

# Building up Trust between generations

Social Responsibility Management Report 2016



## About this report

**Building up Trust between generations** NPS is working to make tomorrow's world a better place economically, socially, and environmentally. Details of our efforts and results are included in this annual Social Responsibility Management Report. This is the fifth issue since 2012.

**Characteristics of 2016 report** The report was made in accordance with GRI G4 Guideline and ISO 26000, for sustainable growth 4 core issues were then selected among 11 key issues derived from material evaluation. Accordingly, this report presents issues relevant to stakeholders in a highly-readable format. Core issues 1~4 are covered in pages 20~45.

**Reporting Principle** In accordance with G4 Core Guidelines of the GRI (Global Reporting Initiative) revised in 2013, we reported all necessary items of Core option of general standard disclosure, and for major issues derived from materiality evaluation, this report includes DMA (Disclosures on Management Approach) and more than 1 item contents.

**Reporting period** This report highlights the social responsibility activities and accomplishments of the NPS from January 1 to December 31, 2015. For material managerial activities, those of up till June 2016 are included, for trend analysis.

**Efforts to improve reliability** Third-party verification was carried out to improve the reliability and accuracy of the contents of this report. The detailed outcomes of the verification are provided through the assurance statement of the third-party verifier in the Appendix.

**Inquiries on the report** If you have further question or require additional information, please contact us. More detailed contents are available at NPS website (<http://www.nps.or.kr>)

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# NPS Overview

The NPS was established in September 1987 for the purpose of enhancing the welfare and creating a stable livelihood for its contributing members by providing pension benefits for old age, disability, and death. As of the end of 2015, we are providing pension service to 21.57 million insured and 4.03 million beneficiaries, and managing a fund of KRW 512.3 trillion.

As of December 2015



Name of corporation	National Pension Service
Location	180, Giji-ro, Deokjin-gu, Jeonju-si, Jeollabuk-do, Korea
Number of employees	5,230
Organization	Headquarters: 12 departments, 2 centers, NPS Fund Investment Office, Compliance Officer, National Pension Research Institute, IT Planning Regional offices: 7 regional headquarters, 107 branches Overseas: New York office, London office, Singapore office
National Pension Fund	KRW 512.3 trillion

## Key Businesses of the NPS



### Service for the insured

- » Manages and maintains the records of the insured
- » Imposes pension premiums
- » Issues certificates
- » The 'Durunuri' social insurance subsidy program



### Fund management

- » Executes national pension fund management policy
- » Manages domestic and overseas equities, fixed incomes, and alternative assets
- » Employs a transparent fund and accounting management system
- » Ensures proper disclosure of management performance



### Pension benefit service

- » Pays pension benefits and provides lump-sum payments
- » Provides a claim guide for possible beneficiaries
- » Provides follow-up services for pension benefits



### Welfare service

- » Provides retirement planning services
- » Conducts disability registration reviews and provides support for the activities of the disabled
- » Avails the National Pension Silver Loan
- » Conducts capacity assessment for beneficiaries of the 'national basic livelihood'



### International cooperation

- » Signs and executes social security agreements
- » Manages the interests of non-Korean beneficiaries
- » Provides advanced system instruction as per international cooperation agreements



### Research and study

- » Conducts research on the pension scheme and social security systems
- » Conducts research on measures for efficient fund management
- » Propagates information on core trends of the scheme

## Major Achievements

CSR efforts of the National Pension Service (NPS) were externally recognized.

Asia Asset Management  
'The top excellence at pension fund'  
'The top excellence prize at responsible investment awards'

Regional Social Security Forum for Asia and the Pacific 2015  
'The special prize in the good practice award for Asia and the Pacific'

LACP Vision Awards  
The grand prize in the area of sustainable management at the LACP Vision Awards

Recognition as the most excellent company in social contribution among public organizations chosen by university students for six consecutive years





We appreciate your warm interest and love for the NPS this year again.

**Guaranteeing a Stable Elderly Life for the Public** The NPS has 21.57 million subscribers among the public in Korea along with as many as 4.03 million beneficiaries as Korea's largest public fund and the world's third largest pension fund. The NPS strives for the subscription of the underprivileged in preparation for their elderly life through support for premium payment. Its goal is to play its essential roles as a public pension service provider to help the whole public prepare for their elderly life. The NPS plays its roles as an institution for intermediary schemes for the entire public to prepare for their post-retirement life, while stabilizing the basic pension to ease poverty of the elderly. The accuracy rate in determining pension payments was raised to 99.94% to bring up reliability of the pension, thereby presenting the NPS' utmost efforts to pay the accurate amount of pension benefits. The NPS achieved the highest earnings rate of 4.57% in 2015 among the world's six pension funds. The NPS' stable performance over the medium and long haul is manifested by its average annual earnings rate of 4.7% for the past five years and that of 5.5% for the past decade.

**Social Responsibilities of the NPS** As the portion of the national pension in the national economy is rapidly expanding, its social responsibilities and roles are on the rise. The NPS is grounded in the applicable law for implementing responsible investment for the first time as a domestic pension fund management institution. The NPS also proactively exercises its voting right, while managing the SRI fund of approximately KRW 6.85 trillion. The NPS is contributing to community through its social contribution driven by core competencies: enrichment of its welfare service for the disabled, stabilization of the basic pension, upgrading of the welfare service for the underprivileged, creation of jobs in the private sector, and management of NPS Cafe 36.5.

The NPS will further strive to serve as a national pension service provider trusted by the public by scaling up its scheme and fund management through endless changes and innovation.

Thank you.

August 2016. Chairman & CEO National Pension Service  
Moon, Hyung-pyo

# The NPS contributes to people's happier life with pension and welfare services.

The NPS manages 21.57 million subscribers in 107 branches nationwide.

Public pension subscription rate for over 65 years old

**85%**

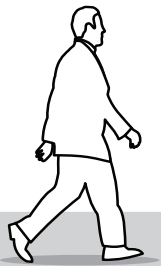
New subscription of the underprivileged in preparation for elderly life

**630,000** Person



## Subscriber management

Supports for subscriber, Calculation and management of premiums



Nominal GDP  
32.9%

Domestic equities Market  
35.5%

Domestic fixed income market  
24.8%

## Fund management

Equity investment KRW 164.8 trillion 32.2%  
Fixed income investment KRW 292.2 trillion 57%  
Alternative investment KRW 54.7 trillion 10.7%

The NPS manages the national pension fund in consideration of both the return on investment and stability.

Rate of return in 2015

**4.6%**

SRI fund

KRW **6.85** trillion

Accumulated average rate of return

**6.0%**

Accumulated operating profits

KRW **234.2** trillion

Pension subscribers

**21,570,000** Person

Subscription of businesses 12.81 million 59.4%

Regional subscriber 8.3 million 38.5%

Voluntary & continuous subscribers 0.46 million 2.1%



The NPS strives to pay with the highest accuracy the national pension benefits – the life – long monthly wages for the public in the era when people live up to 100 years.

Recipient rate of basic pension  
**66.4%**

Accuracy of payment determination  
**99.94%**



### Pension benefit payment

Accurate pension benefits payment, Supporting recipient rights for the underprivileged



Pension beneficiaries

**4,030,000** Person

Old-age pension 3.15 million 82.3%  
Bereaved family's pension 0.605 million 15.7%  
Disability pension 0.07 million 2%

### Welfare service

Review for disability registration and support for activities of disabled, Work capability assessment for basic, Service for old age preparation livelihood security recipients, Aligning support for disabled

The NPS is doing the utmost for a stable old age living for the public and the welfare for the disabled.

