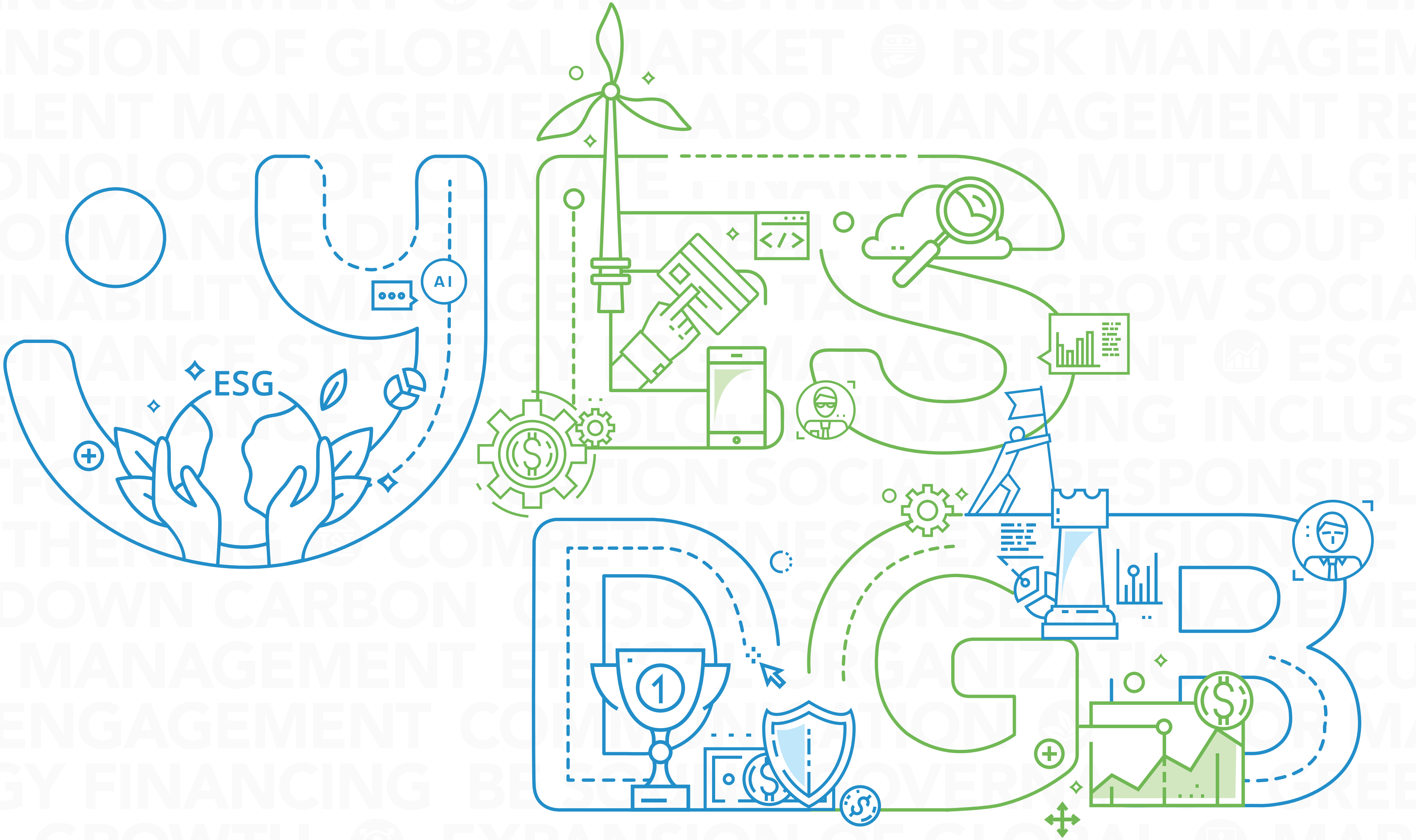
Task Force on Climate-related Financial Disclosure 2021

DGB Financial Group



Down carbon Grow social Be sound governance

Introduction

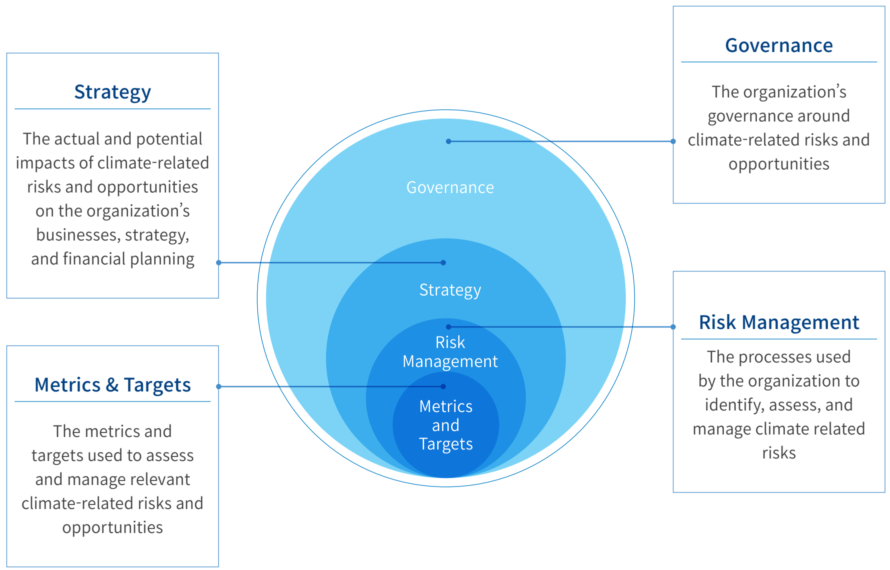
Responses to Climate Change

DGB Financial Group is aware of the threat posed by climate change to the domestic and international economy and the stability of local communities. We share the responsibility for all organizations to take the lead in protecting our planet, and financial insititutions should play an active role.

According to the Intergovernmental Panel on Climate Change(IPCC), global GHG emissions must be reduced by 45% by 2030 and reach Net-Zero by 2050 in order to avoid the worst effects of climate change. The most important actions that DGB Financial Group can take are to finance decarbonization and support customers on their journey to a low-carbon economy.

In Dec. 2021, DGB Financial Group annonced the 2050 Net-Zero climate target including our financial emissions. We measure cliamte change risks, report the response progress and strengthen governance to expand the sustainable financing and investment.

Core Elements of TCFD Recommendations



> **DGB Financial Group is aware of its economic, environmental, and social responsibility to support its customers on a sustainable journey to a "Net-Zero" future. In an effort to fulfill the responsibility, we will work together with a wide rage of stakeholders including customers, investors, and regulatory bodies in order to track progress in line with FSB's TCFD recommendations and fulfill our duties as an important contributor to the transition to a low-carbon economy.**

Kim Tae-oh, CEO of DGB Financial Group

Climate risks

DGB Financial Group recognizes the importance of the policy to support the transition to a low-carbon economy and understand the impact of climate change in order to integrate with business risks those risks that are likely to be affected most by climate risks — such as those associated with personal credit, corporate credit, resilience, regulatory compliance, and reputation — and manage them comprehensively.

Impact of climate risks	Types of risks affected by climate change	Potential impact
Extreme climate phenomena and chronic changes in weather patterns affect our assets, business activities, and customers' assets.	· Personal credit risk · Corporate credit risk · Resilience risk	· Customers' inability to pay mortgages due to house floods and consequent flood damage cost. · Customers' inability to pay their loans due to the shutdown of their factories as a result of damage by natural disasters including wildfires. · Data center flooding and consequent inability to provide secure services to customers.
DGB Financial Group's business model or the business models for customers are not in tune with the low-carbon economy.	· Corporate credit risk · Reputation risk	· Failure to comply with emerging new climate-related regulations or schemes and consequent loss in business and inability to pay loans. · DGB Financial Group's negative or passive response to climate change will receive negative perception from the outside.
DGB Financial Group should come up with climate-related financial products and engage in effective marketing activities to address regulatory changes in order to expand our presence in the rest of the world including Southeast Asia.	· Reputation risk · Regulatory compliance risk	· Failure to respond to customer demands or regulatory changes will convey a negative image to stakeholders or lose trust.

TCFD recommendations and progress

The following is a summary of the activities DGB Financial Group carried out in 2021 to meet the recommendations of the Taskforce on Climate-related Financial Disclosures TCFD.

TCFD recommendations	Action taken by DGB Financial Group (2021)
Governance · Describe the board's oversight of climate-related risks and opportunities. · Describe management's role in assessing and managing climate-related risks and opportunities.	· The ESG Committee under the BOD is responsible for setting climate-related goals and strategies of DGB Financial Group. The committee is held biannually and receives reports on targets, strategies and status related to climate change. · The Risk Management Committee manages climate-related risks and opportunities based on the group's risk report and additional in-depth analysis. ☞ For more detailed information, please refer to p. 12
Strategy · Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term. · Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning. · Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	· DGB Financial Group identified short-term, mid-term, and long-term climate risks. The risk types include personal credit, corporate credit, resilience, reputation, and regulatory compliance. ☞ For more detailed information, please refer to p. 27. · We have made climate-related financing and investment priority strategy. In March 2021, we announced a new climate-related goal for the next generation and the achievement of Net-Zero that guarantee sustainable growth in transitioning to a low-carbon economy at the 'ESG Management Proclamation Ceremony'. ☞ For more detailed information, please refer to p. 85. · As we are living in an era of climate change, we plan to build a sustainable finance framework in 2022 to take measures to address climate change, build transparent governance, expand inclusive finance to support the sustainable growth of all stakeholders, and thereby ultimately contributing to moving toward a sustainable economy.
Risk management · Describe the organization's processes for identifying and assessing climate-related risks. · Describe the organization's processes for managing climate-related risks. · Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	· We reviewed risk preferences in order to identify climate-related risks, and approach managing these risks. · We review our policies designed for the management of diverse types of risks, early resilience risks, sustainability risks, and compliance risks. ☞ For more detailed information, please refer to pp. 32-33. · We manage climate risks of the assets of our customers as part of our fiduciary responsibility to protect and increase their assets. ☞ For more detailed information, please refer to pp. 26-29 and 59-61. · We are building a sustainable finance framework in order to step up our efforts to integrate climate risks with our risk-management framework, which includes metrics, assessment, management, calculation, and reporting.
Metrics and targets · Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process. · Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets. · Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse-gas (GHG) emissions, and the related risks.	· DGB Financial Group plans to assess and track its goal progress by using a few metrics and improve its approach to specific portfolios. · We aim to reduce carbon emissions by 19 percent by 2025, and by 42 percent by 2030 in line with the Paris Climate Agreement goals. We will also cut carbon footprints of our asset portfolios by 20 percent by 2025, and by 40 percent by 2030. By setting short-term and long-term goals and putting the goals into action, we will achieve carbon neutrality by reducing carbon emissions (Scope 1, 2, & 3) by 2040 and financial carbon footprints (Scope 3) by 2050. · We will continue to disclose corporate credit exposures in six high-transition risk sectors and include environmental performance in the KPIs for executives. · We aim to keep disclosures about business travel, energy-related emissions and renewable energy use, as well as disclosure details of our own Scope 3 emissions. ☞ For more detailed information, please refer to p. 34.

