to disclose environmental information; and is a signatory of the UN Global Compact.
- SFG has been selected for CDP’s Carbon Management Honors Club for 4 consecutive years and Davos Forum’s Global 100 Most Sustainable Corporations for 3 consecutive years, as of the end of 2017. The Group is also a member of Dow Jones Sustainability Indices and has been awarded an ‘A+ rating’ on integrated ESG assessment and an ‘S rating’ in corporate governance assessment by Korea Corporate Governance Service (KCGS) of the Korea Exchange. The ‘S’ rating is the highest level that can be achieved.

Overall, due to all the above-mentioned systems and processes, Sustainalytics believes that Shinhan Bank has sufficient measures in place which will support the mitigation of environmental and social risks.

### Section 3: Impact of Use of Proceeds

All eight eligible green categories and three eligible social categories are recognized as impactful by the GBP 2018, and the SBP 2018.

#### Environmental Impacts

The green use of proceeds will be used for lending in the following eight categories:

1. Renewable Energy
2. Energy Efficiency
3. Green Buildings
4. Pollution Prevention and Control
5. Clean Transportation
6. Sustainable Water and Wastewater Management
7. Climate Change
8. Terrestrial and Aquatic Biodiversity Conservation

The environmental categories defined in the Shinhan Bank SDG Bond Framework are recognized as having beneficial environmental impacts by the GBP 2018.

#### Social Impacts

The social use of proceeds will be used for lending in the following three categories:

1. Access to Essential Services
2. Employment Generation
3. Socioeconomic Advancement and Empowerment

#### Importance of supporting SMEs and marginalized populations in Korea

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South Korea's government provides high level of support for SMEs,<sup>10</sup> as they represent a way of securing economic growth, while also promoting job creation, innovation and social integration. SMEs have increasingly relied more on bank loans for funding their businesses, increasing from 73.5% in 2005 to 83.8% in 2013, which highlights the relevance of banks for SMEs.<sup>11</sup> However, in 2013, even though SMEs made up 99.9% of the South Korean enterprises and accounted for 86.8% of total employment in South Korea, only 0.01% of small companies grew into medium-sized enterprises over the period 2011-2014.<sup>12</sup> The limited access to funding remains a major obstacle in the growth path of small-and medium-sized enterprises in South Korea. Sustainalytics views positively Shinhan Bank's provision of loan products specifically to SMEs and considers this use of proceeds category to be especially impactful given the South Korean context outlined above.

Additionally, Korea' employment rate and income stand below the OECD average with the second highest level of vertical income inequality in the OECD, as people at the top of the distribution earn on average about 4-5 times more than those at the bottom.<sup>13</sup> Moreover, almost half of the Korean population aged over 65 live in extreme poverty (defined as earning 50% or less of median household income).<sup>14</sup> Considering the significant number of low-income or middle-class individuals or families that face inequality in Korea, Sustainalytics is of the opinion that Shinhan Bank's loans to such marginalized populations, along with the loan products to support job creation, will have meaningful social impact by supporting inclusive economic growth in Korea.

### Alignment with/contribution to SDGs

The UN Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. Responsible investment and lending practices are essential to advancing the SDGs and achieving transformational change through the SDGs. Shinhan Bank's Green, Social, or Sustainability bonds advance the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix.
Energy Efficiency		7.3 By 2030, double the global rate of improvement in energy efficiency.
Green Buildings	11. Sustainable Cities and Communities	11.B By 2020, substantially increase the number of cities and human settlements adopting and implementing integrated policies and plans towards inclusion, resource efficiency, mitigation and adaptation to climate change, and resilience to disasters.
Clean Transportation		11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons.
Pollution Prevention and Control	12. Responsible Consumption and Production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.
Sustainable Water and Wastewater Management	6. Clean Water and Sanitation	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater

<sup>10</sup> Economic Survey of Korea 2018; <http://www.oecd.org/eco/economic-survey-korea.htm>

<sup>11</sup> OECD Economic Surveys Korea; <https://www.oecd.org/eco/surveys/Korea-2016-OECD-economic-survey-overview.pdf>

<sup>12</sup> Korea Policy Brief; [https://www.oecd.org/industry/korea-promoting-innovative-entrepreneurship\\_EN.pdf](https://www.oecd.org/industry/korea-promoting-innovative-entrepreneurship_EN.pdf)