Awareness level of public on old age preparation

**92.8** Points

Professional workforce for old age preparation

**5,509** Person

Nationwide Old Age Preparation Support Centers

**107** Branches

Support for activities of disabled

**7,221** Person



### Social Responsibility Management



Strengthening preventive ethics programs and capabilities for taking ethical actions

Sustainability Index AAA

Grade 1 in the evaluation of anti-corruption policies (in the sector of establishment of anti-corruption infrastructure)



Win-win growth with community driven by core competencies

Job creation in the private sector 6,599

Average voluntary service per employee 12.6 hours

Supporting the operation of NPS Cafe 36.5 Cooperative



Win-win growth with partners

Purchase ratio from SMEs 82%

Venture investment including SMEs KRW6,138 billion

Satisfaction level of partners 93 points

# Social Responsibility Management System

## Social Responsibility Management Strategies

The NPS is a comprehensive welfare service institution covering all three major social security areas: public aid, social insurance and welfare services. Our social responsibility management is a core element for sustainable growth, and its purpose is aligned with the corporate vision.

Vision	Nice Partner for a Successful Life					
Strategy	Sophistication of institution management for sustainable growth—raising people's trust and social responsibility					
Social responsibility management goal	A happy community and a warm-hearted society					
Strategy implementation	Ethical management	Environment management	Social contribution	Responsible investment	Shared growth	Strengthened social trust

## Promotion System for Social Responsibility Management

The NPS formed the Social Responsibility Management Committee as the top decision-making body in the area of social responsibility management in 2012 in order to systematically promote it. The committee is a scaled-up body drawn from the existing Ethical Management Committee. We listen to opinions on various aspects of social responsibility management through the Social Responsibility Management Advisory Council and the Stakeholder Advisory Board.



\* ESG (Environment, Society, Governance): It refers to the corporate non-financial performance, as related to the environment, society, and governance.

## Performance of Social Responsibility Management and Mid-and Long-term Tasks

Under the seven strategic directions, the NPS oversees 14 execution tasks, and reports yearly on the status of the Social Responsibility Management System for continued performance measurement and systematic management. Each department in charge is subject to monitoring of their track records with relevant KPIs (Key Performance Indicators), and review of performance and data through a third-party verifier. We check out our level of promoting social responsibility management and manage our weaknesses based on evaluations of public institutions on their management, integrity and anti-corruption, and external evaluations with acclaimed reliability including KoBEX (Korean Business Ethics Index)



## NSM Index: NPS Social Responsibility Management Index

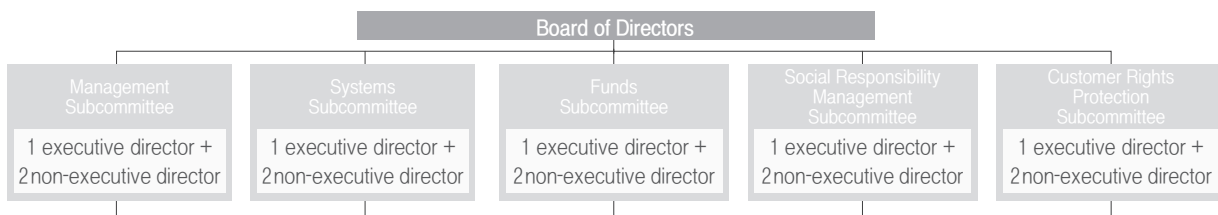
We formed the NSM Index for overseeing social responsibility management, consistently managing seven areas: ethical management, community, shared growth, environmental management and business. Each indicator is based on major indicators including government evaluation and highly recognized evaluations internally and externally. Each of the data is reviewed in the report writing process and comparatively managed on an annual basis.

Field	Direction	Indicator	Standard unit	2013	2014	2015
Ethical management	Clean NPS trusted by the public	KoBEX SM	Score	89.7 AAA	90.1 AAA	94.91 AAA
		Comprehensive integrity (Anti-Corruption & Civil Rights Commission)	Grade	4	3	3
		NPS Integrity Survey	Score	9.36	8.79	9.32
Local community	Contribution to self-sufficiency of customers and growth of local community	Social contribution mileage	Score	116,900	125,457	126,150
		Job creation in the private sector	Person	2,108	3,944	6,599
		Average voluntary service per employee	Hour	12.3	14.5	12.6
Shared growth	Continued mutual growth with SMEs based on win-win cooperation	Evaluation of shared growth among public institutions	Grade	Good	Average	Improved
		Purchase ratio from SMEs	%	77.9	81.7	82.0
		Satisfaction level of partners	Score	91.0	90.7	93
		Venture investment including SMEs	KRW billion	5,900	5,936	6,138
Environmental management	An exemplary institution that takes carbon reduction into actions in its daily life	Volume of greenhouse gas emissions	tCO <sub>2</sub> e	7,036	7,833	4,008
		Target reduction in greenhouse gas emissions	%	15	18	20
		Actual reduction in greenhouse gas emissions	%	23.0	18.8	28.7
		Volume of waste treated	Ton	763	673	311
		Water use	Ton	58,014	61,947	57,578
Businesses	Pension-based guarantee of the old age income for the public and intensification of welfare	Energy use	TOE	3,718	3,122	3,333
		Fund reserves	KRW trillion	427	469.8	512.3
		Number of subscriber of the National Pension	Million	21.12	21.42	21.57
		Number of Beneficiary of the National Pension	Million	3.74	3.82	4.03
		Recipient rate of national pension	%	33.0	34.8	36.4
		Recipient rate of basic pension	%	64.7	66.1	66.4
		Socially responsible investment (SRI)	KRW trillion	6.26	6.007	6.85
Corporate governance	Consolidation of independent and transparent corporate governance	National Pension Silver Loan	KRW 100 million	-	276	341
		Board of directors meetings held	Number of times	10	12	15
		Agenda submitted	Number of cases	56	53	47
Employees	Increase in satisfaction level of employees	Ratio of female director in board of directors	%	18.2	18.2	27.3
		Average training hour per employee	Hour	84.5	82.2	82.32
		Ratio of disabled employee	%	4.7	4.0	3.7

# Governance

## Board of Directors and Committees

The function of the NPS Board of Directors is to deliberate and decide on the key tasks on its agenda. The NPS utilizes the expertise of non-executive directors through expert committees, that is, the Management Subcommittee, Systems Subcommittee, Funds Subcommittee, Social Responsibility Management Subcommittee and Customer Rights Protection Subcommittee.



## Composition of the Board of Directors



The NPS Board of Directors is composed of 11 members: the chairman, three executive directors, and seven non-executive directors, three of whom are female directors. Non-executive directors are appointed by the Minister of Health and Welfare based on recommendations made by the Executive Search Committee. Seeking to instill a check-and-balance corporate management culture, the Board of Directors consists of two non-executive directors representing business owners, two non-executive directors representing corporate employees, two non-executive directors representing the individually insured, and one government representative who is pension policy director of the Minister of Health and Welfare.

As of July 2016

	Name	Organization & Position	Remarks
Executive directors	Moon, Hyung-pyo	Chairman	Chairman of the board
	Rhee, Won-hee	Executive director of planning	Executive director
	Kim, Moo-yong	Executive director of operations	Executive director
	Kang, Myoun-wook	Executive director of fund management	Executive director
Non-executive directors	Park, In-suk	Pension policy director of MOHW	Government representative
	Lee, Seung-cheol	Vice president of the Federation of Korean Industries	Business owner representative
	Kim, Young-bae	Vice president of Korea Employers Federation	Business owner representative
	Choi, Doo-hwan	Executive vice president, Federation of Korean Trade Unions	Employee representative
	Kim, Gyeong-ja	Vice president, Korean Confederation of Trade Unions	Employee representative
	Kang, Jeong-hwa	President, Consumers Union of Korea	Individually insured representative
	Park, Jong-baek	Lawyer, Korean Bar Association	Individually insured representative



# 15

Number of the board of directors meetings held

## Participation of Non-Executive Directors in Expert Committees

The NPS runs expert committees that leverage the expertise of non-executive directors, and imposes the right to demand audits to reinforce their independence. New non-executive directors are provided with information necessary to execute their tasks, including an introduction of the NPS and a job performance manual, thus boosting their understanding of the corporation and their ability to make decisions in its interests. In order to fully utilize the expertise of non-executive directors, the NPS runs a business suggestion management system through the Executive Information System (EIS). As a consequence of this setup, 38 out of 51 business suggestions were reflected in new corporate management policy.