Board oversight

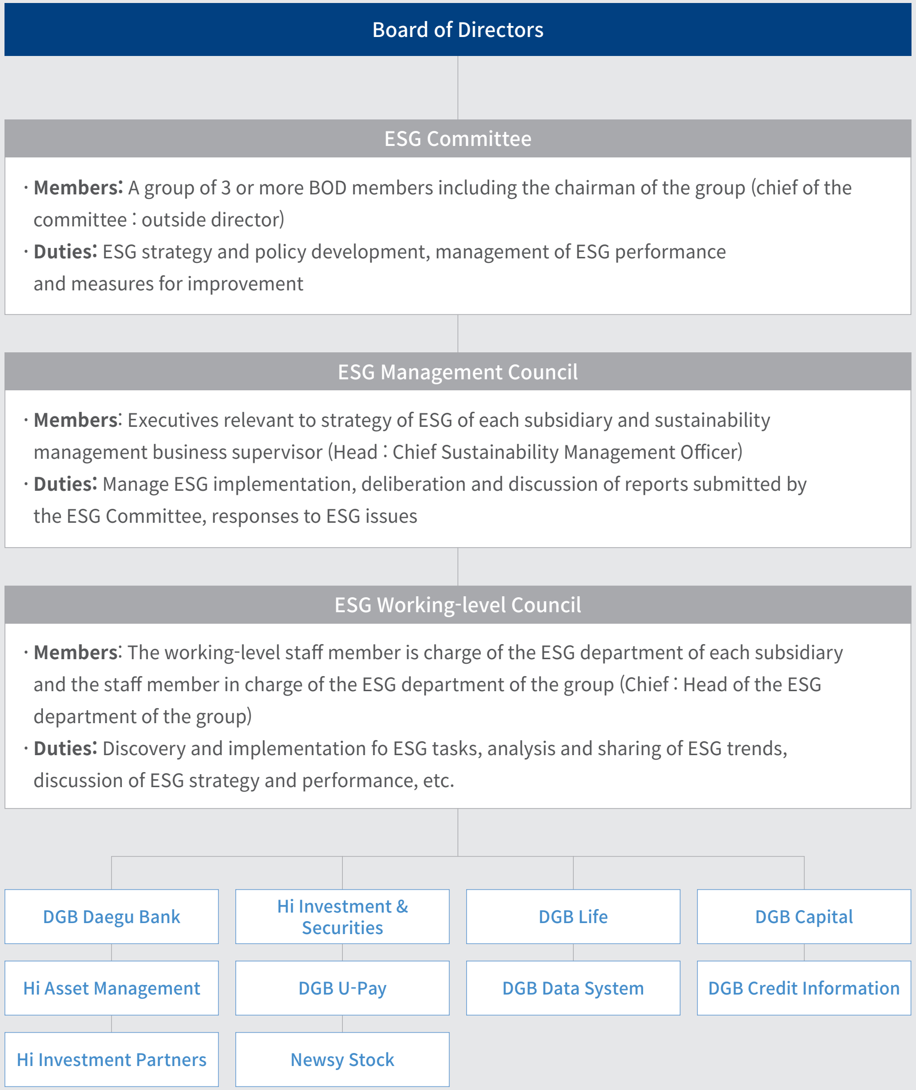
DGB Financial Group's Board of Directors is aware of the urgency of climate change, its risks to society and the global economy, and the necessity of transition to a carbon economy. The Board is responsible for climate strategies and sets directions for strategies.

We believe that climate change goals can only be achieved when sustainable financial goals are integrated into governance structure.
We launched the ESG Committee under the BOD in March 2021. As the highest decision-making body related to our ESG strategy and performance, the ESG Committee consists of three or more directors, including the CEO. The committee is scheduled to hold meetings biannually, and be responsible for monitoring our sustainable management strategies and goals, managing our ESG performance and measures for improvement, and providing consulting services to the BOD and the Business Management Council.

The BOD and the ESG Committee oversee the senior management responsible for managing environmental and social (E&S) risks, including climate change, and opportunities.

The following BOD committees listed below are responsible for oversight and disclosure of climate-related risks and opportunities.

- ESG Committee – It oversees the sustainability strategy as part of the company-wide approach to climate change, discusses climate-related risks and opportunities, and finalizes the sustainability report.
- Audit Committee – It oversees the group's risk management and process. It also recommends the approval of the sustainability that includes climate-related information disclosure that considers TCFD recommendations.
- Risk Management Committee – It manages the group's risks as a whole. Since the firm identified climate change as a risk for the first time in 2019, the committee periodically reviews the potential transition and physical risks of climate change that may affect the firm.



Duties of management

DGB Financial Group approaches climate change as a risk and at the same time an opportunity at the group level. Following the Declaration of its Support for "Climate Finance for 2050 Carbon Neutrality," DGB Financial Group pledged 'ending coal financing', refusing to participate in domestic and overseas coal power plant construction project financing (PF) and takeover bonds for the purpose of building coal power plants. We are working hard to address climate change and expand green finance.

In March 2021, we declared ESG commitments with the goal of achieving sustainable performance. As for the environment sector, we aim to build a climate-change risk management system, expand green investment and loans, double down on the environmental responsibility of financial products and services, and achieve carbon neutrality by 2050. As for society, we pledged to expand inclusive finance, respect the stakeholders' human rights and diversity, and pursue mutual prosperity with stakeholders. As for the governance sector, we will upgrade the CEO training program and gradually expand the ESG-associated performance assessment for the creation of transparent and robust governance and an ethical management system.

DGB Financial Group formed the ESG Management Council and ESG Working-level Council to support the ESG Committee. The ESG Management Council consists of executives relevant to strategy and ESG of each affiliate and is responsible for developing ESG strategies and putting the strategies into action, reporting to the ESG Committee, and addressing ESG issues. The ESG Working-level Council consists of working-level staffers relevant to ESG with each affiliate. It is responsible for discovering ESG tasks and putting them into action and discussing ESG strategies and performance on a regular basis.

ESG Committee in 2021

Meeting	Main Agenda	Results
1st	· Enactment of the ESG Management Council regulations · Declaration of ending coal finance	· Strengthening ESG governance · Expanding ESG finance
2nd	· Enactment of ESG-related principles · Reporting of ESG-related achievements in 2021 and projects for 2022	· Strengthening diversity and independence of BOD · Reinforcement of Group's ESG management execution

ESG Management Council in 2021

Meeting	Main Agenda	Results
1st	· DGB Financial Group's strategies and roadmap for ESG management · TCFD adoption plan · Progress of ESG management of each affiliate	· TCFD capacity building
2nd	· Inclusion ESG factor in KPIs · ESG international conference and ESG report publication	· ESG leadership consolidated
3rd	· Enactment of guidelines for the Board's diversity and independence · Promotion ESG consulting for local companies · Establishment of ESG management slogan	· Integration ESG into business

Climate-related risks and opportunities: Overview

DGB Financial Group categorizes climate risks into those related to transition to a low-carbon economy (transition risk) and those related to physical impacts of climate change (physical risk). We faced direct and indirect climate risks in business activities.

- Direct climate risks: Emerging regulations and legal requirements related climate-change, discontinuance of business activities and services, discontinuance of product and service provision for customers, customers' exposure to climate risks and consequent credit impacts
- Indirect climate risks: financial support and investment for customers vulnerable to climate change

DGB Financial Group has identified climate-related opportunities in the business sector as a whole based on its understanding of climate risks as described above. The opportunities include strategies, products, services, and consultation services designed to provide support to customers in the process of transitioning to a low carbon economy and gain a head start in the new realm of business, such as sustainable finance. In addition, we recognized the opportunity to improve efficiency and resilience while tackling climate change on the world stage.

We plan to invest in the businesses and projects that are committed to contributing to a low carbon, sustainable economy by making consistent investments in sustainable finance for the achievement of Net-Zero by 2050.

Climate-related risks		Possible impacts
Transition risk	Policy and legal	· Mandatory regulations regarding our financial products and services · Lawsuits by those who have been affected by environmental impacts
	Technology	· Replacement of existing financial products with low-carbon financial products
	Markets	· Changing consumer preferences
	Reputation	· Increasing stakeholders' awareness of climate-related actions or no responses
Physical risk	Acute	· Increased severity of extreme weather events
	Chronic	· Changes in precipitation patterns · Rising temperatures

Financial products and services
• Purchase of green and sustainable bonds
• Green and sustainability-related loans
• Financing, consulting services, and credit solutions for sustainable businesses and projects
• Customized financial support for the Green New Deal
• Issuance of green bonds
• Retail and commercial vehicle finance for hybrid and electric vehicles
• Green mortgage loans for energy-efficient buildings
• Carbon credit trading – operation of the channel exclusively for carbon credits
• Sales of Socially Responsible Investment (SRI) products

Identification and assessment of climate risks

DGB Financial Group includes climate change in its approach to E&S risk management stipulated in the E&S risk management policy for each business. In 2019, we identified climate change as a risk for the first time and joined the TCFD. Extreme weather events and global transition to a low carbon economy may have far-reaching implications. Climate risks affect our entire business realms as transition and physical risks can affect other risk types if they are not properly managed.

Classification	Risk type	Description as it relates to climate risk
Control & influence	Macroeconomic	• Systemic risks are more likely in a disorderly transition as a result of the interconnectedness of financial systems and power supply. For example, where energy transition policies lead to energy price volatility and shortages, this may reverberate through the global economy causing systemic instability. Increasing physical impacts could impact macroeconomic conditions. Trade tensions could rise if climate policies differ from country to country.
	Strategic aspects	• Strategic risks may occur in cases where DGB Financial Group fails to identify changes in major sectors/regions and adjust to the changes. • Reputational risks may arise from the perception that DGB Financial Group is not adequately responding to climate change.
	Operation and regulatory compliance	• Operational risks may occur due to the impact on the resilience of business operation, of more frequent and severe weather events, as well as the rising prices of energy, water, and insurance and business continuity. It especially affects potentially the retention and recruitment of millennials and Gen MZ as employees. • Regulatory compliance risks may arise in the capacity to comply with climate-related new regulations for banks, insurers, and asset managers. DGB Financial Group set new regulatory requirements in March 2021.
Financial products and services	Transactional/ positional	• Credit risks may arise from the impact of businesses, asset assessment, uninsured losses, operating cost and profit and transition to a low carbon economy and changes in customers' wrong business models and strategies. • Market and liquidity risks may arise from the impact of energy and commodity prices, corporate bonds, equity, and the contract of specific derivatives related to carbon-intensive sectors. A failure to promptly and properly address issues of climate change may affect liquidity. • A failure to assess the climate-related impact on death and disability premiums/debts may create insurance risks.

Management of climate risks

DGB Financial Group may be exposed to climate risks through emerging new regulatory and legal requirements, discontinuance of operation and services, and financial products and services for customers. We are reviewing the risks we face and the measures we take to mitigate these risks.