<sup>13</sup> OCED, How's Life in Korea?: <https://www.oecd.org/korea/Better-Life-Initiative-country-note-Korea.pdf>

<sup>14</sup> The Guardian, South Korea's inequality paradox: <https://www.theguardian.com/inequality/2017/aug/02/south-koreas-inequality-paradox-long-life-good-health-and-poverty>

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		and substantially increasing recycling and safe reuse globally.
Climate Change	13. Climate Action	13.3 Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.
Terrestrial and Aquatic Biodiversity Conservation	14. Life Below Water	14.2 By 2020, sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans.
Access to Essential Services	1. No Poverty	1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance.
Employment Generation	9. Industry, Innovation and Infrastructure	9.3 Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.
Socioeconomic Advancement and Empowerment	8. Decent Work and Economic Growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.

### Conclusion

Shinhan Bank has developed a Sustainable Development Goals Bond Framework to finance, or refinance, a broad range of eligible projects that intend to deliver positive environmental and social outcomes. Sustainalytics believes that Shinhan Bank's Framework is aligned with the overall mission of the Group and that the environmental and social use of proceed categories will advance a number of key SDGs in Korea. Additionally, Sustainalytics views that Shinhan Bank has sufficient measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Furthermore, Sustainalytics highlights that aligning the social use of proceed definitions for target populations with the government's definitions and thresholds ensures that the social use of proceeds is credible with respect to targeting vulnerable populations.



Overall, Sustainalytics is of the opinion that the Shinhan Bank Sustainable Development Goals Bond Framework is robust, transparent, and in alignment with the SBG 2018 and the four core components of the GBP 2018 and the SBP 2018.

### Appendices

## Appendix 1: Green Buildings Certifications Comparison

	BREEAM	LEED
<b>Background</b>	BREEAM (Building Research Establishment Environmental Assessment Method) was first published by the Building Research Establishment (BRE) in 1990. Based in the UK. Used for new, refurbished and extension of existing buildings.	Leadership in Energy and Environmental Design (LEED) is a US Certification System for residential and commercial buildings used worldwide. LEED was developed by the non-profit U.S. Green Building Council (USGBC) and covers the design, construction, maintenance and operation of buildings.
<b>Certification levels</b>	Pass Good Very Good Excellent Outstanding	Certified Silver Gold Platinum
<b>Areas of Assessment: Environmental Project Management</b>	Management (Man) addresses various aspects: project management, deployment, minimal environmental disturbance worksite and stakeholder engagement.	Integrative process, which requires, from the beginning of the design process, the identification and creation of synergies between the various project stakeholders regarding the construction choices and the technical systems.
<b>Areas of Assessment: Environmental Performance of the Building</b>	Energy Land Use and Ecology Pollution Transport Materials Water Waste Health and Wellbeing Innovation	Energy and atmosphere Sustainable Sites Location and Transportation Materials and resources Water efficiency Indoor environmental quality Innovation in Design Regional Priority
<b>Requirements</b>	Prerequisites depending on the levels of certification + Credits with associated points  This number of points is then weighted by item <sup>15</sup> and gives a BREEAM level of certification, which is based on the overall score obtained (expressed as a percentage). Majority of BREEAM issues are flexible, meaning that the client can choose which to comply with to build their BREEAM performance score.  BREEAM has two stages/ audit reports: a 'BREEAM Design Stage' and a 'Post Construction Stage', with different assessment criteria.	Prerequisites (independent of level of certification) + Credits with associated points  These points are then added together to obtain the LEED level of certification  There are several different rating systems within LEED. Each rating system is designed to apply to a specific sector (e.g. New Construction, Major Renovation, Core and Shell Development, Schools-/Retail-/Healthcare New Construction and Major Renovations, Existing Buildings: Operation and Maintenance).

