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# iM Financial Group Sustainable Finance Framework

## Chapter 1. General principles

### 1. Definition

- A. “Sustainable finance” refers to finance that grows and shares happiness with all stakeholders by contributing to the solution of environmental and social problems.
- B. “Sustainable finance framework” is a management system which applies to all financial products and services provided by iM Financial Group (corporate, retail, private banking, investment banking, project financing, asset operation, etc.)

### 2. Purpose

- A. iM Financial Group integrates the core values of sustainability, such as the Environmental (E), Social (S), and Governance (G) elements, into the group’s internal management system, products and services, loans and investment process to systematically practice ESG management and help stakeholders grow sustainably.

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B. iM Financial Group’s sustainable finance framework is designed to establish a climate change response system and a transparent government system. It aims to contribute to making our society and economy a sustainable structure by expanding sustainable finance.

### 3. Sustainable finance focus area and considerations

#### A. Sustainable finance focus area

iM Financial Group actively reflects the following matters in development of new business and product and decision making related to financing and investment in order to grow with all stakeholders.

- (1) Environmental (E): financing and investment in eco-friendly businesses
- (2) Social (S): financing and investment to address social issues

#### B. Considerations

- (1) Prohibition of funding contrary to the social public interest or used in illegal activities in the operation of loans and investment
- (2) Loans operation reflecting ESG management performance, such as practicing ethical management, conducting eco-friendly businesses, establishing a governance structure to create shareholder value, and contributing to job creation.

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- (3) Proactively reflecting low-carbon or eco-friendly technologies in credit ratings or expanding recognition of collateral for intellectual property right in order to support green economic transformation and growth
- (4) Expanding financial support to companies with excellent contributions to low carbon and green growth
- (5) Active development of financial products to foster low-carbon, eco-friendly industries
- (6) Expansion of financial support for other businesses contributing to the sustainable growth of our society

#### **4. Sustainable finance principles**

In providing sustainable finance, four principles are considered: strengthening ESG management, expanding sustainable finance, reflecting domestic and foreign initiatives, and reflecting stakeholders' needs.

##### **A. Strengthening ESG management**

We introduce ESG management processes that take into account environmental and social impacts in the process of providing financial services. We conduct an investment review by identifying environmental impacts such as fuel, electricity, and water use in the production process of the customer company. The wide range of environmental and social risks of customers to the community are also reflected in our investment review process.

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## B. Expanding sustainable finance

We develop a variety of ESG financial products and services to create a sustainable environment and society, and reflect ESG factors in financing and investment decision-making. We issue ESG bonds to finance eco-friendly projects and invest the proceeds in eco-friendly technologies and renewable energy related businesses. In addition, we strengthen microfinance for small business owners, the underprivileged and the financially vulnerable, and support sustainable growth of all stakeholders through the issuance of social impact funds to solve various social problems.

## C. Reflecting domestic and foreign initiatives

We participate in global initiatives and reflect requirements to realize sustainable finance. In addition to the following, we participate in a variety of domestic and foreign initiatives when necessary for ESG management.

- (1) UN Global Compact: joined since 2006
- (2) UNEP Finance Initiative: joined since 2006
- (3) CDP (Carbon Disclosure Project): joined as a signatory each year since 2007
- (4) CEO Water Mandate: reported on water resources management since 2010
- (5) CDSB (Climate Disclosure Standard Board): served as a member of the CDSB Korea working group in 2012

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(6) UN SDGs (Sustainable Development Goals): identified SDGs aligned with iM Financial Group since 2018

(7) SBTi (Science Based Targets): signed to implement the target set in 2018

(8) TCFD (Task Force on Climate-related Financial Disclosure): joined since 2018

(9) UN PRB (Principles for Responsible Banking): endorsed in 2018, became a signatory in 2019

(10) UNGC WEPs (Women’s Empowerment Principles): joined since 2019

(11) PCAF (Partnership for Carbon Accounting Financials): joined in 2021

(12) PBAF (Partnership for Biodiversity Accounting Financials): joined in 2022

#### D. Reflecting stakeholders’ needs

We establish a framework that identifies our stakeholders’ needs and reflects them in decision-making. We also continue to communicate with our stakeholders and identify their requirements to actively reflect them in the ESG Committee’s decision-making process. To this end, we do the following.

(1) Active communication with all stakeholders and monitoring environmental and social issues

(2) Strengthening the decision-making process to enhance the sustainability of our investee companies

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## 5. Organization and operating system

iM Financial Group has the following organization structure, assigned roles and responsibilities for the implementation of the Sustainable finance framework.