Potential risks	Actions to mitigate risks
Emerging regulatory and legal requirements	• DGB Financial Group is continuously monitoring climate-related ESG regulations and legal requirements, and DGB-related impacts at home and abroad as the severity of the climate change crisis and the financial risks stemming from climate risks become a reality. Externally, BCBS (2021) recommended financial institutions to include climate risks in their risk management and the EU announced the carbon border tax in 2021. Internally, the Korean government set goals to address climate-risk issues, such as carbon neutrality 2050, Korean New Deal, and a roadmap for GHG emissions 2030, among others, and enacted the Carbon Neutrality Act on March 25, 2022. In particular, the Financial Services Commission released the "2021 Green Finance Plan" (Jan. 21), which includes the expansion of financial support for the green sector, the establishment of a green classification system, the formulation of a climate risk and management and supervision plan, and the disclosure of corporate environmental information. It also launched the "Green Financial Council" in May 2021. In sum, climate change-related regulations on financial service providers, including banks, insurers, asset managers, and guidelines for them are evolving fast. • DGB Financial Group undertook a climate response project in Dec. 2021 to assess and quantify the regulatory impact of climate change on customers who are in sectors categorized as medium-high environmental risk, such as those in carbon-intensive sectors.
Disruptions to operations and client services	• We identify properties we lease or own that contain business processes and supporting applications that require enhanced facility infrastructure to mitigate site disruptions, such as those caused by extreme weather events. We classify critical environment sites based on our business risk tolerance for site-specific downtime and, among other things, site location, power supply, exposure to flooding, geological stability and other hazards. • We take steps to mitigate and adapt to climate change through our building design and our purchasing decisions. • As required, we assess the impact of climate-related events(e.g., floods, hurricanes) on our businesses and client operations.
Financial products and services	• DGB Financial Group provides financial products, services, and consulting services to help customers respond to climate-related risks and opportunities (e.g., carbon credit trading, green bond takeover, clean technology lending and consulting services, responsible investment, etc.). • We maintain a diversified lending portfolio, which improves our resilience to geographic or sectoral downturns and minimizes concentrations of credit exposure. • Each business sector is identifying significant climate-related risks and opportunities that are integrated into the risk management processes as needed. We conducted a climate scenario analysis for some portions of our portfolio in order to assess the impact of transition and physical risks in diverse scenarios, including the 2-degree scenario. • Our asset management business may affect serious impacts on investment or profit when ESG issues are integrated into the investment process. • DGB Life is managing its insurance products to ensure that they are not exposed directly to climate-related risks. The insurance industry is likely to be exposed to long-term changes of climate patterns, such as rising temperature and typhoons, which may indirectly affect the insurance business outcome.

GHG emissions by DGB Financial Group

DGB Financial Group has been systematically managing GHG emissions since it created a GHG inventory system in 2010. We also undergo the external verification of energy consumption and GHG emissions for objectivity and reliability. From 2021, we include our asset portfolio emissions (Scope 3) as well as internal GHG emissions in our asset portfolio for GHG emissions management. The total GHG emissions by DGB are 4.79 million tCO_2e, and Scope 3 financial emissions account for 99 percent of total emissions.

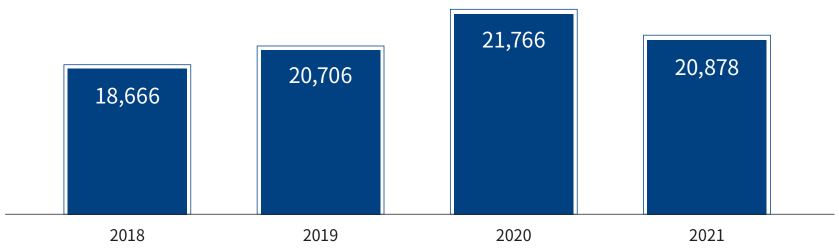
DGB Financial Group calculated financial emissions for 35.39 percent of profitable financial activities worth about 82.39 trillion won (as of 2021), and set a scientific reduction target for 24.83 percent excluding personal loans. Although individual loans (housing mortgages and auto loans) are used to calculate and monitor emissions, they are excluded from the GHG reduction target due to the limitations of the current reduction methodology. (*Emissions may change in the third-party verification process (SBTi, etc.).

Performance indicators for GHG emissions	
Total annual GHG emissions for internal operations (tCO_2e)	**20,878**
• Scope 1	3,174
• Scope 2	17,704
GHG emissions of financial asset portfolio (tCO_2e)	**4,765,382**
• Corporate loans (general, commercial real estate, power generation)	4,093,683
• Project financing (power generation PF)	415,880
• Investments (bonds, equity, REITs, real estate funds)	255,818

Total GHG emissions from operations

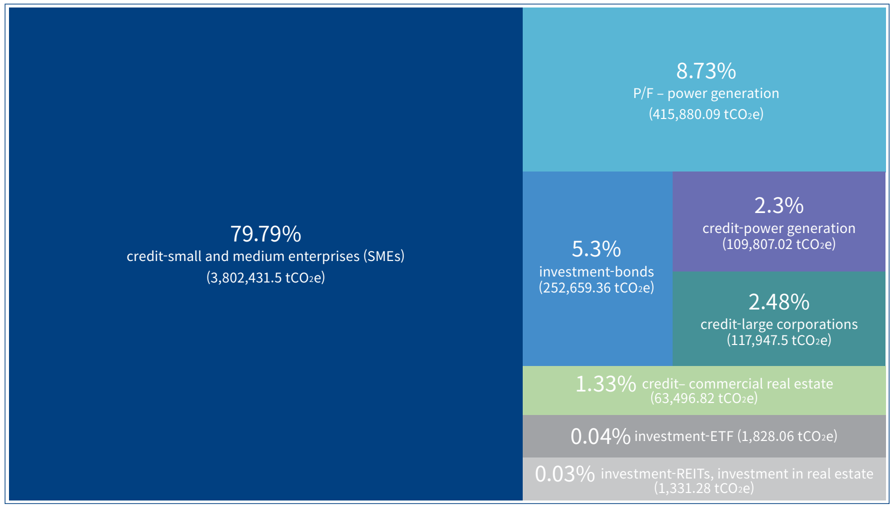
Unit: tCO_2e ■Scope 1 & Scope 2

20,878 tCO_2e (as of 2021)



Emissions of financial portfolios (Scope 3)

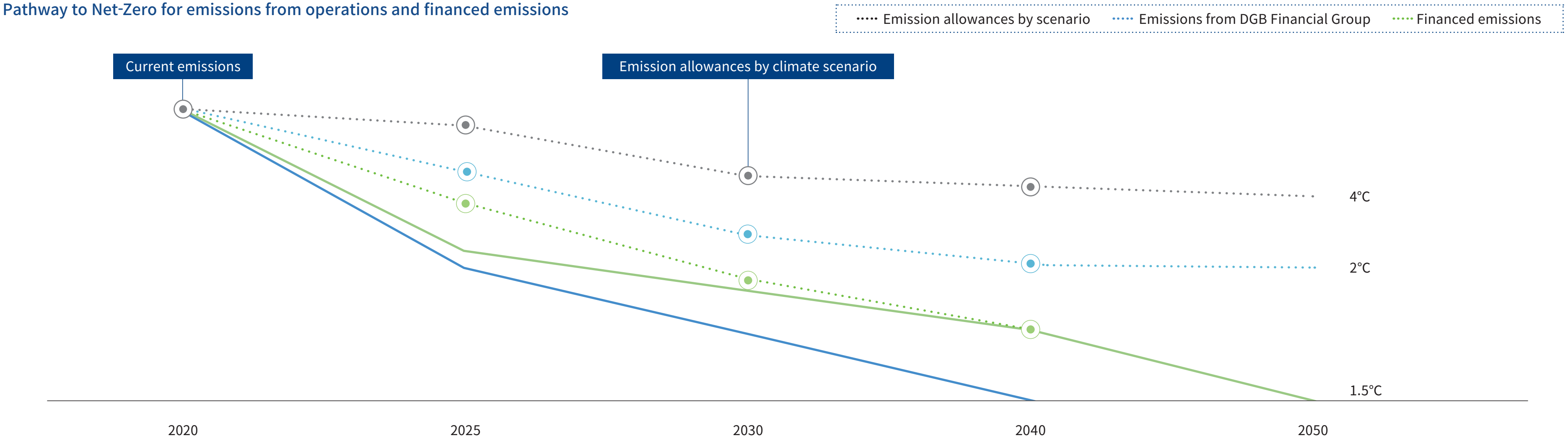
4,765,382 tCO_2e (as of 2021)



GHG emissions pathway for each climate scenario

DGB Financial Group formulated the emissions mitigation plan in accordance with the pathway to Net-Zero, which reflects the requirements for the fulfillment of the SBT for Scope 1 & 2 for each climate scenario, based on the result of the GHG emissions calculation.

Pathway to Net-Zero for emissions from operations and financed emissions



[Requirements for setting goals to reduce emissions from operations and financed emissions]

Classification	Requirements
Base year and target year	Finalize at least 5- to up to 10-year goals
Achievement level	Calculate GHG emissions inventory for the last two years
Target level	Set the targets for the achievement of the Paris Agreement that confirms the 2°C goal
Absolute target vs. intensity target	**Emissions from operations (Scope 1&2)** Absolute target – Meet the requirements of Sectoral Decarbonization Approach (SDA) Intensity target - Set targets within the feasibility level of Paris Agreement that confirms the 2-degree goal (calculated as an absolute target) **Financed emissions (Scope 3)** Absolute target – Set the target within the feasibility level of Paris Agreement that confirms the 2°C goal Intensity target based on revenue – Reduce at least 7% annually Physical intensity target – Meet the Requirements of SDA

Calculation scope of financed emissions (Scope 3)

DGB Financial Group determines the scope of calculation based on its asset portfolio, collects necessary data to calculate the carbon emissions of its assets, including credit (corporate and household), power generation PF, equity (ETC), and bonds and calculates using PCAF methodology. We calculated the financed emissions by categorizing our assets into the power generation sector, commercial real estate sector, and credit and investment sector in accordance with the SBTi guidelines for the financial sector. As of 2021, we calculated financed emissions of 35.39 percent of the total financial activities for profit worth KRW 82.39 trillion. We also set a science-based target of 23.15 percent excluding personal loans.

Scope 3 by asset class

Asset type	Asset	SBT	PCAF	Calculation scope	Affiliate	Balance	Rate
Personal loans	Housing mortgages	Optional	O	100%	Bank	KRW 7.79 trillion*	9.46%
	Vehicle loans	Optional	O	100%	Bank/Capital	KRW 904.8 billion*	1.10%
Project financing	Power generation PF	Mandatory (100%)	O	100%	Bank	KRW 68.1 billion	0.08%
Corporate loans	Commercial real estate	Mandatory (>67%)	O	100%	Life/Capital/Bank	KRW 1.68 trillion	2.04%
	Power generation	Mandatory (100%)	O	100%	Bank	KRW 48.8 billion	0.06%
	Fossil fuels	Mandatory (>95%)	O	100%	Bank	KRW 88.0 billion	0.11%
	Loans to large businesses	Mandatory (>67%)	O	100%	Bank	KRW 1.37 trillion	1.67%
	Loans to SMEs	Optional	O	100%	Bank/Life/Capital	KRW 16.71 trillion	20.28%
Equity and bonds (listed)	ETF	Mandatory (100%)	O	100%	Bank/Life	KRW 16.1 billion	0.02%
	Corporate bonds	Mandatory (100%)	O	100%	Bank/Life	KRW 450.6 billion	0.55%
	REITs and real estate bonds	Mandatory (100%)	O	100%	Capital	KRW 20.0 billion	0.02%
Total						KRW 29.15 trillion (KRW 82.39 trillion)	35.39%

☞ We categorized the business areas of each affiliate into the corporate and individual loans, power generation, and power generation PF. We also categorized the equity and bonds of listed companies into investment in preferred/common equity, investment in bonds, and investment in REITs and real estate for calculation.

