

Second-Party Opinion

Lotte Card Sustainable Financing Framework



Evaluation Summary

Sustainalytics is of the opinion that the Lotte Card Sustainable Financing Framework is credible and impactful and aligns with the Sustainability Bond Guidelines 2018, Green Bond Principles 2018, Social Bond Principles 2020, and Green Loan Principles 2021. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds – Green Buildings, Energy Efficiency, Renewable Energy, Clean Transportation, Sustainable Water and Wastewater Management, Pollution Prevention and Control, Access to Essential Services, Employment Generation – are aligned with those recognized by both the Green Bond Principles, Social Bond Principles and Green Loan Principles. Sustainalytics considers that the eligible categories are expected to reduce the environmental footprint of Lotte Card’s operations and advance the socio-economic development of the Republic of Korea, and advance the UN Sustainable Development Goals, specifically SDG 3, 4, 6, 7, 8, 9, 11 and 12.



PROJECT EVALUATION / SELECTION The Finance Committee (“Committee”) will oversee the project evaluation and selection process. After the initial review for eligible projects by the Treasury Team, the Committee will provide the final approval in line with Lotte Card’s policies and criteria under the Framework. The Treasury Team will monitor and evaluate the continued eligibility of existing projects on an annual basis. This is in line with market practice.



MANAGEMENT OF PROCEEDS Lotte Card’s process for management of proceeds is handled by the Treasury Team using an internal accounting system. If a project is no longer eligible, it will be removed from the portfolio and replaced as soon as practically feasible. Lotte Card intends to fully allocate the proceeds within two years of the issuance. Pending full allocation, unallocated proceeds will be held in cash, cash equivalents and/or marketable securities. This is in line with market practice.



REPORTING Lotte Card intends to report on the allocation and impacts of proceeds on its website on an annual basis until full allocation. Allocation reporting will include information on the list of eligible assets and projects financed or refinanced, the amount allocated to eligible assets and projects, geographical distribution of eligible assets and projects, the proportion of financing and refinancing, and amount of unallocated proceeds and its temporary treatment. In addition, Lotte Card is committed to reporting on relevant impact metrics. This is in line with market practice.

Evaluation Date	April 30, 2021
Issuer Location	Seoul, Republic of Korea

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Introduction

Lotte Card Co., Ltd (“Lotte Card”, the “Company”, or the “Issuer”) is a financial services company operating in the Republic of Korea. The company provides financial services and products such as credit card payment, loan financing, and installment financing/lease services. As of 2020, Lotte Card has 8.42 million cardholders.

Lotte Card has developed the Lotte Card Sustainable Financing Framework (the “Framework”) under which it intends to issue green, social and sustainability bonds and loans, asset-backed securities or any other debt-like instruments and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future projects that could reduce the environmental footprint of Lotte Card’s operations and advance the socio-economic development of Republic of Korea.

The Framework defines green eligibility criteria in six areas:

1. Green Buildings
2. Energy Efficiency
3. Renewable Energy
4. Clean Transportation
5. Sustainable Water and Wastewater Management
6. Pollution Prevention and Control

The Framework defines social eligibility criteria in two areas:

1. Access to Essential Services
2. Employment Generation

Lotte Card engaged Sustainalytics to review the Lotte Card Sustainable Financing Framework, dated April 2021, and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Green Bond Principles 2018 (GBP), Social Bond Principles 2020 (SBP), Sustainability Bond Guidelines 2018 (SBG),¹ and Green Loan Principles 2021 (GLP),² This Framework will be published in a separate document.³

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁴ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Sustainability Bond Guidelines 2018, Green Bond Principles 2018, and Social Bond Principles 2020, as administered by ICMA, and the Green Loan Principles 2021 as administered by LMA, APLMA, and LSTA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.8.1, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of Lotte Card’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Lotte Card representatives have confirmed (1) they understand it is the sole responsibility of Lotte Card to ensure that

¹ The Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

² The Green Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association and are available at: <https://www.lsta.org/content/green-loan-principles/#>

³ The Lotte Card Sustainable Financing Framework is available on Lotte Card Co., Ltd’s website at: <https://www.lottecard.co.kr/>

⁴ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Lotte Card.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond and loan proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond and loan proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Lotte Card has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Lotte Card Sustainable Financing Framework