### (1) ESG Committee within the Board of Directors

- The highest-level decision-making body for matters related ESG within the group. It is an official committee under the Board of Directors.
- Establish and modify ESG strategies and policies at the group level, Manage ESG performance and improvement plans
- Composed of at least 3 directors
- Meetings held semi-annually (ESG committee may be convened more frequently as long as the Chairperson deems it necessary.)

### (2) ESG Management Council

- Manage ESG implementation, deliberate and consult on reports to be provided to ESG Committee, address ESG issues
- Composed of executives responsible for strategy or ESG at respective subsidiaries and the head of the group's ESG department
- Meetings held semi-annually (ESG Management Council may be convened more frequently as long as the Chairperson deems it necessary.)

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### (3) ESG Working-level Council

- Identify and implement ESG tasks, analyze and share ESG trends, make public disclosure of group's ESG strategy and performance, and respond to ESG rating agencies
- Composed of working-level staff members from ESG departments at respective subsidiaries and staff members in charge of ESG at group's respective departments

## **Chapter 2. Implementation Framework**

iM Financial Group establishes the following four frameworks for sustainable finance: Sector policy, Taxonomy, Environmental & Social Risk Management (ESRM) system, ESG integration policy.

### **1. Sector policy**

Sector policy for sustainable finance is the policy to manage environmental and social risks related to loan and investment.

#### **A. Industry specific management policy**

The following policy is considered in all loan and investment screening processes, but the levels can be applied differently depending on individual products and services.

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### (1) Agriculture, fisheries and food

iM Financial Group considers the following impacts for the agriculture, fisheries and food industries. Fisheries are encouraged to obtain international certifications such as from the Marine Stewardship Council (MSC) and/or the Aquaculture Stewardship Council (ASC). For the agriculture industry, it is encouraged to obtain eco-friendly certifications such as from the Global Good Agricultural Practice (G.A.P).

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

### (2) Forestry

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



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- Introduction of an Environmental Management System
- Greenhouse Gas Emissions Impact: particularly, climate impacts from deforestation
- Soil and Surface Water Contamination: water and wastewater, waste
- Work Environment: human rights/labor standards and practices, prohibition of child labor and forced labor
- Workplace Health and Safety
- Biodiversity and Land Use: particularly, deforestation
- Conservation of local areas and the rights of local people

### (3) Mining

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

- Introduction of an Environmental Management System
- Soil and Surface Water Contamination: water and wastewater, waste
- Biodiversity and Land Use: loss of biodiversity particularly by mining
- Conservation of local areas and the rights of local people
- Work Environment: human rights/labor standards and practices, prohibition of child labor and forced labor
- Workplace Health and Safety
- Responsible Sourcing/Conflict Minerals: restriction on the distribution of metals (conflict minerals) mined in mines occupied by armed groups

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#### (4) Oil and gas

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

- Introduction of an Environmental Management System
- Greenhouse Gas Emission Impact: particularly, climate impacts from coal-fired power generation, oil refining and gas businesses
- Water and Wastewater: use of water in refining and in the gas utility supply process
- Air Quality: SOx (sulfur oxide) and NOx (nitrogen oxide) emissions from oil refining and gas utility supply process
- Work Environment: human rights/labor standards and practices, prohibition of child labor and forced labor
- Workplace Health and Safety

#### (5) Transportation (Air and Sea)

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

- Introduction of an Environmental Management System
- Greenhouse Gas Emission Impact: GHG emissions due to the total amount of shipping and air transport
- Air Quality: SOx (sulfur oxide) and NOx (nitrogen oxide) emissions from ships and aircraft

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- Work Environment: human rights/labor standards and practices, prohibition of child labor and forced labor
- Workplace Health and Safety
- Occupational Diseases
- Ethical Management and Governance

#### (6) Materials

iM Financial Group considers the following impacts for the material industry.

- Introduction of an Environmental Management System
- Greenhouse Gas Emission Impact: particularly, climate impacts from petrochemical businesses
- Pollution Emission: discharge and management of waste, especially designated waste
- Air Quality: SO<sub>x</sub> (sulfur oxide) and NO<sub>x</sub> (nitrogen oxide) emissions from materials production
- Work Environment: human rights/labor standards and practices, prohibition of child labor and forced labor
- Workplace Health and Safety
- Particularly for chemical industries, chemical management and safety

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## B. Ending coal finance

iM Financial Group declared ending coal finance for the first time in a local financial group in 2021, and practices it to contribute to achieve carbon neutrality by 2050. The following screening criteria are applied to project financing for coal power plant construction in Korea and overseas, loans and investments in order to minimize greenhouse gas emissions or other controversial social problems.