Cost evaluation for reducing emissions to achieve the emissions targets

DGB Financial Group conducted an analysis of the cost of reducing emissions in order to draw up a long-term plan to invest in facilities and offset lost opportunity cost and indivisible reduction and achieve “Net-Zero 2050 (Scope 3)” in line with the SBT’s 1.5-degree scenario for “carbon neutrality 2040 (Scope 1&2)” and the national target.

Emissions from operations (Scope 1&2)

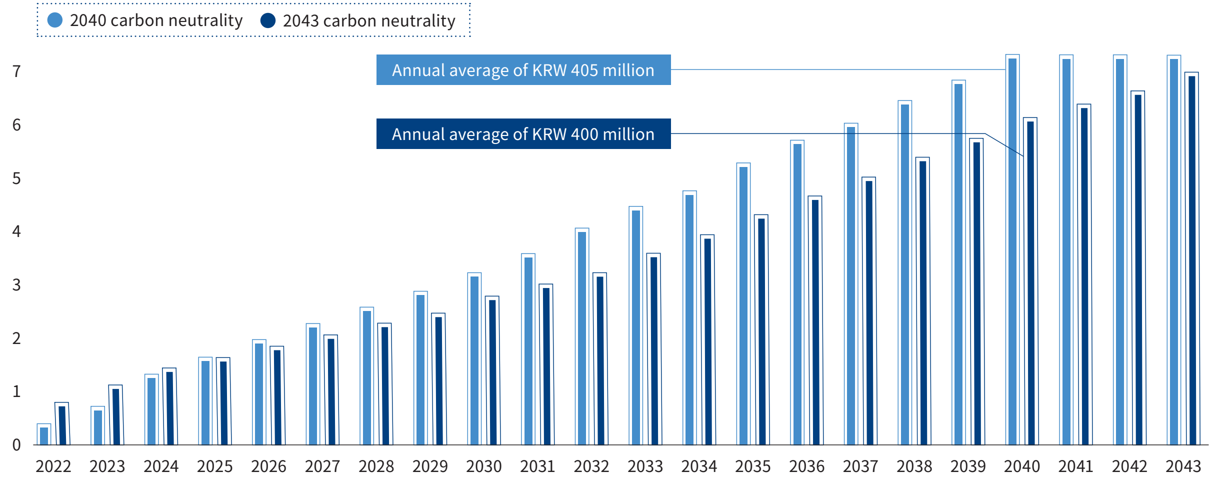
Green premium for electricity generated from renewable energy

1. Green premium estimated to be KRW 25 by converting 105.12 TJ, the total electricity consumed in 2021, into Kwh.
   - 2040 Net-Zero: roughly KRW 9.6 billion or an average of KRW 450 million per year as cumulative cost by 2043
   - 2043 Net-Zero: roughly KRW 8.4 billion or an average of KRW 400 million as cumulative cost by 2043

Investment in headquarters facilities

1. KRW 100 million a year estimated for replacement with LED lights for energy efficiency, replacement of heating system facilities with new ones, etc.

※ The estimated cost is subject to change in accordance with economic, technological and policy conditions. For the cost analysis of Scope 1&2, it is necessary to apply various options, such as REC purchase in the future, and price forecast, by conducting a preliminary analysis with green premiums involved.



Financed emissions (Scope 3)

Target	Classification	Reduction method	Type of cost	Cost	Rationale for calculation
2045 Net-Zero	Loans	Portfolio adjustment	Indirect/ opportunity cost	KRW 16.2 billion per year	Assumed 30% loss in opportunity cost of avoiding loans to high-carbon sectors Total loan amount (KRW 1.8 trillion) (as of 2021 X 3% annual interest rate applied) KRW 1.8 trillion X 3% X 30% = KRW 16.2 billion
	Bonds/equity	Portfolio adjustment	Indirect/ opportunity cost	KRW 100 million a year	100% lost opportunity cost of avoiding bond holdings assumed bond holdings (105.9 billion KRW) as of 2021X 1% bond yield applied KRW 105.9 billion X 1% = KRW 1 billion
	Loans/investment/ real estate	Reduction of customer use emissions	Direct cost	KRW 1 billion a year	Support for customer use emissions reduction (facility investment, etc.), expansion of customer engagement, etc.
Total					KRW 16.3 billion~17.3 billion

Our GHG reduction strategy formulation method

DGB Financial Group came up with an action plan to implement a reduction pathway in consideration of cost-reduction effect, and expected period of time through the 3 step process, including reduction strategy formulation, reduction effect and cost, and strategy formulation.

Step 1: Reduction strategy formulation

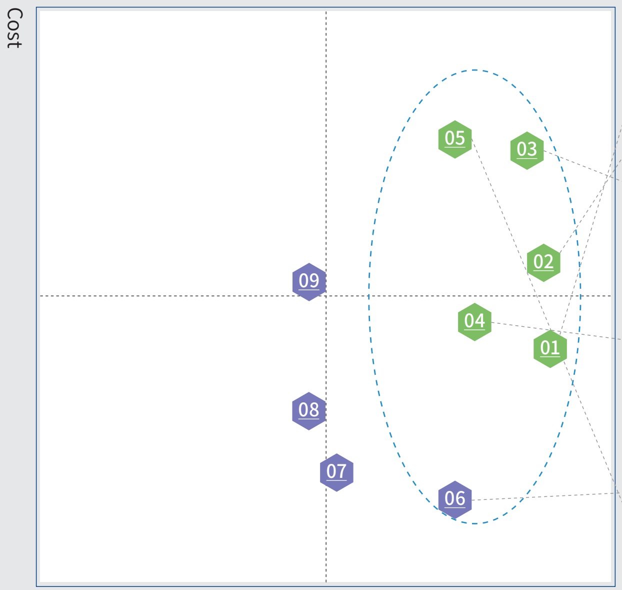
Adjust portfolios

No.	Sector	Strategy
01	Business	Sell bonds and shares
02	Business	Give less weight to high-emissions industries
03	Business	Limit non-renewable resources and expand renewable resources
04	Real estate	Expand eco-friendly real estate collateral/financial support
05	Business	Reflect credit evaluation

Encourage reduction of customer use emissions

No.	Sector	Strategy
06	Business	Set intensity reduction target by industry
07	Business	Recommend science-based climate target setting
08	Business	Invest in low-carbon technology
09	Real estate	Provide consulting for real estate energy efficiency

Step 2: Effect and cost analysis



Adjust portfolios

Encourage reduction of customer use emissions

- Significant amount of reduction effect when strategies are implemented
- Cooperation among all DGB Financial Group affiliates necessary

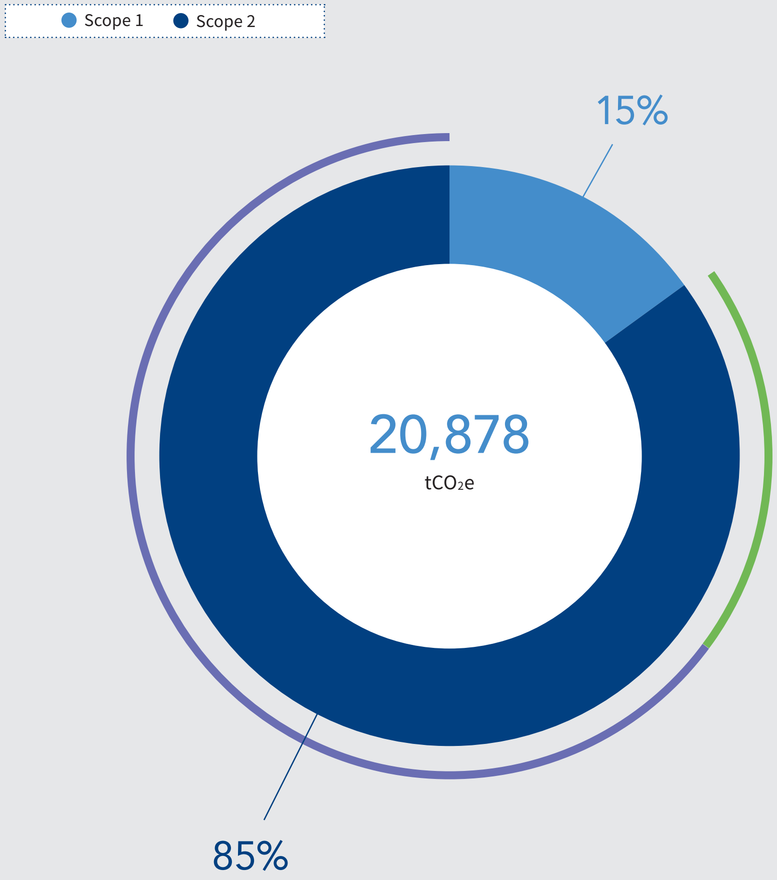
Step 3: Detailed strategy formulation

Strategy	Cost	Reduction effect	Duration
Sell bonds and shares	Low	High	Mid-term
Give less weight to high-emissions industries	Average	High	Mid-term
Limit non-renewable resources, expand renewable resources	Average	High	Mid-term
Expand eco-friendly real estate collateral/financial support	Average	High	Mid-term
Recommend intensity reduction target	Low	High	Long-term*
Reflect credit risk credit evaluation	High	High	Mid-term

* Implementation period variable depending on cooperation

Measures to reduce our emissions (Scope 1 & 2)

As 85 percent of the GHG emissions we generate come from electricity, we plan to purchase renewable energy and expand green facilities. We also plan to replace the fleet vehicles with electric vehicles, go digital to reduce the sizes of branch offices, and improve energy efficiency of buildings and heaters.



01 Digitalize branch offices and improvement of energy efficiency

- Digitalize branch offices to reduce their sizes
- Relocate branch offices to green and energy-efficient buildings

02 Replace fleet vehicles with electric vehicles

- Reduce Scope 1 emissions by replacing fleet vehicles with electric vehicles

03 Improve energy efficiency

- Replace all heating facilities with energy-efficient ones in the future

04 Increase the use of renewable energy

- Maintain the 61-MWh renewable energy generation facilities in Banyawol and Gyeongju branch offices and 2nd head office and expansion to other branch offices
- Plan to participate in green premium bids and REC (renewable energy credit) purchase

05 Reduce energy consumption

- Minimize carbon emissions by applying the “Green Touch” program to computers, air purifiers, and other electronic devices
- Replace lights with LED lights and turn off the lights near the windows during peak power hours
- Analyze building energy use and optimize it by introducing BEMS*
- Reduce energy consumption by installing an air conditioning system in the server room
- Obtain green certification

*BEMS: Building Energy Management System

Measures to achieve Net-Zero financed emissions (Scope 3)

We aim to achieve Net-Zero by 2050 by building a financial portfolio based on low-emissions industries in consideration of the asset class-specific necessary amount of reduction and encouraging customers who make investment or get loans to reduce GHG reductions.