## Board of Directors Functions

The Board of Directors meetings are held on a regular basis in February and October, and on an ad-hoc basis upon the request of the Board of Directors or its chairman. In 2015, such meetings were held 15 times. The NPS discloses the attendance of executives at the Board of Directors meetings and the outcome of discussions on the meeting agendas, etc., through its website.

### Operating Status of the Board of Directors

Unit: number of times, number of cases, %

	Board of directors meetings held	Agenda submitted	Attendance rate	
			Executive directors	Non-executive directors
2013	10	56	100	100
2014	12	53	93.9	91.7
2015	15	47	96.4	97.1

## Evaluation and Compensation

Executive directors are evaluated based on the implementation performance against agreed objectives. Along with the Ministry of Strategy and Finance's evaluation of the performance of public organizations, directors and employees of the NPS are evaluated on ethical management practices and efforts to make improvements in management, which are then reflected on the yearly comprehensive evaluations. The basic annual salary of executive directors is compliant with 80% of the head of a public corporation, as set by government guidelines. We received a Grade A in the 2015 evaluation; meanwhile, the records on the allowances paid to non-executive directors, as well as the annual salaries of executives are disclosed through the NPS website.

## Organizations Related to Fund Management

For an efficient operation of fund management, NPS operates Fund Management Committee, Evaluation Committee for National Pension Fund Management, Council of Experts on Investment Policy, Council of Experts on the Exercising of Voting Rights, Council of Experts on Performance Evaluation and Compensation.

# Ethical Management

## Reinforcement of the Ethical Management System

The NPS has authorized the National Pension Service Charter in 2000 to put into practice a transparent and ethical management process, and stipulated a code of actions for its employees in 2003, which served as the ethical standard for their actions. In order to preemptively respond to the Anti-Graft Act which will be enacted in September 2016, the NPS has specified types of illegal grafts, and come up with a corresponding reporting and handling procedure. As such, the NPS strives to achieve its ethical management goals by completely revising its code of actions for employees.

### The Ethical Norms System



## Organizational Alignment for Upgrading the Execution Capabilities for Ethical Management

The NPS makes decisions on directions and action guidance for ethical management under the leadership of the Social Responsibility Management Committee headed by the NPS chairman. The NPS launched the Anti-Corruption Group by scaling up and reshuffling the existing department on anti-corruption and integrity in January 2015, and increased the number of personnel for the Integrity Inspection Group. We also substantiated the management of the Ethical Integrity Group in 107 branches, and promoted the activities in the Anti-Corruption & Integrity Promotion Group (Working-Level Promotion Group), Advisory Committee and Integrity Ombudsman. As a consequence of such endeavors, we achieved Grade 1 in the establishment of anti-corruption infrastructure in the evaluation of anti-corruption policies at the Anti-Corruption & Civil Rights Commission.



### Ethical Management Training for All Employees

The NPS has run tailored ethical training programs for each rank and job function targeting all employees. Training was attended by a total of 18,158 employees, and one employee, on average, completed training sessions 3.47 times.



Grade 1 in the evaluation of anti-corruption policies  
(in the sector of establishment of anti-corruption infrastructure)

### Preventive Ethical Management Activities and Efforts to Promote Ethical Management

We determined areas which grab the interest of stakeholders and are likely to be exposed to corruption based on internal and external issue analyses and surveys, and conducted preventive ethical activities. The NPS' employee evaluation result revealed its score moving up by 0.526 points thanks to giving a higher weight to integrity-related scores and rewarding excellent employees with high mileage points in integrity. For the general public, the NPS' external integrity level increased from 90.7 to 93 points by fairly and transparently handling business affairs such as exclusion of special treatment for individuals in connections and specific ones. The NPS strived to promote ethical management to local community and related institutions, while sending the Clean Letter to partner companies, etc.

### Expansion of the Auditing Infrastructure: IT Specialists and Accountants, etc.

The NPS upgrades the expertise of auditors. We systematized an auditor selection procedure by running the Auditor Selection Committee. We also beef up their specialized competencies through the support for training and acquisition of a certified auditor status. Moreover, we recruited lawyers specialized in the fund and increased the number of IT specialists for a more professional fund audit.



Lawyer



Accountant



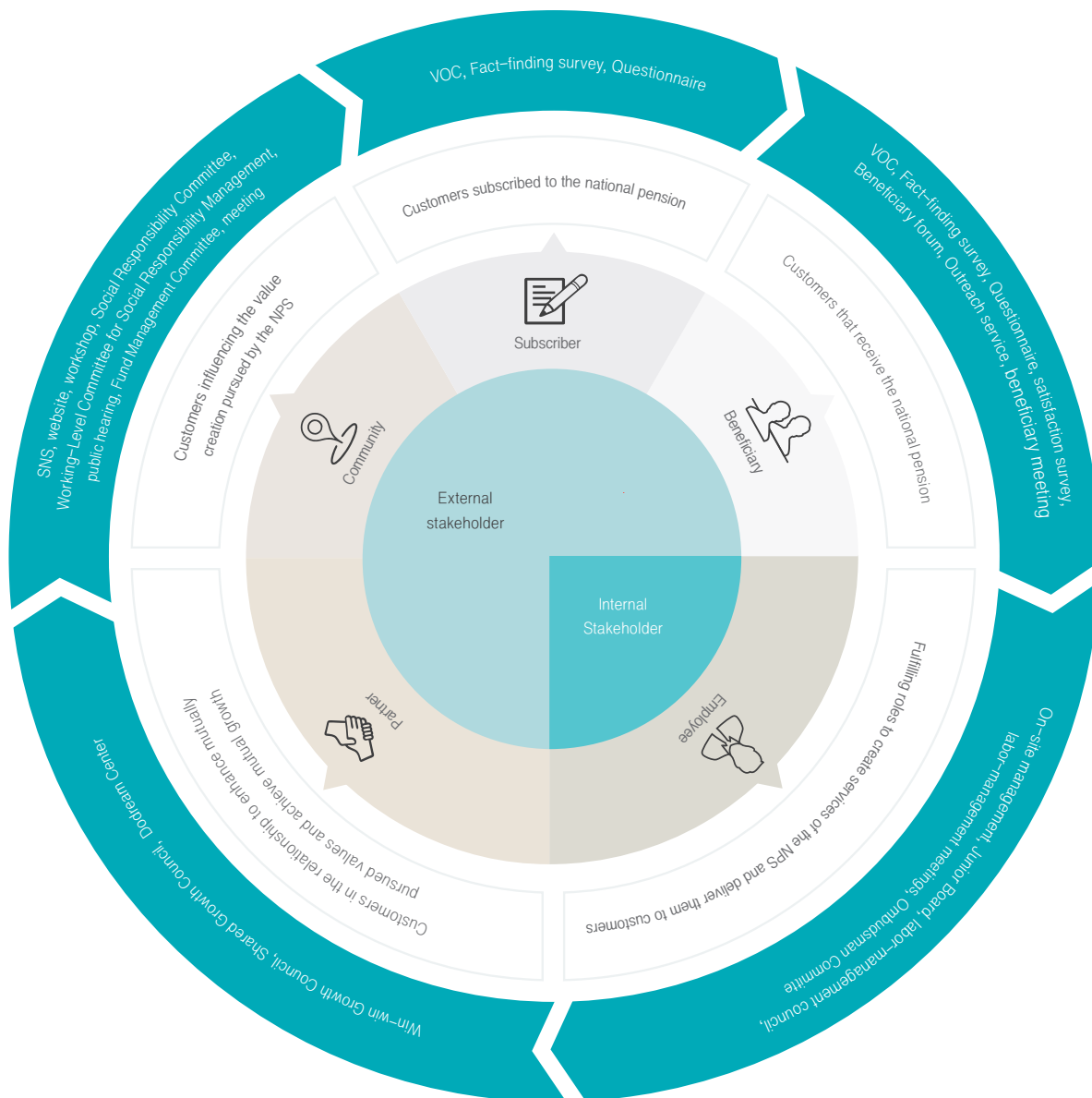
IT expert

### Jump-up as an Institution with Excellence in Internal Auditing

We are establishing a seamless anti-corruption system through continued institutional innovation. We have upgraded our anti-corruption system by initiating institution-wide innovation through proactive exploration of anti-corruption tasks for improvement, and strengthening punishment. We prevent loss of national treasury for welfare by devising a tracking system for unfair receipt, and prevent related accidents by expanding e-audits and IT service audits. Furthermore, seeking to manage risks related to the fund management, we have established a proprietary domestic equity monitoring system and conduct a special audit upon being selected as a transactional institution. As a result of such efforts, the NPS acquired the 'Excellence (Grade 2)' rating at the evaluation of anti-corruption policies conducted by the Anti-Corruption & Civil Rights Commission for the first time as a public institution, and was selected as an institution with excellence in internal auditing by the Board of Audit and Inspection for two consecutive years.