- (1) Review the inclusion of coal-fired power generation for new power generation projects and prohibit them if they meet the criteria
- (2) Prohibit investments such as bonds and stocks in coal-fired power projects
- (3) Restrict loans, project financing, investment in bonds and stocks for unconventional oil & gas industries\* that produce oil resources through new technologies

\* Unconventional oil and gas refer to materials produced or extracted using techniques other than the conventional method (oil well). It includes Oil Sands, Extra Heavy Oil, GTL (Gas to Liquids), CTL (Coal to Liquids), Shale Oil.

## C. Exclusion of industries

iM Financial Group does not handle financial services for industries (illegal adult product, gambling, etc.) that have a large environmental impact or may raise obvious social problems.

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## 2. Taxonomy

### A. Application of K-Taxonomy

iM Financial Group applies K-Taxonomy to support the discovery and implementation of sustainable economic activities. This taxonomy can be applied to all products and services that iM Financial Group can classify as environmentally friendly or sustainable assets such as overall loan and investment, investment banking, project financing, issuance of green/sustainable bonds and other financial products (green investment funds).

### B. Issuance and arrangement of green/social/sustainable bonds

If it is clear that the funds will be used to create eco-friendly or social benefits, such bonds can be issued as green bonds, social bonds or sustainable bonds. iM Financial Group can arrange the issuance of bonds for the purpose of self-financing and the issuance of bonds by various sub-institution. In this case, the following guidelines and principles can be used together with K-Taxonomy.

- The domestic green bond guidelines
- The Green Bond Principles of the International Capital Markets Association (ICMA)
- The Social Bond Principles of the ICMA
- The Sustainability Bond Guidelines of the ICMA

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### 3. Environmental & Social Risk Management (ESRM) System

- A. To identify, evaluate and manage the environmental and social risks of large-scale projects, iM Financial Group applies the Environmental & Social Risk Management (ESRM).
- B. Considerations for environmental and social risk management are as follows.
- (1) Environmental impact: the impact on local community's survival (global warming, biodiversity, ecosystem conservation, micro dust emission, etc.)
  - (2) Social impact: the impact on human rights and the local community (infringement of living rights such as involuntary migration of indigenous people, occupational safety and health, etc.)
- C. The ESRM is in accordance with International Financial Corporation (IFC) Performance Standard on Environmental and Social Sustainability and the Equator Principles.
- (1) Scope: Financing projects of over USD 10 million
  - (2) Management Method: Conduct risk reviews and external verifications for each projects according to designated conditions

### 4. ESG integration policy

- A. ESG integration policy refers to the systematic and explicit incorporation of ESG elements in the process of providing financial services.

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B. In order to incorporate the results of external ESG certifications, investigations, and evaluations in financial decision-making, iM Financial Group may refer to the followings.

- (1) Rating data from credit rating agencies
- (2) National green or ESG certification system
- (3) ESG evaluation data from rating agencies (Dow Jones Sustainability Index (DJSI), MSCI ESG, CDP, etc.)
- (4) Data, evaluation, and research results provided by third-party organizations such as global research

C. The ESG research and evaluation criteria listed below are examples.

- (1) Loan: Reflect the ESG award/certification/evaluation grade of the borrower
- (2) Investment: Refer to external sustainability indices, ratings, grading, or underwrite ESG bonds
- (3) Products: Financial products such as funds and ETFs that track external sustainability indexes or use ratings and gradings
- (4) Issuance of bonds: Green bonds/social bonds/sustainable bonds certified by a third party

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### **Chapter 3. Performance Management**

#### **1. Performance review and disclosure**

- A. Each subsidiary checks implementation performance under the sustainable finance framework regularly, and the holding company collects and manage the performance.
- B. iM Financial group communicates the results transparently with external stakeholders. Precautions should be taken to make sure that iM Financial Group is not exposed to ESG risks.

#### **2. Enhancement of employees' capabilities**

- A. iM Financial Group improves employees' understanding of environmental & social risks and sustainable finance through regular education and training.
- B. iM Financial Group strengthens the compensation system associated with ESG performance evaluation and makes continuous efforts to enhance employees' capabilities.