Asset class	Category	Required emissions reductions (tCO_2e)	Characteristics of emissions	Reduction strategy	
Loans	Large businesses	120,000	4.51 million in total Low exposure to high GHG-emission industries Majority of SMEs	Adjust portfolios (30%)	**High-emissions industries-> portfolio adjustments with focus on low-emissions industries** ※ Reduce emissions by avoiding high-emissions industries, such as steel, cement, etc.
	Small and medium businesses	3.80 million		Encourage customers to join reduction efforts (70%)	**Manage GHG emissions from real estate and borrowers** - Include climate change transition risks in the borrower evaluation and credit review process. - Encourage borrowers to use renewable energy and K-RE100 - Manage high-emission borrowers and encourage customer engagement - Reduce commercial real estate naturally in accordance with changes in the national energy structure
	Commercial real estate	60,000			
	Power generation and power generation P/F	530,000			
Bonds	Businesses	250,000	KEPCO, LG Display, S-Oil, etc.	Adjust portfolios (100%)	**Reduce carbon emissions by adjusting bonds holdings** - Review high-emissions bond holdings - Consider purchase of low-carbon company bonds and national and public bonds when purchasing bonds
Equity	ETF	1,828 tons	ETF and real estate fund investment	Encourage customers to reduce emissions (100%)	**Encourage emissions from large buildings** - Collect the plans for the reduction of emissions from the real estate funds owned by DGB Capital and Hi Investment & Securities and REITs assets (or plan to acquire eco-friendly building certification)
Real estate investment	Real estate investment	1,331 tons			

Direction for building a sustainable finance framework

DGB Financial Group is committed to contributing to the transition to a sustainable economy by building a sustainable financial framework in order to address climate change and build transparent governance, on the one hand, and expand inclusive finance to support the sustainable growth of stakeholders from all walks of life.

Realms of sustainable finance	Framework for implementation	Performance management
DGB Financial Group aim to grow together with all stakeholders by reflecting the E (environment) & S (society) standards in making decisions on developing new businesses or products, financing, and making investments.	DGB Financial Group plans to establish the following four frameworks to implement sustainable finance • Sector policy • Taxonomy • Environmental & Social Risk Management • ESG Integration	All affiliates of DGB Financial Group transparently manage their progress for the creation of a sustainable finance framework. The holdings company collects and manages data to monitor their performance at least twice per year.
A. Prohibition of funding that is used against the public interest or for illegal or illegal acts in loan management and investment B. Handling of credit that reflects achievements in ESG commitments, such as governance building by taking ethical management, green business activities, and shareholder value creation into consideration, job creation C. Reflection of low carbon- related and green technologies for transition to a green economy and growth in credit evaluation and recognition of intellectual properties as collateral D. Expansion of financial support for companies that have contributed significantly to low-carbon green growth E. Development of financial products designed to nurture low-carbon, eco-friendly industries F. Expansion of financial support for businesses that contribute to the sustainable growth of our society	**A. Sector Policy** • Management policy by industry: it is taken into consideration in the process of taking decisions on our investments and loans. However, it may be applied differently to individual products and services and the screening process. • Coal exit: We are the first local financial service provider to pledge coal exit finance firmwide. To that end, we plan to apply the credit and investment screening standards. • Exclusion of industries with negative environmental and social impacts **B. Taxonomy** • DGB Financial Group aim to support green finance by assessing environmental and social sustainability of corporate credit and investment based on the domestic green bond guidelines including the 'K-Taxonomy', the International Capital Market Association (ICMA)'s Green Bond Principles, private bond principles (SBP), and sustainable bond guidelines (SBGs), among others, we plan to support green finance by evaluating the overall environmental and social sustainability of corporate credit and investment. **C. Environmental and social risk management system (ESRM)** • We aim to identify, evaluate, and manage environmental and social risks for large-scale projects at home and abroad by applying the ESRM policy that applies the Equator Principles and implementation standards for environmental and social sustainability of the International Financial Corporation of the IFC. **D. ESG integration policy** • We will take objective and fair ESG integration policies into reality by reflecting ESG-related surveys and evaluation results into diverse financial products and services and our decision making process.	A. We strive to minimize the exposure of our financial products services to ESG risks by communicating with internal and external stakeholders based on the data collected. B. We provide employee training designed to help them understand environmental and social risks and the importance of practicing sustainable finance and ultimately manage sustainable finance data.

Our approach to climate-related risks and opportunities

DGB Financial Group are well-aware that we should take responsibility for stepping up the transition to a low-carbon economy and mitigate climate-related risks. Our approach to climate-related risks and opportunities is handled at the group level. We plan to expand our transition finance solution portfolios that include clean technology innovation, sustainable infrastructure, and nature-based investment to gradually decarbonize the high-emissions sectors as well. In order to include climate lens in our investment decisions, we need to understand diverse issues and conditions faced by customers. To this end, we will communicate with our customers and obtain transparent and consistent climate-related information and disclose the data.

Short-term	Mid-term	Long-term
• **DGB Financial Group's business portfolio review and strategy formulation (every year)** ☞ For detailed information, please refer to pages 27, 34, and 84.	• DGB Financial Group's system and roadmap for ESG commitments ☞ For details, refer to Page 10, 27, 32-33, 85	• Public announcement of our stance on climate change (Declaration of ESG commitments, Mar. 2021) ☞ For more detailed information, please refer to p. 27 and p.85.
• **It gives an annual overview of the financial soundness of our business portfolio and explains our future-oriented corporate strategy that includes our goals, risks and opportunities, and strategic priority, and initiatives.**	• The pledge to support “climate finance for carbon neutrality 2050” and “coal exit finance” in March 2021, refusing to participate in the coal power plant construction project financing at home and abroad and take over bonds for coal power plant construction • GHG emissions trading service in an effort to contribute to the government’s GHG reduction policy through the provision of a stable GHG-emissions rights trading starting Dec. 2021. (☞ Please refer to p. 28, Hi Investment & Securities) • Support for customers that go low carbon • Climate-risk management capacity building and TCFD disclosure (☞ scenario analysis for identification and evaluation of customer and business resilience to climate-related risks) • Effort to achieve Net-Zero emissions every year (☞ reduction of GHG emissions by at least 7% every year for 20% reduction by 2025) • Increase of investment in technology to address environmental issues	• **Sharing of our long-term stance in relation to climate change and identification of our responsibilities in handling climate-related risks and opportunities**

Integration of climate-change into risk management

DGB Financial Group plans to make its approach to climate-related risk management open and integrate climate risks into our risk management framework as part of our business policy, process, and management. Our approach to climate risk management consists of five steps, namely: definition and activation; identification and assessment; management; data collection; and reporting. In so doing, the BOD and high-ranking executives will be able to gain insights into the climate risks that may hit DGB most severely and monitor them. We will form a transition-risk framework in order to improve the way to identify, assess, and manage the exposure to the high transition risk sector and consistently communicate with customers to better understand and support their low-carbon strategies.

Financial risks

Identification and assessment	Management	Data collection and reporting
DGB Financial Group is implementing a sustainability risk policy to assess and manage the social and environmental risks of providing financial support for large-scale projects. We identified six industries with the highest climate risks based on their CO_2 emissions and reputational risks, which are iron, steel, chemicals, cement, transportation, and coal power industries.	We will step up our efforts to communicate with customers relevant to the high-risk sectors in order to mitigate transition and physical risks by assessing the impacts of climate change on business models and relevant transition strategies and responding to them.	We are reporting risk exposures of major sectors to the ESG Committee twice per year. We will revise and improve the report as we upgrade our approach to climate risk management.
We monitor not only our own facilities that are continuously exposed to physical risks due to climate change such as severe weather events that are on the rise but housing mortgage and automobiles.	**We will continue to upgrade our risk management framework and policies by developing and monitoring a reduction methodology for retail banking to include climate risks in personal credit management, which amounts to 20.4 percent.**	We report the impact of climate risks related to retail finance to DGB Financial Group Risk Management Committee and ESG Committee on a regular basis and when necessary.

Non-financial risks

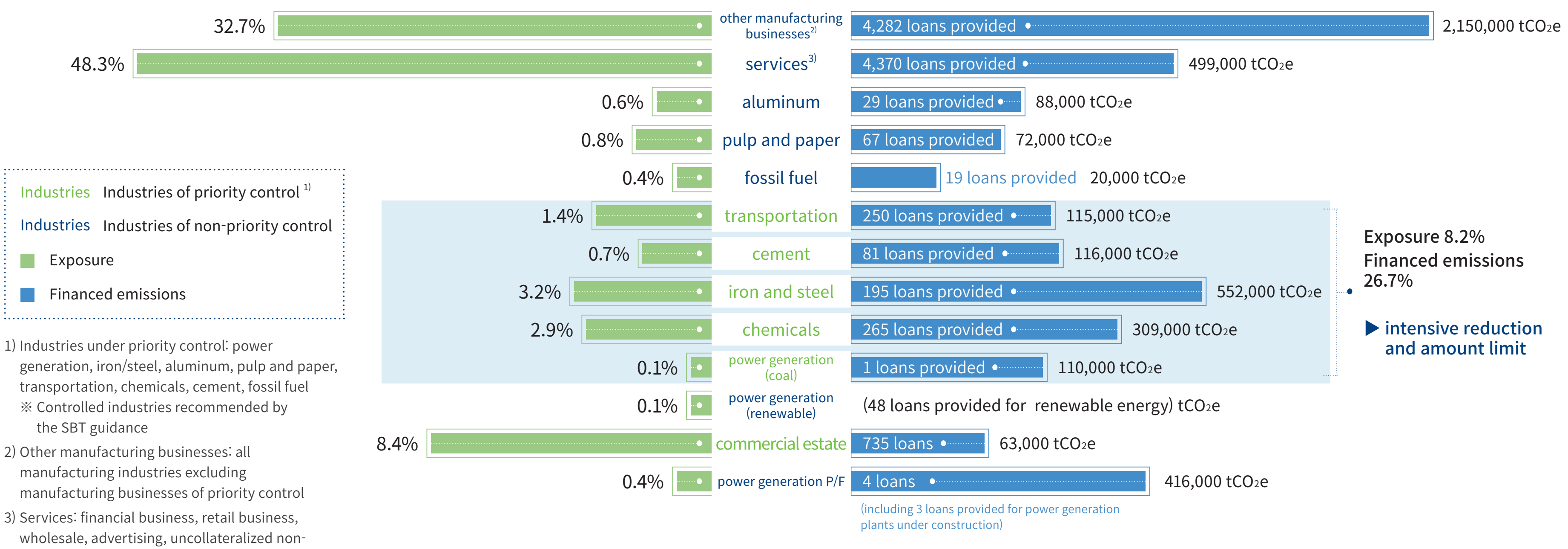
Identification and assessment	Management	Data collection and reporting
We identified and evaluated misconduct (including disclosure), conflicts of interest, and regulatory changes in financial product management and sales as major risks relevant to climate risks. We check greenwashing to make sure that the climate-related products and services we provide to our customers meet the needs of customers and all marketing data and disclosure are clear, fair, and not misleading.	We plan to include climate risks in our product management policy. It means that our product inventory is updated to include climate, sustainability, and green characteristics.	We track and and monitor the inclusion of regulatory compliance risks and operation in climate risks. We also monitor regulatory and legislative changes in all sustainability and climate change agenda and report them to relevant committees on a regular basis.
We have identified risks related to building availability, branch office safety, IT and cyber security, and business activities as risks that pose threats to operational resilience.	**We will review our current policies and processes and continue managing them in accordance with climate goals and risk preferences by taking into consideration climate risks in all risk areas.**	We add up all our exposures to climate risks on a regular basis to report to the ESG Committee and other relevant bodies (divisions).