Sustainalytics is of the opinion that the Lotte Card Sustainable Financing Framework is credible, impactful and aligns with the four core components of the SBG, GBP, SBP, and GLP. Sustainalytics highlights the following elements of Lotte Card's Sustainability Bond Framework:

- Use of Proceeds:
 - The eligible categories – Green Buildings, Energy Efficiency, Renewable Energy, Clean Transportation, Sustainable Water and Wastewater Management, Pollution Prevention and Control, Access to Essential Services, Employment Generation – are aligned with those recognized by the GBP, SBP and GLP. Sustainalytics views that projects and expenditures under the eligible categories are expected to lower the environmental footprint of Lotte Card's operations and advance the socio-economic development of the Republic of Korea.
 - Lotte Card has established a two-year look-back period for its refinancing and intends to fully allocate the proceeds within two years of the issuance, which Sustainalytics considers to be in line with market practice.
 - While most of the proceeds will be allocated to CAPEX, Lotte Card intends to invest in OPEX activities such as maintenance. Lotte Card has confirmed these expenditures will be limited to those that enhance the life and value of underlying assets.
 - Under the "Green Buildings" category, Lotte Card may finance the acquisition, new construction and/or renovation of buildings that have received or are expected to receive third-party certification standards such as G-SEED Very Good (Green 2nd) or above, Korean Energy Agency Building Energy Efficiency Certification Level 1++ or above, LEED Gold or above, or any other equivalent internationally and/or nationally recognized certifications. Sustainalytics considers these certifications as credible, and the minimum levels selected as robust and impactful. Please refer to Appendix 1 for Sustainalytics' assessment of green building certification schemes.
 - Under the "Energy Efficiency" category, Lotte Card may finance the acquisition, development, leasing and upgrade of electric powered energy-efficient products, equipment, and technologies

- that result in at least 15% of energy efficiency improvement in data centers and offices, as well as energy management and storage systems.
- Data centers are limited to those with a Power Usage Effectiveness of less than 1.5, which Sustainalytics considers to be in line with market practice.
 - Sustainalytics views positively the Framework's inclusion of a defined energy efficiency threshold on a portfolio basis for the installations of energy-efficient systems, equipment and technologies in data centers and offices.
 - Storage systems are limited to battery storage and water electrolysis power-to-hydrogen storage.
 - Leasing expenditures will be limited to those that have a leasing period of at least equal to the term of the respective bond, which is in line with market practice.
- Under the "Renewable Energy" category, Lotte Card may finance the development, construction, maintenance of facilities, or systems that generate or transmit/distribute renewable energy (solar,⁵ wind, ocean,⁶ hydro⁷) with direct emissions of less than 100g CO₂e/kWh, as well as the procurement of renewable energy.
 - Regarding hydropower plants, Lotte Card has confirmed that it will require an environmental and social impact assessment by a credible body for new facilities. Lotte Card is also committed to ensuring the absence of significant risk, expected negative impact, or controversies associated with the project.
 - As for the transmission and distribution assets, Lotte Card has confirmed that assets or activities financed under this category will meet one of the following criteria: (i) assets or activities that aim to reduce the curtailment of renewable energy into the grid; (ii) electrical grid development and maintenance is dedicated to connecting renewables to the power grid or supporting/integrating at least 90% renewable electricity. Sustainalytics considers the criteria aligned with market practice.
 - Purchase or procurement of renewable energy will be long-term (> 5 years) and tied to specific and identifiable renewable energy projects, excluding one-time or short-term purchases of unbundled agreements. Lotte Card notes that it will exclude unbundled renewable energy certificates which cannot be tracked to specific and identifiable renewable energy projects. Sustainalytics views this to be in line with market practice.
 - Under the "Clean Transportation" category, Lotte Card may finance the acquisition and maintenance of electric and/or hydrogen-powered vehicles, electric vehicle charging stations, hydrogen-powered vehicle refuelling stations, as well as development of infrastructure for cycling and walkability. Sustainalytics notes that the financing of electric and hydrogen-powered vehicles could reduce tailpipe emissions from the Company's fleet.
 - Within the "Pollution Prevention and Control" category, Lotte Card may finance dust control measures that are required by the third-party green building certification standards mentioned above.
 - Sustainalytics highlights Lotte Card's eligibility criteria under the following social categories:
 - Under the "Access to Essential Services" category, Lotte Card intends to provide microfinance to low-income populations⁸ and populations affected by socioeconomic crises or natural disasters. Expenditures include providing financial services, such as micro credit card loans to low-income populations that face barriers in access to finance due to weak credit profile.⁹ Moreover, the Company may finance the construction, development, maintenance of facilities and infrastructure to improve the accessibility of the elderly and special needs groups, such as people with visually and hearing impairments, to financial services. To do so, Lotte Card intends to provide sign language services, such as an automatic response service and visual call center. In