# Stakeholder Engagement

We strive to listen to the opinions and demands of stakeholders through our various open channels. The NPS categorizes stakeholders into five groups: subscriber, beneficiarie, partner, community, and employee. As part of the NPS's vision on social responsibilities, our relevant units in charge ensure that the interests and requests of each stakeholder group are aligned with value creation.





## Stakeholder's Main Opinion and Reflection on Management

Type	Main opinion	Reflection on management and policy	Page
Subscriber	Sustainability of system and fund	Setting medium-and long-term targets for the fund budget for preserving the actual value of the fund (exceeding the inflation rate) and stably managing the finance over the long term	32
	Providing convenience for subscribers	Simplifying the identification procedure for premium support for farmers and fishermen (acquiring information from agricultural and fisheries businesses)	25
		Increasing the eligible targets for making payment with credit cards and the payment ceiling (targets: two types of delinquent workplaces with less than five employees ▶ All the types of workplaces, payment ceiling: less than KRW 1 million ▶ Increasing the ceiling up to KRW 10 million)	25
		Providing information on relevant commercial zones when small enterprises start up their business by opening the public information	26
	Improving rational system	Making sensible improvement for the setback of arrears by adopting the daily accrual of arrears	25
	Enhancing work efficiency	Improving the EDI utilization rate and facilitating the outsourcing service	24
	Acquiring pension recipient rights for underprivileged	Launching a pension safety net for the underprivileged including temporary workers through information sharing and cross-institutional collaboration	23
Beneficiary	Improving pension benefit system rationally	Improving the pension scheme for the bereaved which is partially unfairly applied to the disabled in Grade 2 or higher or children of the bereaved that are minors	27
		Launching the disability determination standard for cancers and spinal disorders, etc.	27
	Thorough notice on claims upon the occurrence of recipient rights	Finding and matching the pension benefits for death to the bereaved by engaging in the government's 3.0 'One-Stop Safe Inheritance Service'	27
		Finding and matching split pension benefits of divorced spouses by acquiring marital data from the Supreme Court	27
	Prevention against non-receipt of basic pension	Implementing an operating system for prevention against non-receipt of basic pension as a system for managing individuals hoping to receive the basic pension	26
Employee	Relocation of the headquarters	Gathering feedback for improvement through employee surveys, diversifying the flexible work-hour system and launching the smart work system	49
	Improving the personnel system	Implementing the scoring system for position transfers, the target management system for the promotion of female employees and the standard division of works	50
Community (Government, national assembly, media, academy, local community)	Social consensus and efforts for easing the elderly poverty	Establishing the non-receipt prevention network so that nobody is left out in receiving the basic pension, and expanding the operation of the Silver Loan	26
	Supporting old age preparation	Strengthening the system for supporting old age preparation for the public amid revisions of the Act of Old Age Preparation Support	38
	Developing the regional economy	Devising measures to facilitate traditional market and recruiting talents in a socio-equitable way	42
	Resolving such issues as equity in social insurance subscription for the socially underprivileged and vulnerabilities in recipient rights	Establishing a pension safety net through institutional improvement by securing recipient rights for each of those in the blind spot for pension: temporary workers, minor workers and career-interrupted women	23
Partner	Listening and remedying grievance	Preventing double payment of pension premiums for companies advancing abroad through the following efforts: 1355 Call Center, IT outsourcing, Cheongpung Resort, Subcontractor Guarding System and operation of a counseling booth in job fairs	50
	Supporting partners' competitiveness	Supporting 50% of pension premiums for low income workers, providing financial planning for workers in partner companies, and allocating specialized financial planners in Old Age Preparation Support Centers in 7 regional divisions and 107 regions	38

# We Are Listening to the Opinions of Our Stakeholders

The NPS communicates with diverse stakeholders by organizing the National Pension Fund Committee, the Social Responsibility Management Committee, National Pension Club (NPC), the Anti-Corruption & Integrity Promotion Group, the Round Table for Shared Growth and the Junior Board. The NPS also dynamically reflects stakeholder opinions in corporate management.

## The National Pension Fund Committee

The National Pension Fund Committee is the highest decision making body for national pension fund management and operation. It is chaired by the Minister of Health & Welfare, and includes official members of government branches such as the Ministry of Strategy and Finance and the Ministry of Trade, Industry, and Energy, in addition to employers, laborers, individually insured representatives, as well as related experts.

Given the recent financial market conditions and the mid-term fund management directions, it would be necessary to reduce the portion of overseas equity assets outsourced to external managers on a gradual basis, and increase the portion of direct management. As the scale of the National Pension Fund goes up, its internal and external competitiveness needs to be strengthened, requiring a rational standard to bring up efficiency in fund management. Moreover, it would be essential to open up the way for domestic management companies to take part in asset management. [Member Ju Hyeong-hwan, Ministry of Strategy and Finance](#)

The admissible scope differs due to the differences in investment portions of overseas and domestic equities. Yet, there are much more uncertainties or global events in

the overseas equity market compared to the domestic one. Therefore, the admissible scope needs to be broadened so that making investment and recouping the returns could be conducted more promptly. [Member Choe Hi-nam, Ministry of Strategy and Finance](#)

With the implementation of improvement measures for the National Pension Silver Loan, there could be misunderstanding if it is aligned with the NPS evaluation and employee assessment. Thus, it requires some complementary work. [Member Kim Gyeong-ja, Korean Confederation of Trade Union](#)

## Expert Committees of the Board of Directors

The NPS runs five expert committees on management within the board of directors to facilitate the engagement of non-executive directors and strengthen their expertise and independence.

Strategy tasks are needed for the insured as a whole to expand the pension beneficiaries' rights. Data must be compiled and reviewed by analyzing how pension beneficiaries and the amount of pension benefits would differ if a condition of 'the occurrence in the middle of being subscribed' is removed out of all the recipient conditions for pensions for the disabled and the bereaved. [Director Gang Jeong-hwa](#)



In order to manage the labor-management relationship in a rational and legitimate manner, 'solving problems through a local labor committee arising from collective agreements carrying differences of opinions' must be avoided. Efforts to solve problems internally are required. [Director Kim Gyeong-ja](#)

Prior notices and professional counseling are needed on the National Pension Silver Loan. [Director Kim Yeong-bae](#)

With regards to the improvement of the criteria for recognizing the recipient rights for pension splitting, there must be efforts to revise them in line with a social phenomenon of the recent increase in the divorce rate. It would be worthwhile to review a measure to include legal experts in the Disability Grade Review Committee. [Director Park Jong-baek](#)

#### National Pension Advisors

We have managed 230 national pension advisors in seven regional headquarters since 2004 to reflect the voices of the public in institutional improvement.

#### A Need to Support Laggards in Elderly Life Preparation

Incentives must be offered to low-income women whose career has been interrupted as laggards in preparing for their elderly life. In addition, the amount of the monthly income with the current level of premium support in

enterprise owners with less than 10 workers must be revised upward.

#### Care for the Elderly and Protection of Personal Information in the NPS Service

The size of letters in the guidebook for the insured is too small, so it needs to be adjusted in consideration of customers' age.

#### Junior Board

The NPS formed the Junior Board, a consultative body to listen to young employees' ideas and opinions as would-be leaders of the NPS.