Risk-management of high-emission industries

As extreme weather events and the transition to a low-carbon economy have far-reaching effects, we are monitoring climate risks on a regular basis to increase capital adequacy and asset quality by reducing exposures to high-carbon industries and doubling down on risk management. Based on the high carbon-emission industries classified by the Bank of Korea and the financial sector science-based target (SBT) guidance, we analyze the degree of exposure at default (EAD) and risk exposure to identify and manage industries with high exposure to risks.

With reference to the PCAF methodology, we calculated the carbon emissions of financial assets, including loans, power generation PF, and bonds as of the end of 2021. We also aim to achieve Net-Zero by 2050 by creating a financial portfolios based on low-emission industries and encouraging customers to reduce their investment and loans linked to high-carbon industries. We will prioritize the industries with high risk exposure (26.7 percent), such as iron, steel, chemicals, cement, transportation, and coal power generation, for intensive management, on the one hand, and draw up a plan to systematically reduce high-emission industries (47.7 percent), services and power generation PF sector (11.1 percent).

Exposures to carbon-intensive industries



1) Industries under priority control: power generation, iron/steel, aluminum, pulp and paper, transportation, chemicals, cement, fossil fuel
※ Controlled industries recommended by the SBT guidance
2) Other manufacturing businesses: all manufacturing industries excluding manufacturing businesses of priority control
3) Services: financial business, retail business, wholesale, advertising, uncollateralized non-commercial real estate

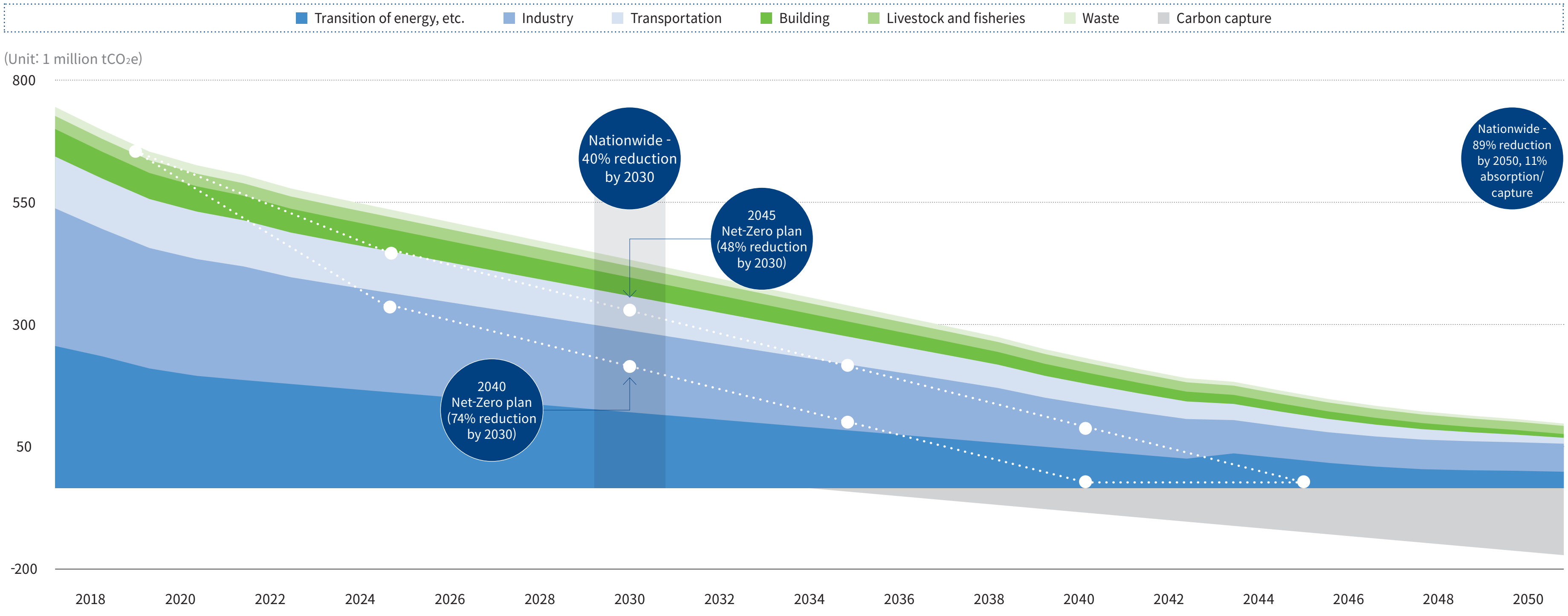
Indicators and targets we use for evaluation of climate-related risks and opportunities

Indicator	Target	Reference
Operation		
Carbon neutrality	Net-Zero carbon emissions by 2050	• Sustainability Report 2021, pp. 24, 26-34, 85-86
GHG emissions	Reduction of GHG emissions by at least 7% per year (Scope 1&2) with the goal of reducing 19% by 2025	• Sustainability Report 2021, p. 34
Renewable energy	Phased transition from electricity to renewable resources by 2040	• Sustainability Report 2021, pp. 14-15, 28, 30
Finance and investment		
Portfolio, sector, and regional credit-risk exposure	Not applied (final TCFD recommendation)	• Sustainability Report 2021, p. 27
Credit-risk exposure to carbon-related assets vs. total credit risk exposure	Not applied (final TCFD recommendation)	• Sustainability Report 2021, p. 27
Power-generation loan by energy source	Not applied (final TCFD recommendation)	• Sustainability Report 2021, pp. 27-28
Total value of sustainable finance	Increase of sustainable finance to more than 6% by 2025 (based on loans)	• Sustainability Report 2021, pp. 59-61
Total value of SRI assets managed by DGB Financial Group	Not applied	• Sustainability Report 2021, p. 60
Local community		
Support for local communities and organizations that develop technological solutions designed to address climate change and climate-related environmental issues	Financial support worth KRW 50 billion per year	• Sustainability Report 2021, p. 49

Net-Zero 2050 as our target

DGB Financial Group developed a Net-Zero transition pathway and reduction plan in line with the target of the Paris Agreement and the Korean government's "roadmap for 2050 national carbon neutrality," by meeting the requirements for the SBT Scope 1 & 2 targets based on the GHG emissions calculation.
We plan to reduce carbon-emissions by 20 percent by 2025, and 46 percent by 2030. Also, we will cut carbon emissions from our financial asset portfolios by 20 percent by 2025, and 40 percent by 2030. By setting short-term goals and taking action on setting long-term goals and putting our strategies into action, we will reach carbon neutrality (Scope 1, 2, &3) goals in the group by 2040; and carbon neutrality (Scope 3) across our financial assets by 2050.

Roadmap for 2050 national carbon neutrality * vs. DGB reduction pathways



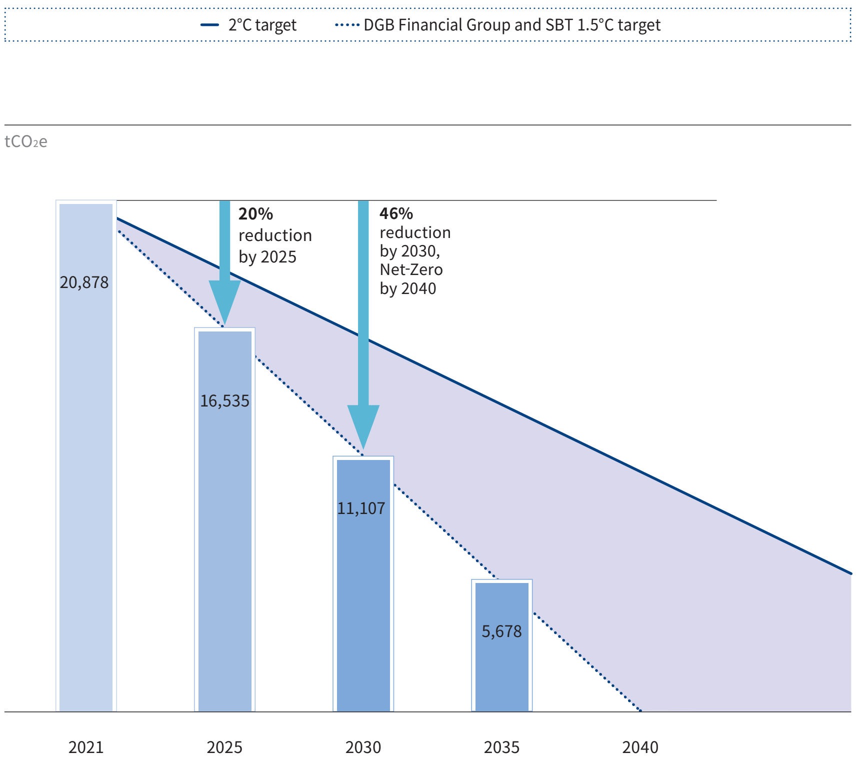
*Oct. 18, 2021. 2050 Carbon-neutral scenario plan, joint government bodies, based on plan B

- Technologies, such as carbon capture and forest absorption, to start in earnest after 2040-> Strategy to encourage customers to reduce GHG emissions and form low-carbon emitting customer-centered portfolios for reduction before technology maturity
- Long-term strategic effort on the sidelines to achieve consensus among the majority of customers to promote Net-Zero in advance by 2045~2050