⁵ Lotte Card notes that Concentrated Solar Power (CSP) plants are excluded.

⁶ Marine renewable projects directly used for heating or cooling are excluded.

⁷ Hydropower projects are limited to small-scale projects (< 25 MW), run-of-river projects with low storage capacity, or projects with power density greater than 5 W/m².

⁸ Lotte Card defines low-income populations as those with annual income of KRW 35 million or below, or those with annual income of KRW 45 million and with credit rating of 6 or below. This is consistent with the criteria set by the Korea Inclusive Finance Agency. Sustainalytics notes that the monthly median income of four-person household is KRW 4.75 million (USD 3,990) as of 2021 according to the Statistics Korea.

⁹ The issuer intends to provide short- and long-term loans to customers who tend to face higher interest rates due to weak credit profiles to alleviate their financial burden. Based on historical data, Sustainalytics has assessed interest rates to be below the industry average. Lotte Card will use an internal accounting process to ensure that the proceeds will be dedicated to the target populations.

addition, Lotte Card may finance the procurement of credit cards in braille format to serve visually impaired persons.

- Under the “Employment Generation” category, Lotte Card intends to finance small- and medium-sized enterprises (SMEs), defined as enterprises with annual revenue below KRW 3 billion, which meet one of the following criteria: (i) affected by socioeconomic crises or natural disasters, (ii) led by women or individuals with disabilities or impairments, (iii) in regions with above national average unemployment rate, or (iv) in regions with below national average income levels. SMEs affected by socioeconomic crises or natural disasters include SMEs affected by the outbreak of COVID-19. While Sustainalytics acknowledges that it is important to ensure business and employment continuity by responding to the adverse impact of the COVID-19 pandemic, Sustainalytics encourages Lotte Card to ensure appropriately targeted SMEs, disclose the projects and/or SMEs financed, and report on the impact achieved. In addition, Lotte Card also intends to invest in employment creation programmes for low-income populations,⁸ unemployed populations, and populations with disabilities or impairments.
- Lotte Card notes that all financial instruments issued under the Framework will exclude all activities associated with child/forced labour, tobacco, and weaponry following the International Finance Corporation (IFC) Exclusion List¹⁰ as well as any assets, products, projects, or technologies associated with fossil fuels.
- Project Evaluation and Selection:
 - Lotte Card has established a two-step project evaluation and selection process. The Treasury Team will conduct an initial screening for the eligible projects against Lotte Card’s policies and criteria. The Finance Committee (the “Committee”) will approve the final eligible projects proposed by the Treasury Team. The Committee is comprised of senior members from the Treasury Team, Business Management Team, Credit Strategy Team, Risk Strategy Team, Law & Compliance Team, and Accounting Team. The Treasury Team will review the eligibility of the existing projects on an annual basis.
 - Based on the appropriate oversight of project evaluation and selection process, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
 - The Treasury Team will be in charge of tracking the proceeds via an internal accounting system. Lotte Card intends to fully allocate the proceeds within two years of the issuance. Pending full allocation, unallocated proceeds will be temporarily invested in cash, cash equivalents and/or marketable securities. In case of any material changes, the existing assets or projects will be replaced by new ones as soon as practicable.
 - Based on internal tracking systems and disclosure on the temporary allocation of proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
 - Lotte Card intends to report annually on the allocation and impacts of proceeds on its website.
 - Allocation reporting will include the list of eligible assets and projects financed or refinanced, the amount allocated to eligible assets and projects, geographical distribution of eligible assets and projects, the proportion of financing and refinancing, and amount of unallocated proceeds and its temporary treatment.
 - Impact reporting, where feasible, will provide quantitative environmental and social metrics including, but not limited to, type/number of green building certifications obtained, energy savings achieved, renewable energy generated/purchased, number of clean vehicles deployed, water savings achieved, concentration or percentage of dust reduced, amount of financing provided to target populations, and number of small and medium-sized enterprises supported.
 - Based on the commitment to annual reporting, Sustainalytics considers this process to be in line with market practice.