#### Institutional Improvement and Changes

In order to proactively manage subscribers, when regional subscribers are issued with a business registration certificate, the National Tax Office must inform them of eligible subscribers, and a mandatory provision must be stimulated whereby they must subscribe to the national pension within six months from their business registration.

When subscribers who duly pay their pension premium become basic livelihood security beneficiaries, the current provisions must be revised so that the base monthly income could be based on a lower limit, or could be exempted from being insured, yet allowing them to pay a higher amount of pension premium, if they wish.



### A Need for Stronger Promotion and Personnel Management

It often turns out during counseling that people are not aware of an obligation to subscribe to the national pension. The national pension scheme and its excellence must be more proactively promoted since many in the public do not know about them despite its higher amount compared to private pension benefits.

Occupational vacuum is expected because baby boomers at the NPS are retiring en masse within six to seven years from now. Such a vacuum must be prepared against in advance by imposing on qualifications as professional counselors for elderly life preparation.

#### National Pension Club (NPC)

The NPS organized the National Pension Forum in October 2013 to enhance the quality of service for beneficiaries. It has been further expanded since 2014 into the National Pension Club (NPC) which is now up and running.

### A Need to Expand the Members of the NPC

The NPC must be focused on expanding itself to increase its members, while avoiding its rapid external growth. Its positive aspects and institutional advantages must be notified diversely. Moreover, securing its legal status and

external representativeness is critical along with continued support for it.

### Content Diversification

Currently, the NPC is operated mostly in the form of hobby & recreational clubs and the clubs which cater to beneficiaries' needs for volunteering. That is why its content is simple and is problematic in that its activities are the NPS-driven formalities. To address this, the scope of its activities must be broadened to target public institutions and community so that there could be more diverse types of content.

### Development into a Self-Sufficient Organization

It would be a desirable way to bring in an influential leader in community, who is also strong-willed in engagement in the society and self-sufficiency of the organization in order for the NPC to grow as a self-sufficient body. The NPS also needs to research self-sufficient organizations by benchmarking AARP, etc.

### Securing of Financial Independence

The current NPC is financially dependent on the NPS for its management instead of resorting to membership dues. It must find ways to secure finance with a long-term profitable project, while grounding itself in membership dues.





### Round Table for Shared Growth

The NPS listens to suppliers' complaints and suggestions by organizing the Shared Growth Meetings on a regular basis. In 2015, the NPS organized the Round Table to raise top management's understanding of shared growth among public institutions and form consensus throughout the NPS.

Public institutions' roles in achieving shared growth are: first, playing a pioneering role to induce and facilitate shared growth in the private sector; and second, attaining shared growth in the public sector itself. Policies on shared growth with public institutions are established and implemented with a focus on market-based public institutions. Such policies are exposed to limitations for the NPS to implement proactively. Areas related to 'SMEs' among key projects are to be fully utilized, given the reality of the NPS. [Professor Lee Eui-yeong, Kunsan National University](#)

Top management needs to concentrate its competency with a more interest on shared growth. Top management must check out if cooperation with SMEs is possible in managing the portal site of the NPS' fund. It must also be identified if businesses and the public's obtaining high-quality information in using the portal site could be described as shared growth. [Director of Planning](#)

It must be considered if support of pension premiums for businesses with less than 10 employees, and reduction of administrative operations in small-and medium-sized/micro-scale businesses through EDI can be appropriate tasks for shared growth. It may seem possible to support SMEs by combining the NPS' SME supporting operations and institution-wide competencies for key projects. [Executive Director of Operations](#)

### Anti-Corruption & Integrity Promotion Group

In order to improve integrity, the NPS' top management and external specialists discuss related topics and set directions.

#### Selecting autonomous policy tasks on anti-corruption

Four tasks were finally selected out of a total of 19 tasks by referring to the first review results for selecting tasks under autonomous policies for anti-corruption.

#### Selecting tasks for intensive improvement in corruption-prone sectors

A total of 17 tasks selected for intensive improvement in areas prone to corruption were reviewed. The task selected as a result of a final selection round was 'devising sophisticated measures for control to prevent illegal receipt of welfare subsidies including the national pension benefits'.

# Defining the Report Content

The NPS has decided on the content to be reported in the 2016 Social Responsibility Management Report, and has taken the following steps to identify Social Responsibility Management issues to be intensively addressed throughout the year.



## STEP 1 Identification of potential issues to be reported

The NPS identified all the potential social responsibility management issues available for reporting through an extensive analysis process, which was conducted on six internal and external aspects of the NPS. We identified 73 internal and 175 external issues, 248 potential issues in total for reporting.

Category	Methodology	Number of potential issues
Strategies and performance	» Mid- and long-term management performance and goals, business operation plans, management evaluation results, KPI analysis on Social Responsibility Management	46
Reporting content of the previous year	» Analysis of major reporting content on Social Responsibility Management from 2012 to 2014	27
Trends, international standards and evaluation	» Analysis of major debatable points and issues on Social Responsibility Management (media, academic journals, research papers) » International standard and evaluation criteria analysis including GRI, DJSI, UNGC, and ISO 26000 » Analysis of Social Responsibility Management in finance at home and abroad	64
Government policies and regulations	» Analysis of government policies and evaluation standards	63
Common issues in the industry and best practices	» Identification of issues related to the NPS by analysis of the Social Responsibility Management Report in related public institutions and the financial sector	37
Media analysis	» Identification of external awareness of the NPS' social responsibility management: 2,493 news articles from January 1, 2015 to May 31, 2016	11

## STEP 2 Primary selection of material issues

The identified potential reporting issues were primarily selected through correlation analysis and impact evaluation. We applied the size of the impact of social responsibilities by issue, and the probability of the occurrence of risks to the evaluation matrix. After that we categorized the selected material issues into eleven aspects.

# 248

The NPS' potential issues for reporting on social responsibilities (number)

## STEP 3 Prioritization

The selected aspects were prioritized through stakeholder surveys and the analysis of strategic materiality. The online survey implemented for primary prioritization was participated by 2,723 stakeholders, accompanying face-to-face surveys for old age recipients to conveniently reflect their opinions. The strategic materiality of each aspect was analyzed by the internal working-level group of social responsibility management experts. As a consequence, prioritizes in the material aspects reflecting stakeholder evaluation and strategic materiality were in the following order: pension scheme, fund management, welfare services, ethics and integrity and local community. Results and the decision-making process of the primary selection were reviewed at the 'Social Responsibility Management Committee', and priorities of certain issues were finalized by reflecting the opinions of experts and stakeholders.

### Final prioritization of material aspects

Unit: ranking

Material aspects	Stakeholder evaluation	Strategic materiality	Final prioritization	Major stakeholders by aspect			
				Beneficiaries	Subscribers	External stakeholder	Employees
Pension scheme	1	1	1	1	1	1	1
Fund management	2	2	2	2	2	2	2
Welfare service	3	3	3	5	6	4	6
Community	5	6	5	6	5	6	5
Ethics and transparency	4	4	4	3	3	3	3
Employment	6	9	7	9	8	8	8
Human rights	7	11	11	8	11	9	11
Shared growth	9	7	8	7	7	7	7
Information security	11	5	6	4	4	5	4
Environment	10	10	10	10	10	11	10
Corporate governance	9	8	9	11	9	10	9

## STEP 4 Third-party assurance

An independent professional verifier who has no commercial interest with the NPS reviews and decides whether or not the determination process for content to be reported well reflects the report publication procedures and conditions guided by and GRI G4, and whether or not the information related to selected material issues is well disclosed in the report. The third-party's assurance statement is available on page 53.

# Has the scheme been improved to give benefits to a more number of people and are services convenient enough?



"We subscribed to the national pension without much expectation in our financially tight situation. I never expected it to be so financially helpful. My elderly life is now greatly supported by the national pension benefits that are deposited in my bank account like a monthly salary."