Setting GHG-emissions target

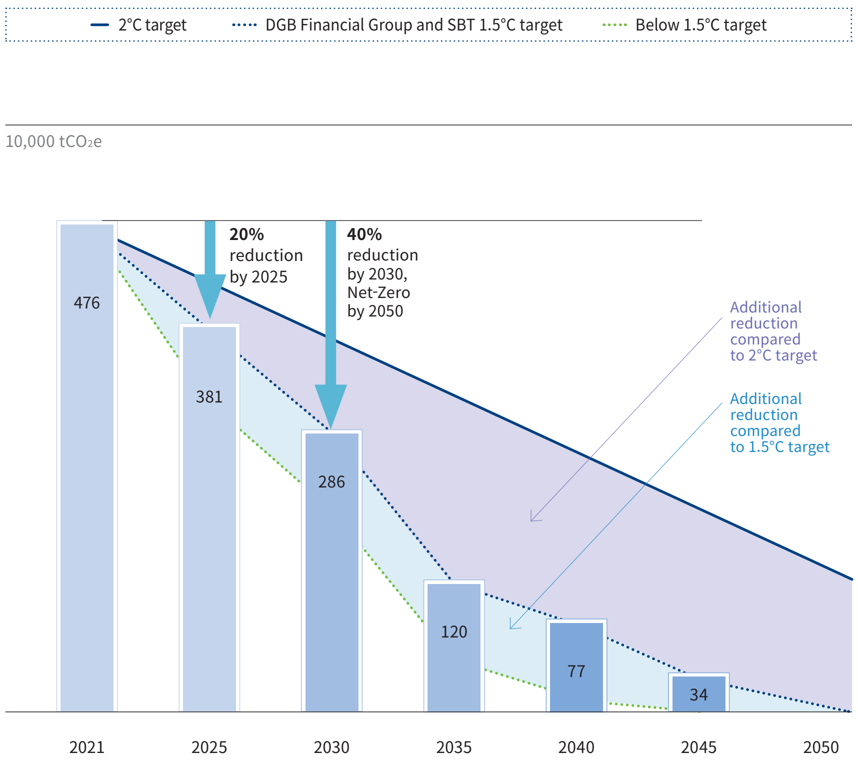
DGB Financial Group have set our "2040 carbon-neutrality target" that is consistent with the SBT scenario for its GHG emissions (Scope 1 and 2). We also set the Net-Zero financed emissions (Scope 3) 2050 to coincide with the Korean government's "Net-Zero 2050" target.

Our emissions transition pathway



※ SBT allows only the target that is consistent with the 1.5°C scenario (4.2% absolute reduction per year) when financial institutions set Scope 1 and Scope 2 targets.

Financed emissions transition pathway

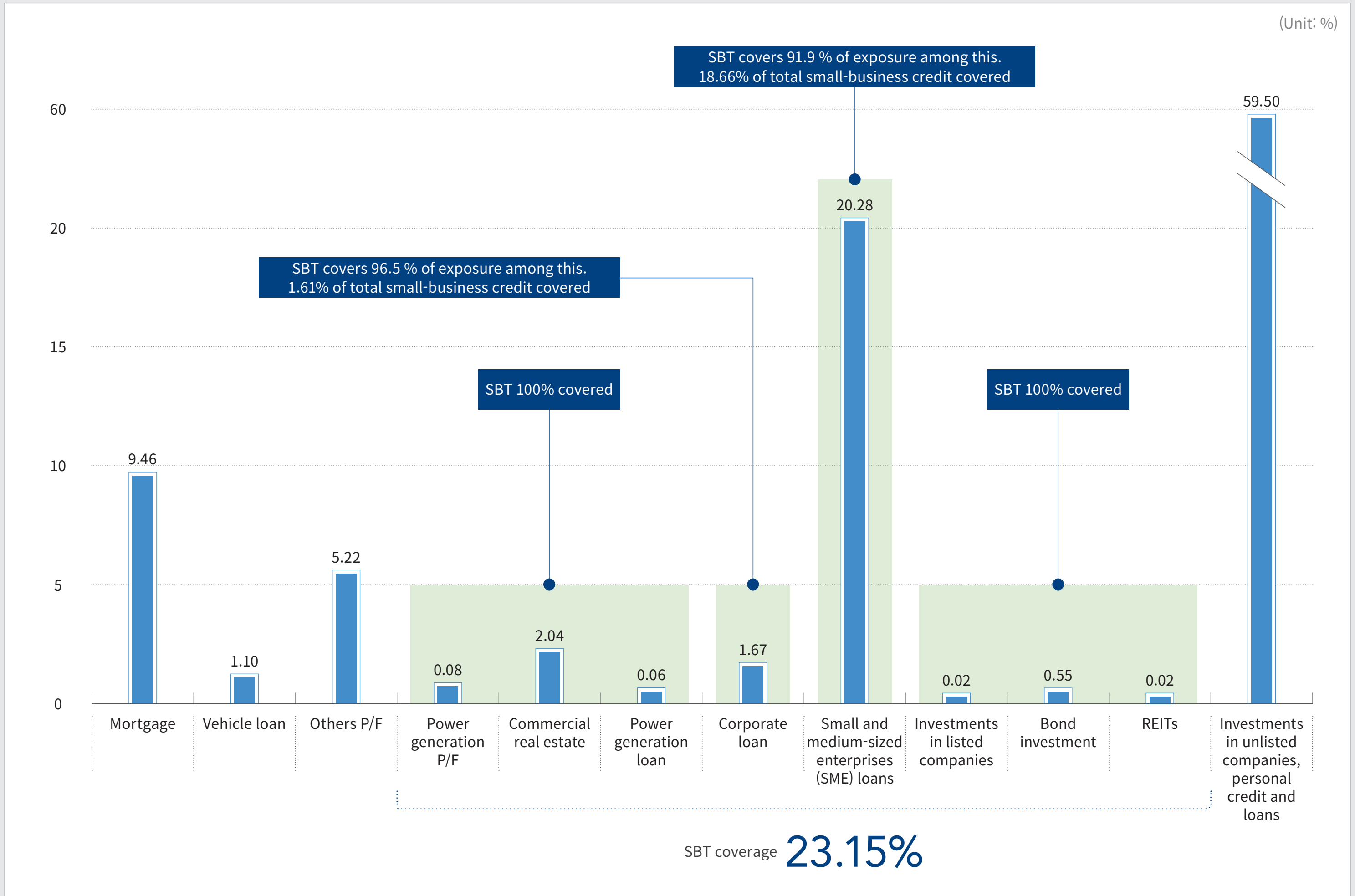


※ 2°C target should achieve Net-Zero before 2065, Well Below 2°C target before 2060, and 1.5°C target before 2050 and 3% reduction a year starting 2030 is necessary in the 1.5 degree scenario.

SBT target for each of our asset class

We have established an SBT for 23.15 percent of our loan and investment activities and SBT targets by applying the most appropriate methodology for each asset class depending upon data availability.

SBT coverage and ratio of each DGB Financial Group exposure



※ SBT methodology for each asset class

Asset class	Methodology
Power generation P/F	Sectoral Decarboniz-ation Approach (SDA)
Power generation loan	
Commercial real estate loan	
Investment in real estate and REITs	
Large corporations and SME loans	Temperature rating (TR)
Investment in listed companies	
Investment in bonds	

DGB Financial Group’s SBT reduction target by asset class (details)

Reduction Targets

		Reduction Targets
Emissions from DGB Financial Group Scope 1, 2		Reduction of absolute emissions of Scope 1 and Scope 2 by 46% from 2021 to 2030
Power generation	SDA Power generation P/F	73.8% reduction of GHG emissions per kWh by 2030 as of 2021
Power generation	SDA Power-generation loans	Up to 73.8% reduction of GHG emissions per kWh by 2030 as of 2021
Real estate	SDA Commercial real-estate loans	Reduction of GHG emissions by 67.6% per M^2 of commercial real estate loans by 2030 as of 2021
Real estate	SDA Investment in real estate and REITs	Reduction of GHG emissions by 67.4% per M^2 of real estate investments by 2030 as of 2021

Reduction Targets

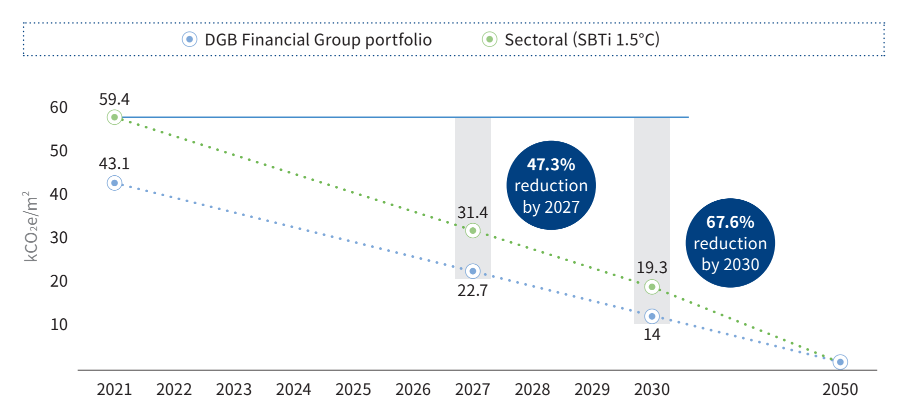
		Reduction Targets
Corporate loans	TR Large corporate and SME loans (except commercial real estate and power-generation loans)	**Scope 1+2** We will lower our Scope 1+2 temperature score, equivalent to 92.28% of our loan portfolio, from 3.2°C in 2021 to 2.66°C in 2027. **Scope 1+2+3** We will lower our Scope 1+2+3 temperature score, equivalent to 92.28% of our loan portfolio, from 3.2°C in 2021 to 2.66°C in 2027.
Listed companies and bonds	TR Investment in listed companies (ETF)	**Scope 1+2** We will lower our Scope 1+2 temperature score, which corresponds to 100% of our common equity portfolio, from 2.45°C in 2021 to 2.15°C in 2027. **Scope 1+2+3** We will lower our Scope 1+2+3 temperature score, which corresponds to 100% of our common equity portfolio, from 2.96°C in 2021 to 2.49°C in 2026.
Listed companies and bonds	TR Investment in bonds	**Scope 1+2** We will lower our Scope 1+2 temperature score, equivalent to 100% of our bond portfolio, from 2.01°C in 2021 to 1.84°C in 2027 **Scope 1+2+3** We will lower our Scope 1+2+3 temperature score, which corresponds to 100% of our common equity portfolio, from 2.71°C in 2021 to 2.32°C in 2027

Our SBT-reduction target based on SDA (Sectoral Decarbonization Approach)

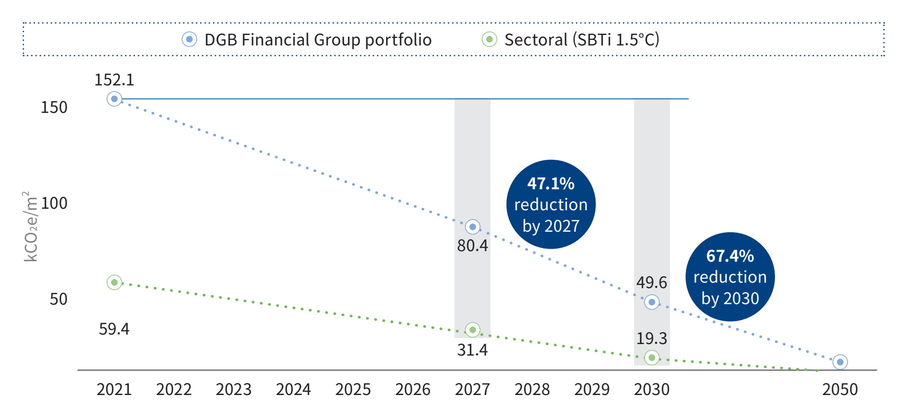
In an effort to achieve the SBT target, we aim to expand eco-friendly real-estate collateral, adjust portfolios, and promote borrower engagement in order to put the “Action Plan 2025” into action and reduce the intensity of commercial real estate, and power-generation sectors.