¹⁰ IFC, “IFC Exclusion List”, at: https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/company-resources/ifcexclusionlist

Alignment with Sustainability Bond Guidelines 2018

Sustainalytics has determined that the Lotte Card Sustainable Financing Framework aligns with the four core components of the GBP, SBP and GLP. For detailed information please refer to Appendix 2: Sustainability Bond/ Sustainability Bond Programme External Review Form.

Section 2: Sustainability Strategy of Lotte Card

Contribution of Framework to Lotte Card's sustainability strategy

Lotte Card is committed to integrating environmental, social, and governance (ESG) factors into its business operations.¹¹ As part of its commitment to provide positive environmental benefits, Lotte Card participated in the "Green Card" project organized by the Korean Ministry of Environment. The project aimed at shifting consumer behavior to be more sustainable by providing financial rewards for the consumption of environmentally friendly services and activities.¹²

As part of its commitment to provide positive social benefits, to support micro-, small- and medium-sized enterprises (MSMEs), Lotte Card implemented an initiative in 2019 aimed at enhancing the competitiveness of self-owned MSMEs by providing credit card payments benefits and financial support services to them.¹¹ Furthermore, Lotte Card's customer centers provides sign language service and braille card issuance service for people with a disability to improve their accessibility to financial services.¹¹ Sustainalytics notes that the aforementioned social initiatives may be directly supported by the proceeds raised under the Framework.

Sustainalytics is of the opinion that the Lotte Card Sustainable Financing Framework is aligned with the Company's overall social efforts and can further the Company's action on its sustainability priorities. Sustainalytics notes that Lotte Card has not released publicly accessible sustainability strategy and targets and, as such, strongly encourages Lotte Card to develop a sustainability strategy and time-bounded quantitative targets, particularly to advance its environmental priorities.

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

While Sustainalytics recognizes that the use of proceeds from the Framework will be directed towards eligible projects that are expected to have positive environmental and social impact, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks associated with the eligible projects could include land-use change, biodiversity, community relations, and occupational health and safety issues associated with large-scale infrastructure development. Furthermore, financial institutions are exposed to risks of financing environmentally and socially harmful activities while offering financial services. Sustainalytics is of the opinion that Lotte Card is able to manage and mitigate potential risks through implementation of the following policies and assessments:

- Lotte Card follows the *Environmental Impact Assessment Act*.¹³ In case the area of the building site is subject to an Environmental Impact Assessment (EIA), Lotte Card must conduct the EIA evaluating impacts on the land use, soil, environment-friendly resource circulation, and biodiversity of its construction project. Additionally, where required, the local authority governor shall publicly share the draft EIA on the master plan for development and have a briefing session to hear residents' opinions.
- As part of the Administrative Compliance Charter, Lotte Card is committed to protecting environment and human rights.¹⁴
- In regard to occupational health and safety (OH&S) issues associated with large-scale development or construction projects, Sustainalytics notes that Lotte Card is not directly involved in the undertakings financed, and further that the Company relies upon regulatory safeguards to ensure OH&S risks at construction sites are mitigated.
- Under the Framework, Lotte Card will exclude any activities, assets, products or technologies associated with child/forced labour, adult entertainment, weapons, alcohol, tobacco, as well as those directly associated with fossil fuels.

¹¹ Lotte Card, "Lotte Card Sustainable Financing Framework", (2021), at: <https://www.lottecard.co.kr/>

¹² Ministry of Environment/KEITI, "친환경 소비를 이끄는 그린카드 제도 (Green card system to drive eco-friendly consumption)", (2019), at: https://www.konetic.or.kr/include/EUN_download.asp?str=WEBZINE.dbo.TBL_REPORT&str2=2338

¹³ KLRl, "Environmental Impact Assessment Act", at: https://elaw.klri.re.kr/eng_service/lawView.do?hseq=45064&lang=ENG

¹⁴ Lotte Card, "Administrative Compliance Charter", at: https://www.lottecard.co.kr/app/LPCOIDA_V100.lc

Based on these policies and assessments, Sustainalytics is of the opinion that Lotte Card has implemented adequate measures and is well-positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

Section 3: Impact of Use of Proceeds

All eight use of proceeds categories are aligned with those recognized by GBP, SBP or GLP. Sustainalytics has focused on three below where the impact is specifically relevant in the local context.