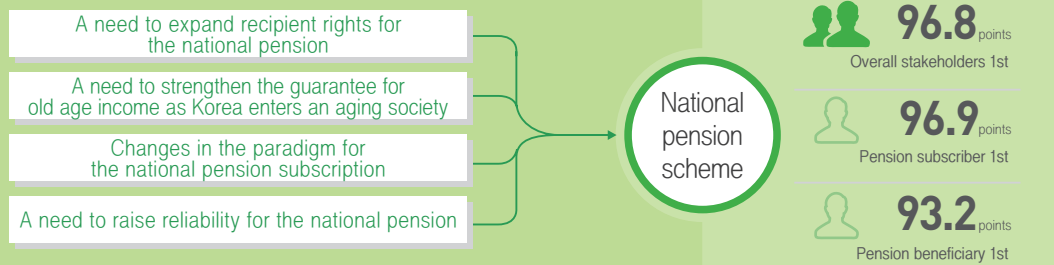
Son Bok-hi (71), a Beneficiary of the National Pension



# Why

Why is the pension scheme critical in sustainability of the national pension?

The national pension is Korea's most representative old-age income security-type social insurance subscribed by 21.57 million people. While the entire society is confronting rapid aging, many people depend on the national pension for their elderly life at a time when there is a comparative lack of preparation for their post-retirement life. The current pension policy and scheme could immediately impact the future recipient rights of the public and the level of elderly income. Thus, the 'pension scheme' is a pivotal component gaining the interest of the public.



# What

What efforts are poured in by the in by the NPS for the pension scheme?

In order for more people to enjoy benefits of the national pension, the NPS strives for expanding the national pension recipient rights, enriching the pension benefit payment service, and stabilizing the management of the basic pension scheme. The NPS is making utmost efforts for the quantitative increase in subscribers for the expansion of the current pension recipient rate of 35.7%. Not only that, the NPS is achieving the qualitative increase by managing various premium supporting schemes for the subscription of the underprivileged in old-age preparation. Furthermore, the NPS is striving to strengthen systematic management of the premium rating standard and prior/follow-up management of illegal receipt in order to raise the public trust in the national pension.

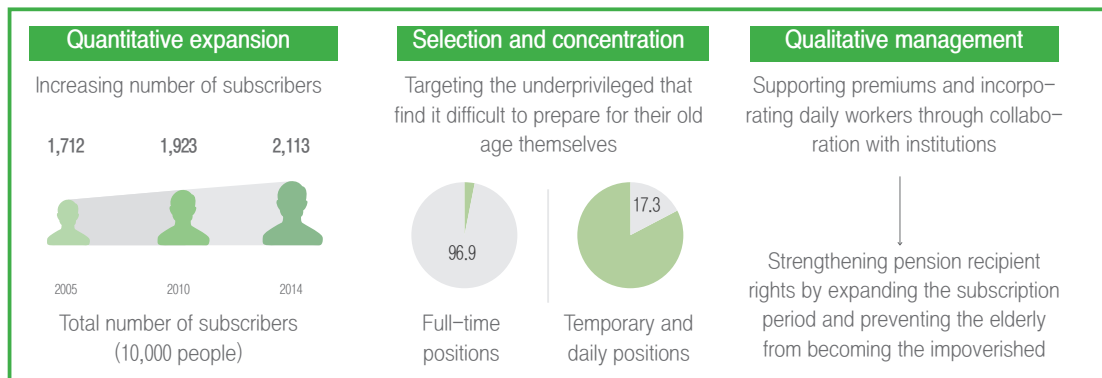
# How

Stakeholder opinions are reflected in corporate management

Stakeholder	Opinions	Reflected in management	Page
National Assembly	» Requiring for improvement in the installment pension scheme and public pension alignment scheme, etc.	» Improving the filing period for the installment pension and installment ratio » Expanding eligible targets for applying for the pension benefits aligned with the public pension	26, 27
National policy task	» Converting the basic old age pension scheme into the basic pension scheme and integrating the national pension and its management & operation	» Ensuring that 400,000 senior citizens newly receive the basic pension benefits by establishing the non-receipt prevention net	26
Management evaluation panel	» Dynamically initiating collaborative tasks for data provision to other institutions	» Providing information on relevant commercial zones when small enterprises start up their business by opening the public data, and contributing to the civilian economy	26
	» Supporting premiums for the insured with a small-scale enterprise » Requiring to disseminate the efforts to all local governments through nation-wide institutional improvement	» Supporting premiums for farmers and fishermen (July, 1995-), small-scale enterprises » Supporting premiums for low-wage workers (July, 2012) » Devising measures for premium support for the self-employed and youth subscribers by engaging in social organizations	25
Government policy	» Facilitating part-time jobs	» Amending the enforcement decree (June, 2015) and enacting it (January, 2016) so that individuals who work for over 60 hours a month in multiple workplaces could be applied as workplace subscribers in order to facilitate part-time jobs	23



**> Efforts for Growth in Subscription** **A Paradigm Shift in Pension Subscription** The total number of subscribers to the national pension is steadily on the rise every year, and approximately 96.9% of regular employees are insured. Yet, the subscription rate of temporary and daily workers who would require old-age preparation more desperately than anybody else is as low as 17.3%. There must be a paradigm shift in the direction of increasing subscribers, especially the underprivileged in preparation for their elderly life including temporary and daily workers so that the essence of the national pension to brace for the old-age life of the whole public could be restored.



**Adoption of a Scientific Analysis Technique** A drop in the number of subscribers from 2017 is forecast due to the reduction in the economically active population. Therefore, target subscribers that are hidden must be dynamically found, using diverse methodologies. The NPS provides selectively tailored notices to befit characteristics of targets. To this end, the NPS has worked out indicators for subscription possibilities based on the big data analysis for the past two years, and determined targets by using the data mining\* system.

\* Data Mining: a process of determining variables (age, gender, income, etc.) significantly impacting the outcome (subscription / payment), and imposing the target achieving rate (possibilities in subscription / resumption in payment)

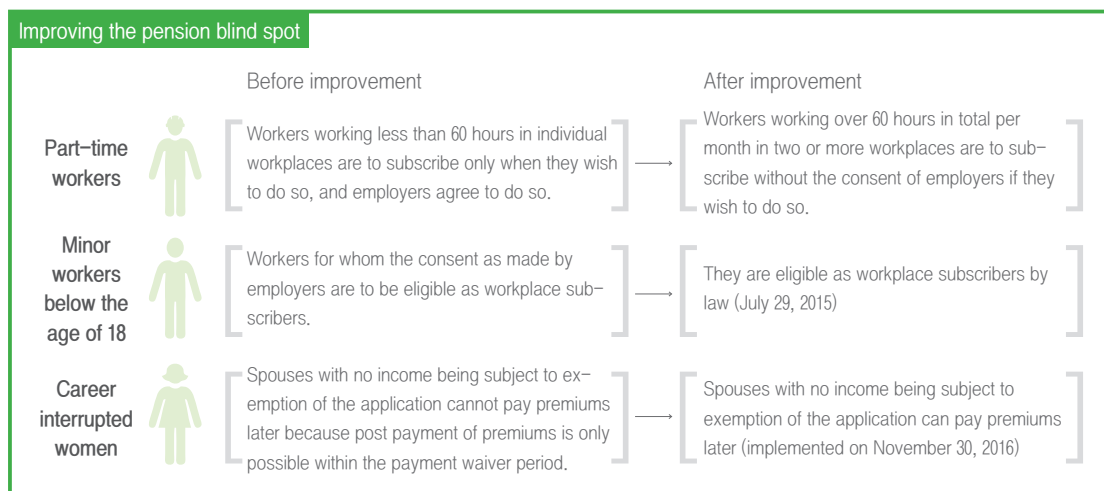
**Linkage with Public Data and Expansion of Collaboration** Employers of small businesses do not voluntarily report on the national pension subscription due to the burden of paying additional premiums despite the government's premium support for low-income workers. Against this backdrop, the NPS has additionally secured the 'Daily Workers' Employment History Verification Report' of the Ministry of Employment and Labor which is reported on a monthly basis, and could promptly proceed with the national pension subscription of daily workers. Moreover, as a result of establishing a collaborative system with not only the Ministry of

Employment and Labor but also Korea Workers' Compensation & Welfare Service, the National Health Insurance Service, the Small Enterprise and Market Service, various business agencies and franchisors and occupational organizations, the number of daily workers exponentially increased by 2.8 times compared to the previous year.