<sup>15</sup> BREEAM weighting: Management 12%, Health and wellbeing 15%, Energy 19%, Transport 8%, Water 6%, Materials 12.5%, Waste 7.5%, Land Use and ecology 10%, Pollution 10% and Innovation 10%. One point scored in the Energy item is therefore worth twice as much in the overall score as one point scored in the Pollution item

<b>Performance display</b>		
<b>Accreditation</b>	<p>BREEAM International Assessor                  BREEAM AP BREEAM In Use Assessor</p>	<p>LEED AP BD+C                  LEED AP O+M</p>
<b>Qualitative considerations</b>	<p>Used in more than 70 countries:                  Good adaptation to the local normative context.                  Predominant environmental focus.                  BREEAM certification is less strict (less minimum thresholds) than HQE and LEED certifications.</p>	<p>Widely recognised internationally, and strong assurance of overall quality.</p>

## Appendix 2: Sustainability Bond / Sustainability Bond Programme - External Review Form

### Section 1. Basic Information

<b>Issuer name:</b>	Shinhan Bank
<b>Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:</b> <i>[specify as appropriate]</i>	Sustainable Development Goals (SDG) Bond Framework
<b>Review provider's name:</b>	Sustainalytics
<b>Completion date of this form:</b>	December 31, 2018
<b>Publication date of review publication:</b> <i>[where appropriate, specify if it is an update and add reference to earlier relevant review]</i>	

### Section 2. Review overview

#### SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBPs and SBPs:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

#### ROLE(S) OF REVIEW PROVIDER

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification   | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other <i>(please specify)</i> :                        |  |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

#### EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW *(if applicable)*

Please refer to Evaluation Summary above.

### Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

#### 1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

The eight green categories and the three social categories for eligible use of proceeds – (i) Renewable Energy, (ii) Energy Efficiency, (iii) Green Buildings, (iv) Pollution Prevention and Control, (v) Clean Transportation, (vi) Sustainable Water and Wastewater Management, (vii) Climate Change, (viii) Terrestrial and Aquatic Biodiversity Conservation, (ix) Access to Essential Services, (x) Employment Generation, and (xi) Socioeconomic Advancement and Empowerment – are aligned with those recognized by the Green Bond Principles 2018, the Social Bond Principles 2018, and the Sustainability Bond Guidelines 2018. Although the financing is not exclusively project-based, the use of proceeds will, in Sustainalytics' opinion, have positive environmental and social impacts and advance the UN Sustainable Development Goals 1, 6, 7, 8, 9, 11, 12, 13, and 14.

#### Use of proceeds categories as per GBP:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Renewable energy   | <input checked="" type="checkbox"/> Energy efficiency  |
| <input checked="" type="checkbox"/> Pollution prevention and control   | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input checked="" type="checkbox"/> Terrestrial and aquatic biodiversity conservation  | <input checked="" type="checkbox"/> Clean transportation   |
| <input checked="" type="checkbox"/> Sustainable water and wastewater management  | <input checked="" type="checkbox"/> Climate change adaptation  |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes                             | <input checked="" type="checkbox"/> Green buildings  |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other ( <i>please specify</i> ):  |

If applicable please specify the environmental taxonomy, if other than GBPs:

#### Use of proceeds categories as per SBP:

- |  |  |
|--|--|
| <input type="checkbox"/> Affordable basic infrastructure | <input checked="" type="checkbox"/> Access to essential services                                   |
| <input type="checkbox"/> Affordable housing              | <input checked="" type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security                   | <input checked="" type="checkbox"/> Socioeconomic advancement and empowerment                      |

## Shinhan Bank Sustainable Development Goals Bond

- Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBPs
  Other (please specify):

If applicable please specify the social taxonomy, if other than SBPs:

### 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

A dedicated SDG Bond Working Group (SBWG) will oversee Shinhan Bank's internal process in evaluating and selecting projects. The SBWG will be coordinated by the Treasury Department and will consist of members from various departments, including the CSR Department. This is in line with market practice.

#### Evaluation and selection

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives                                 | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories    |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available                           | <input type="checkbox"/> Other (please specify):   |

#### Information on Responsibilities and Accountability

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input checked="" type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify):   |   |

### 3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

Shinhan Bank will track the net use of proceeds through a project register. The net proceeds or an amount equal to net proceeds of the bonds will be allocated to eligible green and/or social projects. Pending allocation, proceeds will be invested in cash or cash equivalent following Shinhan Bank's usual liquidity management policy. This is in line with market practice.

#### Tracking of proceeds:

- Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds

## Shinhan Bank Sustainable Development Goals Bond

- Other *(please specify)*:

### Additional disclosure:

- |  |   |
|--|---|
| <input type="checkbox"/> Allocations to future investments only                  | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements                  | <input type="checkbox"/> Allocation to a portfolio of disbursements                     |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other <i>(please specify)</i> :                                |

## 4. REPORTING

Overall comment on section (if applicable):

Shinhan Bank intends to publish the information in its annual report within one year of issuance, and on an annual basis. Allocation reporting will include the allocated amount on a project-basis, the aggregate amount allocated to eligible projects, as well as the portion of financing and refinancing. Impact reporting will include relevant social and environmental metrics, where feasible. Sustainalytics views Shinhan Bank's allocation and impact reporting as aligned with market practice.