Energy efficiency and sustainable water management of data centers in the Republic of Korea

As most of the global Internet Protocol (IP) traffic goes through data centers, greater connectivity increases the demand for data center services and electricity use.¹⁵ In 2019, global electricity demand from data centers accounted for approximately 0.8% of global final electricity demand.¹⁵ Between 2010 and 2019, internet traffic has significantly grown by 30% annually in addition to rising data center workloads.¹⁵ In particular, internet traffic rose by 40% between February and April in 2020 amid the COVID-19 containment measures, reaching a peak level due to increased video streaming, video conferencing, online gaming, and social networking.¹⁵ As such, it is anticipated that data centers have the fastest growth in carbon footprint among other ICT sectors.¹⁶ As of 2019, financial institutions own 18.7% of the 158 data centers in the Republic of Korea to provide their own IT services to internal employees and external customers.¹⁷ In 2023, more than twelve commercial data centers will go into commercial operation given increased data use and cloud services adoption in the Republic of Korea.¹⁸

Due to rapidly growing energy demand from data centers and data transmission networks, strong government and industry efforts on energy efficiency and renewable procurement are critical to meet growing energy demand and emissions from data centers in the coming decade.¹⁵ In July 2020, the Government of Korea announced a *Korean New Deal: National Strategy for a Great Transformation*, investing KRW 160 trn (USD 143 bn)¹⁹ aimed at accelerating the transition towards a digital economy while building energy-efficient energy infrastructures.²⁰

Moreover, cooling systems are responsible for approximately 40% of the total energy consumption from data centers.²¹ Since heat dissipation is vital to maintaining the availability and reliability of IT equipment, adequate cooling is essential for data centers.²¹ For this reason, water management is a top priority for data center operators who use massive amounts of water to cool their high-density cloud computing server clusters.²² Accordingly, improving the water management system for cooling can save energy and cost in data centers.^{21,22}

Given that data centers are one of the most energy- and water-intensive buildings,²³ Sustainalytics is of the opinion that Lotte Card's financing in energy efficiency and sustainable water management projects can reduce the environmental footprint associated with its operation from data centers, thereby facilitating the sector's decarbonization.

¹⁵ IEA, "Data Centres and Data Transmission Networks", (2020), at: <https://www.iea.org/reports/data-centres-and-data-transmission-networks>

¹⁶ MDPI, "Trends in Data Centre Energy Consumption under the European Code of Conduct for Data Centre Energy Efficiency", (2017), at: <http://www.mdpi.com/1996-1073/10/10/1470/pdf>

¹⁷ Korea Data Center Council, "Korea Data Center Market 2020-2023", (2020), at: <https://www.digitalcentre.technology/wp-content/uploads/2020/06/KDCC-report.pdf>

¹⁸ WFRI, "New Deal Infrastructure Industry Value Chain Review - Digital New Deal (available in Korean)", (2020), at: http://www.wfri.re.kr/home/sub01_01_view.php?no=4364&ss=page%3D%26sse%3D%26skind%3D%EB%89%B4%EB%94%9C+%EC%9D%B8%ED%94%84%EB%9D%BC%EC%82%B0%EC%97%85%26skind%3D%EB%89%B4%EB%94%9C+%EC%9D%B8%ED%94%84%EB%9D%BC%EC%82%B0%EC%97%85

¹⁹ Please note that the conversion between KRW and USD on the SPO is based on the exchange rate in April 2021.