**Intensive Notification for the Underprivileged** The NPS conducted a subscription drive based on scientific analysis on career-interrupted women and baby boomers, etc. who are lagging behind in preparation for their elderly life. The NPS resorted to targeting based on the 'Subscription Possibility Index' and the 'scientific analysis tool' for the underprivileged in old-age preparation. As a result, the NPS incorporated 630,000 workers as those who file their income through a tailored subscription drive sited to subscriber groups, and the number of arbitrary subscribers reached a peak of 240,000, thus contributing to securing of recipient rights for the underprivileged in their old-age preparation.

**Efforts to Increase the Subscription of the Underprivileged through Premium Support** Low-income workers working in small businesses and farmers & fishermen are hesitant to subscribe because of having to pay their premiums for now. The NPS induces their incorporation into the national pension by easing the premium payment burden through Durunuru premium support and farmer & fishermen premium support to address the setback.

**Establishment of a Pension Safety Net through Institutional Improvement** Despite multifaceted efforts for the subscription of the national pension, the underprivileged including part-time workers and minor employees under the age of 18 are excluded from subscription. The NPS improved the scheme continuously to secure the recipient rights for the underprivileged. As a consequence, part-time workers amounting to about 210,000 could gain the recipient rights, which contributed to the government's initiative to 'facilitate part-time jobs' and protected the working rights of minor employees. Moreover, the NPS could pave the way for the premium support of maximum KRW 47,250 a month per individual for 820,000 people a year by initiating the acquisition of pension recipient rights for about 4.46 million career-interrupted women and introducing the unemployment credit scheme.



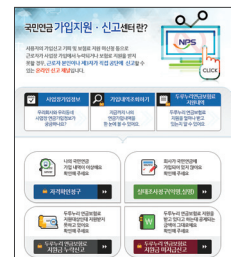
> Calculation and Management of Premiums
Intensification of Systematic Management of the Threshold Income for Premium Rating
 The Value A\* which becomes the threshold for calculating pension premiums and benefits is calculated based on the average value of the base monthly income of entire subscribers. The NPS conducts the regular determination and ex-post ad- equate management for the base monthly income of subscribers in businesses by acquiring the earned income statements from the National Tax Office. The NPS also checked out if the base monthly income of subscribers in businesses is appropriate, additionally imposing KRW 732 billion, and retroactively imposing KRW 39.7 billion to 110,000 subscribers through a follow-up check. As a result of such efforts, the average monthly income increased KRW 80,000 year to year, and the A-Value went up 2.97% compared to the previous year.

Value A: (2014) KRW 2,044,756 won → (2015) KRW 2,105,482 won (KRW 60,726 won ↑ , 2.97% ↑ )

\* Value A: The median value of average monthly income of total subscribers of the national pension for the past three years

Intensification of Prior & Follow-up Management of Illegal Receipt of Pension Benefits
 Illegal receipt of pension benefits must be fundamentally blocked to enhance reliability of the NPS' business and prevent the leakage of national treasury. The NPS adopted a preventive process to block the non-eligible even from the application stage, while giving notices on illegal receipt to businesses and workers. The NPS also strengthens follow-up management of businesses which receive premium support. As a result, the number of businesses detected for the reason of illegal receipt reduced by about 60% from 205 in 2015.

Facilitation of the National Pension Subscription and Reporting Center
 The 'National Pension Subscription and Reporting Center' is up and running as an on/offline channel for workers to directly report to the NPS so that the insured are not disadvantaged by avoiding the subscription to the national pension or omitted in premium support by mistake. In 2015, a total of 585 cases were registered, so 78.5% of the reported, that is, 459 individuals, were incorporated into the insured through on-site surveys, etc.



> Improvement of the National Pension Service
Improvement of the Web EDI Utilization Rate and Facilitation of the Web EDI-based Outsourcing Service
 The NPS adopted business outsourcing services to increase conveniences in the national pension affairs for small businesses. The web EDI service was adopted to convert various operations online. The number of businesses using such services significantly increased from 9,000 in 2014 to 32,000 in 2015. The number of businesses using the web EDI services went up from 17% in 2014 to 20% in 2015, which improved the handling of EDI statements by 5.5%.

\* EDI(Electronic Data Interchange): An electronic civil service as substitutes for offline, fax, mailing and visits, allowing free usage as long as there is Internet connection and users have their public key certificate

On-site Discovery of Supports for the Insured
 The NPS visits sites to address setbacks that occur on working sites. In 2015, the NPS determined 31 improvement tasks through three channels – Sponge, the regular on-site forum and due diligence on operations involving foreigners, and reflected them in business improvement. Examples of improvements made are in batch printout of notices for businesses which have not applied for premium support, and also in retroactive recognition of agricultural employees besides the owners of agricultural companies.



**Simplification of the Premium Support Application for Farmers and Fishermen** The NPS innovated an operational process enabling the application for premium support with a single phone call without additional supporting materials by linking the information of registered agricultural and fisheries companies. This service reduced about KRW 1.4 billion for the social cost and budget by easing the inconvenience of 100,000 new applicants submitting documents, and raised the premium support applicants by 47% from the previous year. It was selected as one of the best practices within national policy tasks.

**Provision of Information on the Expected Pension Amount** Subscribers wish to know about the expected pension amount they are to receive in the future, but the expected pension amount has been based on the current value, arousing customer complaints that the amount is extremely low. The NPS, as such, provided the future value-based expected amount applying the income applied with the average value of the past five years and inflation rate. This helped the insured to predict the future value of the amount at the point of receipt, thus satisfying customer needs and contributing to their better understanding of the scheme.



**Rational Improvement of the Scheme to be Subscriber-Centered** The NPS continues to improve the scheme and services. In 2015, the NPS initiated institutional improvement, protected subscriber rights and eased their inconveniences by introducing the daily installment calculation scheme for arrears, expanding the eligible targets and amount for credit card payment, and coming with up a legal ground for installment payment of premium arrears.

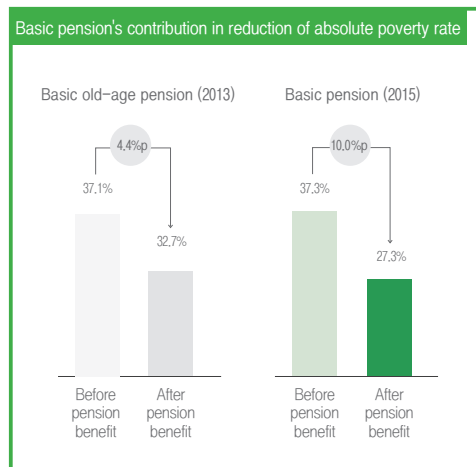
Improvement in scheme	Before improvement	Point at issue	After improvement
Adopting the daily accrual of arrears	» Monthly accrual of arrears (KRW 73.7 billion a year)	» Emergence of an equity issue among payers where those who pay earlier are disadvantageous than late payers by imposing the same arrears regardless of the premium overdue period	» Daily accrual of arrears (KRW 42.5 billion a year)
Expanding eligible targets for credit card payment and its amount	» Local premiums, and returned and follow-up premiums » (Workplaces) Less than KRW 1 million among the arrears of workplaces with less than 5 employees » (Commission fees) Average of 2.06% (to be paid by the NPS)	» Limitations in the eligible targets for credit card payment and its amount despite the common use of credit cards and the increased amount of credit card payment	» Pension premiums, returned and follow-up premiums, unemployment credit premiums, clawbacks (including Durunuri Clawbacks) » Ceiling of KRW 10 million for the payment amount » (Commission fees) Within 1% (to be paid by payers)
Directly returning erroneously paid premiums to workers	» Returning erroneously paid premiums in workplaces only to employers	» Workers cannot have their contributions returned upon the failure of the return due to the corporate bankruptcy or death of employers, etc.	» Directly returning to workers when erroneously paid premiums cannot be paid to employers
Laying the cornerstone for installment payment of premium arrears for local subscribers	» A lack of legal grounds for installment payment when local subscribers are into arrears	» A possible failure of paying the excessively accumulated premiums among the underprivileged when they are into arrears for long even if they want to	» Laying the legal grounds to enable installment payment when pension premiums are paid over twice (implemented in July 2015)

**Robust Protection of Personal Information** In order to maintain the highest level of the information security system for a public institution, the NPS determined tasks to initiate in three areas – cyber security, personal information protection and information security management systems – and proactively manages them. Such efforts of the NPS to intensify information protection have been maintained at the level of top excellence for four consecutive years by acquiring the grade of top excellence at the evaluation of information security institutions for national infrastructure. The NPS acquired outstanding prizes including the commendation for an institution of merit in information protection on the Day of Information Protection (Ministerial Award of Science, ICT and Future Planning) and a prize at the Security Hacking Contest of Health and Welfare (Ministerial Award of Health and Welfare). The NPS also attained the Personal Information Protection Level (PIPL) as the only pension fund institution (Ministry of Government Administration and Home Affairs).