### Use of proceeds reporting:

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Project-by-project            | <input type="checkbox"/> On a project portfolio basis    |
| <input checked="" type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other <i>(please specify)</i> : |

### *Information reported:*

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> Allocated amounts   | <input type="checkbox"/> Sustainability Bond financed share of total investment |
| <input checked="" type="checkbox"/> Other <i>(please specify)</i> : Complete list of projects funded with brief description, portion of financing and refinancing, list of refinanced projects. |   |

### *Frequency:*

- |  |                                      |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual       | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): |                                      |

### Impact reporting:

- |   |  |
|---|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
|---|--|

# Shinhan Bank Sustainable Development Goals Bond

- Linkage to individual bond(s)  Other (please specify):

**Frequency:**

- Annual  Semi-annual  
 Other (please specify):

**Information reported (expected or ex-post):**

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input checked="" type="checkbox"/> Energy Savings  |
| <input type="checkbox"/> Decrease in water use              | <input checked="" type="checkbox"/> Number of beneficiaries   |
| <input type="checkbox"/> Target populations                 | <input checked="" type="checkbox"/> Other ESG indicators (please specify): number of LEED certified buildings funded, number of SME loans granted, number of loans granted to healthcare industry participants. |

**Means of Disclosure**

- |   |  |
|---|--|
| <input type="checkbox"/> Information published in financial report  | <input type="checkbox"/> Information published in sustainability report                                |
| <input type="checkbox"/> Information published in ad hoc documents  | <input checked="" type="checkbox"/> Other (please specify): Shinhan Bank's Korean and English website. |
| <input type="checkbox"/> Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): |  |

Where appropriate, please specify name and date of publication in the useful links section.

**USEFUL LINKS** (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**

**Type(s) of Review provided:**

- |  |  |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit                        | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other (please specify):                     |  |

**Review provider(s):**

**Date of publication:**

## Shinhan Bank Sustainable Development Goals Bond

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### ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP

- i. **Consultant Review:** An issuer can seek advice from consultants and/or institutions with recognized expertise in environmental and social sustainability or other aspects of the issuance of a Sustainability Bond, such as the establishment/review of an issuer's Sustainability Bond framework. "Second Party Opinions" may fall into this category.
- ii. **Verification:** An issuer can have its Sustainability Bond, associated Sustainability Bond framework, or underlying assets independently verified by qualified parties, such as auditors. In contrast to certification, verification may focus on alignment with internal standards or claims made by the issuer. Evaluation of the environmentally and socially sustainable features of underlying assets may be termed verification and may reference external criteria.
- iii. **Certification:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against an external green and social assessment standard. An assessment standard defines criteria, and alignment with such criteria is tested by qualified third parties / certifiers.
- iv. **Rating:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework rated by qualified third parties, such as specialised research providers or rating agencies. Sustainability Bond ratings are separate from an issuer's ESG rating as they typically apply to individual securities or Sustainability Bond frameworks / programmes.

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## Sustainalytics

Sustainalytics is a leading independent ESG and corporate governance research, ratings and analytics firm that support investors around the world with the development and implementation of responsible investment strategies. With 13 offices globally, the firm partners with institutional investors who integrate ESG information and assessments into their investment processes. Spanning 30 countries, the world’s leading issuers, from multinational corporations to financial institutions to governments, turn to Sustainalytics for second-party opinions on green and sustainable bond frameworks. Sustainalytics has been certified by the Climate Bonds Standard Board as a verifier organization, and supports various stakeholders in the development and verification of their frameworks. Global Capital named Sustainalytics the “Most Impressive Second Party Opinion Provider in 2017. In 2018, the firm was recognized as the “Largest External Reviewer” by the Climate Bonds Initiative as well as Environmental Finance. In addition, Sustainalytics received a Special Mention Sustainable Finance Award in 2018 from The Research Institute for Environmental Finance Japan for its contribution to the growth of the Japanese Green Bond Market.

For more information, visit [www.sustainalytics.com](http://www.sustainalytics.com)

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