²⁰ Ministry of Economic and Finance, "The Korean New Deal: National Strategy for a Great Transformation", (2020), at: <https://english.moef.go.kr/pc/selectTbPressCenterDtl.do?boardCd=N0001&seq=4948>

²¹ A. Capozzoli & G. Primiceri, "Cooling systems in data centers: state of art and emerging", (2015), at:

https://www.researchgate.net/publication/290010399_Cooling_Systems_in_Data_Centers_State_of_Art_and_Emerging_Technologies

²² DataCenter Knowledge, "Data Centers Move to Cut Water Waste", (2009), at: <https://www.datacenterknowledge.com/archives/2009/04/09/data-centers-move-to-cut-water-waste>

²³ EERE, "Data Centers and Servers", at: <https://www.energy.gov/eere/buildings/data-centers-and-servers>

Supporting SMEs in Republic of Korea to facilitate employment generation

Large enterprises have led Korea's economic growth by focusing on exports of manufactured goods during the country's industrialization.²⁴ Despite large enterprises' role in Korea's rapid economic growth that supported a shift of Korea from one of the poorest countries to a high-income country over the decades, this trickle-down growth model has led to the economic polarization among large enterprises and SMEs.²⁴ In 2017, Korea showed the highest wage gap between large enterprises and SMEs among the OECD member countries.²⁴

In 2018, SMEs accounted for 99.9% of Korean enterprises and 83.1% of employment in Korea.²⁵ Considering that SMEs are the main drivers of job creation in Korea, the government aims to shift the economic growth model from large enterprises to SMEs and start-ups.²⁴ The government launched a KRW 10 trn (USD 8.9 bn) venture capital investment fund and increased financial support for SMEs through state-owned banks in 2018.²⁴ In addition, the government has been providing annual support of up to KRW 20 mn (USD 17,925) to newly hired young employees for working at SMEs as an incentive to ensure employment and business continuity by minimizing the income gap of employees between large enterprises and SMEs since 2018.²⁴

Lotte Card may finance SMEs which are (i) affected by socioeconomic crises or natural disasters, (ii) led by women or individuals with disabilities or impairments, (iii) in regions with above national average unemployment rate, or (iv) in regions with below national average income levels. Sustainalytics is of the opinion that Lotte Card's financing of SMEs is expected to foster Korean SMEs, thereby creating decent jobs and reducing income gaps between large enterprises and SMEs in Korea.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by the year 2030. The bonds and loans issued under the Lotte Card Sustainable Financing Framework advances the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Green Buildings	9. Industry, Innovation and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Energy Efficiency	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Clean Transportation	11. Sustainable Cities and Communities	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
Sustainable Water and Wastewater Management	6. Clean Water and Sanitation	6.4 By 2030 substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity

²⁴ OECD, "Enhancing Dynamism in SMEs and Entrepreneurship in Korea", Working Paper, (2018), at:

[http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ECO/WKP\(2018\)58&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ECO/WKP(2018)58&docLanguage=En)

²⁵ Ministry of SMEs and Startups, "Status of Korean SMEs", at: <https://www.mss.go.kr/site/eng/02/2020200000002019110610.jsp>

Pollution Prevention and Control	12. Responsible Consumption and Production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
Access to Essential Services	3. Good Health and Well-being	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all
	4. Quality Education	4.1 By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes
Employment Generation	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
		8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value

Conclusion

Lotte Card has developed the Lotte Card Sustainable Financing Framework under which it may issue sustainability bonds loans, asset-backed securities or any other debt-like instruments, and use the proceeds to finance following project categories: (i) Green Buildings, (ii) Energy Efficiency, (iii) Renewable Energy, (iv) Clean Transportation, (v) Sustainable Water and Wastewater Management, (vi) Pollution Prevention and Control, (vii) Access to Essential Services, and (viii) Employment Generation. Sustainalytics considers that the projects funded by the sustainability bond proceeds are expected to reduce the environmental footprint of Lotte Card's operations and advance the socio-economic development of the Republic of Korea.

The Lotte Card Sustainable Financing Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that Lotte Card Sustainable Financing Framework is aligned with the overall sustainability strategy of the company and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 3, 4, 6, 7, 8, 9, 11, and 12. Additionally, Sustainalytics is of the opinion that Lotte Card has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Based on the above, Sustainalytics is confident that Lotte Card Co., Ltd is well-positioned to issue sustainability bonds and that that Lotte Card Sustainable Financing Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles (2018), Social Bond Principles (2020) and Green Loan Principles (2021).