SDA target and reduction pathways

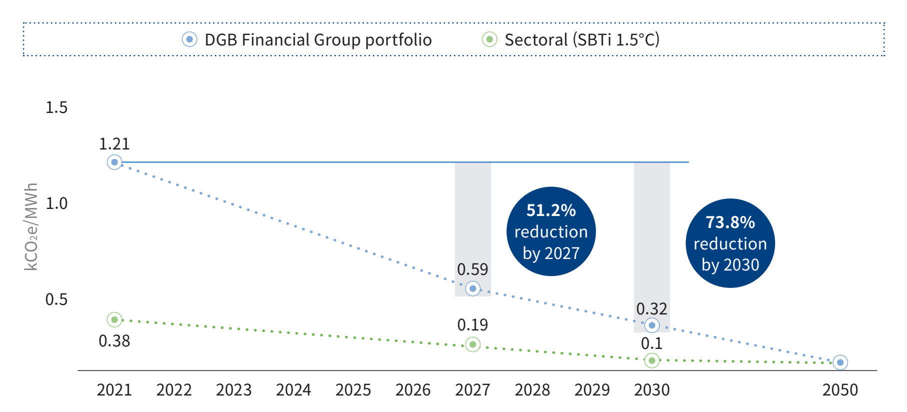
Commercial real estate loans



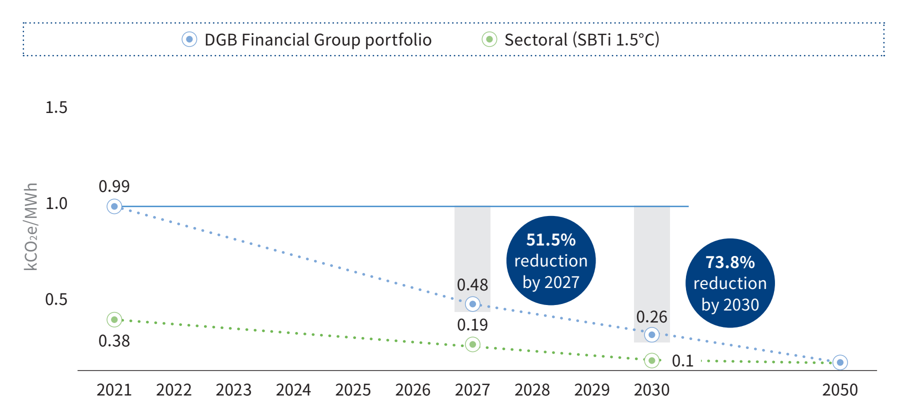
Investment in real estate and REITs



Power generation loans



Power generation P/F

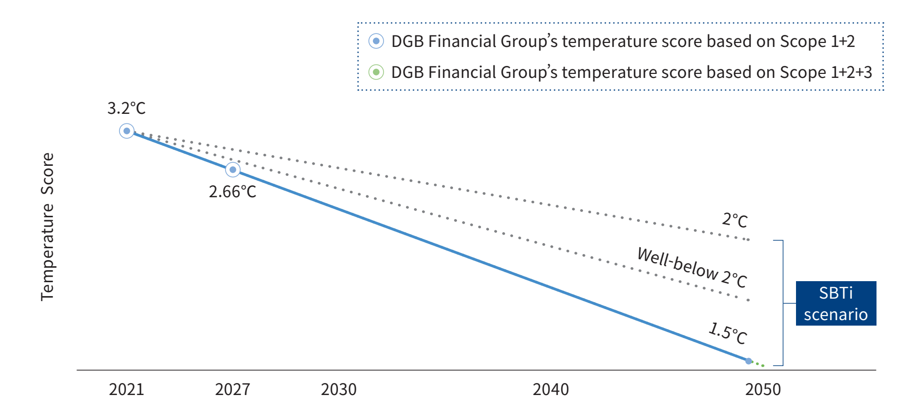


Our SBT reduction target based on TR (temperature rating)

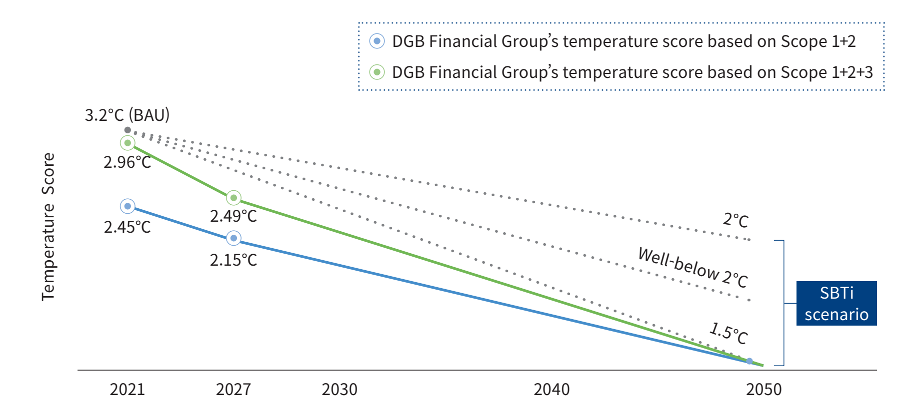
In an effort to achieve the SBT target, we will focus on lowering our temperature scores by developing GHG emissions goals for each borrower and promote borrower engagement to put the goals into action.

TR target and reduction pathways

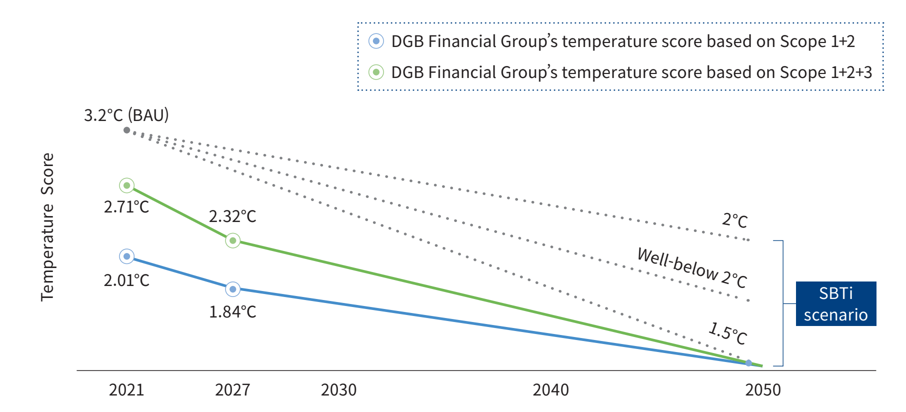
General corporate loans



Investment in listed companies (ETF)



Investment in bonds



DGB Financial Group's borrower engagement plan

01 Measure borrowers' emissions

- Diagnosis of corporate businesses eligible for engagement
- Measurement of GHG emissions from each borrower

02 Support for target setting

- 2°C or 1.5°C related target setting
- Reduction-target management for each borrower

03 Monitoring and financial support

- Monitoring of each borrower's progress toward achieving the target
- Financial support and other incentives for businesses that fulfilled the target

DGB Financial Group's "Action plan for GHG reduction 2025"

We came up with an action plan to implement a reduction pathway in consideration of cost, reduction effect, and expected period through a three-step process of planning a reduction strategy, effect and cost, and finalizing a strategy.

Tasks	Relevant organization	Activities	Emissions reduction (tCO_2e)	Year
Reduce the number of high-emission industries	DGB Daegu Bank	Introduction of screening standards for high-emission industries (reduction of about 12% of total emissions from high-emission industries)	465,000	
		• Introduce industry-specific GHG emission screening standards (intensity reduction target screening standards for high-emission industries) (loans to general corporations in the iron and steel, chemicals, cement, and transportation sectors is 9%, whereas financed emissions account for 27.9%)		2025
		• Encourage borrowers to set Scope 3 target		2025
		• Reduce financed emissions through regular adjustment		2025
Adjust the bond portfolio	DGB Daegu Bank DGB Life Insurance	Clearance of high-emission bonds	211,000	
		• Sell GHG high-carbon bonds and increase investment in bonds for low-emission industries (Reduce 5.3% of total financial emissions by selling high-emission bonds in advance and comply with the principle of prohibiting investment and holdings until emission reduction is expected in the future.)		2025
		• Create guidelines to ban business with coal power, fossil fuel, and other high-carbon emitting industries		2023
Increase investment in renewable energy	DGB Daegu Bank DGB Life Insurance	Restrict non-renewable energy in the power generation and power generation PF sector	110,000	
		• Restrict or ban non-renewable energy PF and loans		2025
		• Power-generation PF and loans- improve power generation efficiency and achieve power from 100% renewable energy		2025
Recommend the reduction target setting	All affiliates	Set reduction targets for high-emission businesses in other manufacturing industry and demand for reduction plans	100,000	
		• Collect GHG emissions data from high-emissions businesses		2023
		• Set GHG emission reduction targets for high-emission businesses and provide support		2024
		• Establish a high-emissions business monitoring system and provide incentives for emission reduction		2025
Reflect climate risk assessment	All affiliates	Reflect climate risks in evaluation of corporate's credit	34,000	
		• Include climate-risk items in the credit evaluation of corporate businesses (metric or non-financial items)		2023
		• Promote borrower engagement in addressing climate change for corporate customers		2023
Increase eco-friendly real estate as collateral	DGB Daegu Bank DGB Life Insurance DGB Capital	Increase eco-friendly real estate as collateral and improve real estate energy efficiency	30,000	
		• Manage green-certified real estate as collateral		2023
		• Provide support for commercial real estate energy improvement and increase support for green-certified real estate as collateral		2023
		• Reduce GHG emissions per total area		2025

GHG emissions reduction target by 2021: 4.76 million tCO_2e per year → **GHG emissions reduction target by 2025: 3.81 million tCO_2e per year**

Additional comments on the information used for the forward-looking statements and key assumptions in this report

The forecasts in this report are based on present data and may involve inherent risks and uncertainties due to economic, technological, and policy circumstances. Accordingly, this report may contain errors in predictions, expectations, and conclusions and failed to convey the strategies to mitigate and adapt to climate-related risks. Also, the information and data may be revised or adjusted in the third-party verification process.

Therefore, stakeholders including investors are advised to be aware that the results may differ considerably from our expectations in this forward-looking statement due to diverse risk factors as such. Moreover, the majority of the climate-related risk types are beyond our control and their impacts may be beyond our capacity to predict. The risks are related to credit, market, liquidity, financing, and insurance, and operation, compliance with regulations, strategy, reputation, law, regulatory environment, competition, and system.

As the risk types mentioned in this report are not exhaustive, it should be noted that other types of risks not included in this report may affect the results negatively and, accordingly related uncertainties and potential events should be carefully considered.

Last but not least, we disclaim any obligation to update the material economic assumptions underlying the predictions included in this report unless required by law.

DGB Financial Group