Appendices




Appendix 1: Comparison of Green Building Certification Schemes

	LEED ²⁶	G-SEED ²⁷	Korea Building Energy Efficiency Certification ²⁸
Background	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.	G-SEED (Green Standard for Energy and Environmental Design) is a green building certification standard used in Korea. First implemented in 2002, and later expanded in 2016, G-SEED is administered by the Korean Government based on the Green Building Construction Support Act.	Korea Building Energy Efficiency Certification is a Korean building energy efficiency certification certified by the Korea Energy Agency (KEA). First implemented in 2001 for residential buildings and now is promoted by the Green Building Construction Support Act applied for both residential and non-residential buildings in Korea.
Certification levels/rating	Certified Silver Gold Platinum	Green 4 Green 3 Green 2 Green 1	Level 1+++ Level 1++ Level 1+ Level 1 Level 2 Level 3 Level 4 Level 5 Level 6 Level 7
Areas of Assessment: Environmental Performance of the Building	<ul style="list-style-type: none"> • Energy and Atmosphere • Sustainable Sites • Location and Transportation • Materials and Resources • Water efficiency • Indoor Environmental Quality • Innovation in Design • Regional Priority 	<ul style="list-style-type: none"> • Land Use & Transportation • Energy & Environmental Pollution • Materials & Resources • Water Management • Maintenance • Ecology • Indoor Environment • Innovative Design 	<ul style="list-style-type: none"> • Heating energy requirement • Cooling energy requirement • Hot water energy requirement • Lighting energy requirement • Ventilation energy requirement
Requirements	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	Prerequisites (independent of level of certification) + Credits with associated points Individual credits are achieved in a number of categories, category scores are then weighted to achieve an overall grade.	Certified based on the required primary energy per unit area per year (kWh/m ² , year). Preliminary certification: evaluation based on design documents. Final certification: on-site confirmation and inspection.

²⁶ USGBC, "LEED rating system", at: www.usgbc.org/LEED

²⁷ G-SEED, at: <http://www.gseed.or.kr/siteMain.do>

²⁸ Korea Energy Agency, "Building Energy Efficiency Certification", at: https://dco.energy.or.kr/renew_eng/energy/buildings/buildings_certification.aspx

	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).		
Performance display			
Accreditation	LEED AP BD+C LEED AP O+M	Certification Bodies appointed by the Ministry of Environment (MOE) and the Ministry of Land, Infrastructure and Transportation (MOLIT) review and certify projects.	Certification Bodies appointed by the Ministry of Land, Infrastructure and Transportation (MOLIT) and Ministry of Trade, Industry and Energy (MOTIE) review and certify projects.
Qualitative considerations	Widely recognised internationally, and strong assurance of overall quality.	Widely used in Korea and aligned with government standards. Strong overall qualifications. Little international recognition.	Widely used in Korea and aligned with government standards. Strong overall qualifications. Little international recognition.

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

Section 1. Basic Information

Issuer name:	Lotte Card Co., Ltd
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:	Lotte Card Sustainable Financing Framework
Review provider's name:	Sustainalytics
Completion date of this form:	April 30, 2021
Publication date of review publication:	

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 GBP and SBP:

- | | |
|--|--|
| <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 nd 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 eligible categories – Green Buildings, Energy Efficiency, Renewable Energy, Clean Transportation, Sustainable Water and Wastewater Management, Pollution Prevention and Control, Access to Essential Services, Employment Generation – are aligned with those recognized by the GBP, SBP and GLP. Sustainalytics views that projects and expenditures under the eligible categories are expected to lower the environmental footprint of Lotte Card’s operations and advance the socio-economic development of the Republic of Korea.

Lotte Card has established a two-year look-back period for its refinancing and intends to fully allocate the proceeds within two years of the issuance, which Sustainalytics considers to be in line with market practice. While most of the proceeds will be allocated to CAPEX, Lotte Card intends to invest in OPEX activities such as maintenance. Lotte Card has confirmed these expenditures will be limited to those that enhance the life and value of underlying assets.

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 type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input checked="" type="checkbox"/> Clean transportation |
| <input checked="" type="checkbox"/> Sustainable water and wastewater management | <input 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 (please specify): |

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 type="checkbox"/> Socioeconomic advancement and empowerment |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input type="checkbox"/> Other (please specify): |

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

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Lotte Card has established a two-step project evaluation and selection process. The Treasury Team will conduct an initial screening for the eligible projects against Lotte Card’s policies and criteria. The Finance Committee (the “Committee”) will approve the final eligible projects proposed by the Treasury Team. The Committee is comprised of senior members from the Treasury Team, Business Management Team, Credit Strategy Team, Risk Strategy Team, Law & Compliance Team, and Accounting Team. The Treasury Team will review the eligibility of the existing projects on an annual basis. Based on the appropriate oversight of project evaluation and selection process, Sustainalytics considers this process to be 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

- Evaluation / Selection criteria subject to external advice or verification
 In-house assessment
- Other (please specify):

3. MANAGEMENT OF PROCEEDS

Overall comment on section *(if applicable)*:

The Treasury Team will be in charge of tracking the proceeds via an internal accounting system. Lotte Card intends to fully allocate the proceeds within two years of the issuance. Pending full allocation, unallocated proceeds will be temporarily invested in cash, cash equivalents and/or marketable securities. In case of any material changes, the existing assets or projects will be replaced by new ones as soon as practicable. Based on internal tracking systems and disclosure on the temporary allocation of proceeds, Sustainalytics considers this process to be 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
- Other (please specify):

Additional disclosure:

- Allocations to future investments only
 Allocations to both existing and future investments
- Allocation to individual disbursements
 Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds
 Other (please specify):

4. REPORTING

Overall comment on section *(if applicable)*:

Lotte Card intends to report annually on the allocation and impacts of proceeds on its website. Allocation reporting will include the list of eligible assets and projects financed or refinanced, the amount allocated to eligible assets and projects, geographical distribution of eligible assets and projects, the proportion of financing and refinancing, and amount of unallocated proceeds and its temporary treatment. Impact reporting, where feasible, will provide quantitative environmental and social metrics including, but not limited to, type/number of green building certifications obtained, energy savings achieved, renewable energy generated/purchased, number of clean vehicles deployed, water savings achieved, concentration or percentage of dust reduced, amount of financing provided to target populations, and number of small and medium-sized enterprises supported. Based on the commitment to annual reporting, Sustainalytics considers this process to be in line with market practice.

Use of proceeds reporting:

- Project-by-project
 On a project portfolio basis
- Linkage to individual bond(s)
 Other (please specify):

Information reported:

- Allocated amounts
 Sustainability Bond financed share of total investment
- Other (please specify): List of eligible assets and projects financed or refinanced; Geographical distribution of eligible assets and projects; Proportion between financing and refinancing; Amount of unallocated proceeds and its temporary treatment

Frequency:

- Annual
 Semi-annual
- Other (please specify):

Impact reporting:

- Project-by-project
 On a project portfolio basis
- Linkage to individual bond(s)
 Other (please specify):

Information reported (expected or ex-post):

- GHG Emissions / Savings
 Energy Savings
- Decrease in water use
 Number of beneficiaries
- Target populations
 Other ESG indicators (please specify): Type/number of green building certifications obtained; Total floor area of certified green buildings; Renewable energy generated/purchased; Number of clean vehicles deployed; Number of clean vehicle charging/refuelling stations installed; Concentration or percentage of dust reduced; Amount of financing provided to target populations; Number of accessibility features deployed; Number of small and medium-sized enterprises supported;

Number of people employed
from target populations

Frequency:

- Annual
 Semi-annual
 Other (please specify):

Means of Disclosure

- Information published in financial report
 Information published in sustainability report
 Information published in ad hoc documents
 Other (please specify): corporate website
 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.)

<https://www.lottecard.co.kr/>

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**Type(s) of Review provided:**

- Consultancy (incl. 2nd opinion)
 Certification
 Verification / Audit
 Rating
 Other (*please specify*):

Review provider(s):**Date of publication:****ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP**

- i. Second-Party Opinion: An institution with sustainability expertise that is independent from the issuer may provide a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Sustainability Bond framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social features of the type of Projects intended for the Use of Proceeds.
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of

funds from Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.

- iii. **Certification:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green, Social and Sustainability Bond Scoring/Rating:** An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.

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In case of discrepancies between the English language and translated versions, the English language version shall prevail.

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