**Reduction of Social Cost by Opening the Data to the Public** The NPS preemptively opens its high-quality public data to satisfy beneficiaries' right to know and contributes to the economy in the private sector. The Small Enterprise and Market Service established a database for market district analysis of the Commercial District Information System designed to support would-be entrepreneurs and small merchants to start up their business by utilizing about 3 million cases of pension information disclosed by the NPS. This ended up saving KRW 1 billion for the due diligence cost, and was ranked third in the popular data chart on a public data portal. Moreover, the NPS provided about 90,000 cases to the big data model for credit rating analysis at the Credit Guarantee Foundation. Such cases were utilized to develop a model to seamlessly secure business funds, e.g. reduction in loan interest rates for the low income class.

› **Intensification of the Pension Income Guarantee for the Underprivileged**

**Stable Settlement of the Basic Pension** The basic pension, an expanded pension of the basic old-age pension, pays monthly benefits of KRW 820 billion to 4.5 million subscribers, taking up 70% of the lower-middle income class aged 65 or older as of 2015-end, that is, KRW 202,600 per individuals a month. The NPS established the 'prevention net against non-receipt of the basic pension', opening up an era of one-person, one-pension whereby 85% of the elderly aged 65 or higher totaling 6.77 million could receive more than one public pension (basic pension or national pension). In the awareness survey on the basic pension, 91.9% of the elderly responded, 'It is very good that it was adopted' and 92.5% said, 'It is helpful to one's living'. According to the research findings of the 'Analysis of Poverty Reduction Effects of the Basic Pension' conducted by Korea Institute for Health and Social Affairs, the basic pension contributed to the reduction of absolute poverty rate by about 10%p and to the comparative poverty reduction rate by about 4.4%p thanks to its improvement effects for the elderly's income level.



**Intensification of Recipient Rights by through Legal and Guideline Revisions** The NPS improves the scheme and services to protect beneficiaries' rights and enhance their convenience. In particular, the NPS intensively focuses on stabilizing the livelihood of the socially underprivileged including women, the disabled and low-income senior citizens. Examples of improvements made are as follows: a divorced spouse can immediately file for installment pension upon divorcing without having to wait for a pension receipt point; and the existing uniform pension splitting into a half of the marriage period was adjusted for parties involved to mutually agree on or to follow a court ruling on adjusting the splitting ratio. The NPS also supported proposing a bill for legislation by national assembly members in order to rationally improve the scheme which is unfairly applied to people in Disability Grade 2 or higher, or the bereaved as minor children.

**Efforts to Find Hidden National Pension Benefits** Even when recipient rights for the national pension arise due to death or divorce, etc., some beneficiaries cannot find their pension benefits in a timely manner because they do not know of the occurrence or how to file for such benefits. For such beneficiaries, the NPS promotes the scheme and informs them of the filing procedure, using various channels so that they could easily check out the pension information including their subscription history and the expected monthly pension amount and conveniently receive pension benefits. The NPS paid pension benefits of KRW 101.6 billion to 9,321 bereaved individuals by taking part in the government's 3.0 'One-Stop Safe Inheritance Service'. As a result of keenly informing of filing for installment pension to divorced spouses, the splitting pension filing rate increased 1.6 times compared to the previous year.



> **Accurate Payment of Pension Benefits**

**Enriching the Verification System for Payment Determination** In order to sophisticate the system and the process for managing risks amid increases in pension beneficiaries and the amount to be paid, the NPS upgraded the 'verification system for payment determination' from Grade 4 to Grade 5, and significantly improved the verification items. This led to increasing the accuracy rate in payment determination from 99.86% in 2014 to 99.94% in 2015. Moreover, the IT-based verification system was adopted, fundamentally blocking the cancellation in recipient rights resulting from wrong decisions made on disability grades.



**Improvement in Accuracy in Managing Variations for Recipient Rights** Cases where pension benefits are inappropriately paid occur because changes in recipient rights including death, divorce and re-marriage are neither reported nor handled in a timely manner. The NPS receives public data on the payment of car insurance benefits, and on the undiagnosed from 20 institutions including Korea Insurance Development Institute and Korea Veterans Welfare & Healthcare Corporation. As a consequence, the number of cases where illegal receipt was prevented amounted to 947 cases worth KRW 39.5 billion.

# Does NPS have expertise in fund management which the public can trust?



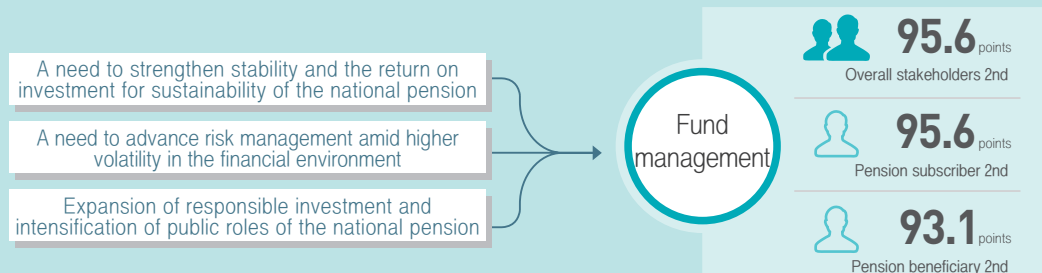
"Looking at the items that are deducted from my monthly salary, it is worrisome if I can receive the national pension benefits when I reach an eligible age for the receipt. I hope that the benefits could be more stably and transparently managed so that I could find them helpful when I am old."

Ahn Ye-mi (26), a Beneficiary of the National Pension

# Why

Why is the fund management critical in sustainability of the national pension?

The national pension is Korea's representative and the world's third largest public pension fund with 21.57 million subscribers and the fund scale of KRW 512 trillion as of December-end, 2015. How stably and efficiently such a large-scale fund is managed is directly linked to the future old-age income in the future for the public, so most of the NPS' stakeholders factor this in critically. That is why debates persist on the management earnings rate, subscriber burden, management policies, organizational issues and depletion of the fund. The NPS is keen on 'fund management' as a core issue for sustainability by recognizing such an interest of stakeholders and the importance of the issue.



# What

What efforts are poured in by the NPS for the fund management?

Seeking to raise profits in a stable manner, the NPS is striving for several objectives: 'strengthening investment activities for a higher earnings rate', 'sophisticating risk management' and 'intensifying competitiveness in investment support'. The financial part is managed by classifying it into equities, bonds and alternative investments depending on the types of investment assets in order to attain stable management and increase the earnings rate. The NPS' domestic equity investment amounts to KRW 94.9 trillion, taking up 18.5% of the total. In 2015, the fund was stably managed despite expanded market volatility at home and abroad due to the sluggish economy of China, lower oil prices and the Federal Reserve raising interest rates. As a result, the NPS achieved the earnings rate of 4.6% and operating profits of KRW 21.7 trillion throughout the year. Moreover, the NPS has managed the Socially Responsible Investment (SRI) fund as a type of fiduciary management for domestic equities since 2006. As of 2015, the NPS manages the SRI fund, which stands at approximately KRW 6.85 trillion.

# How

Stakeholder opinions are reflected in corporate management

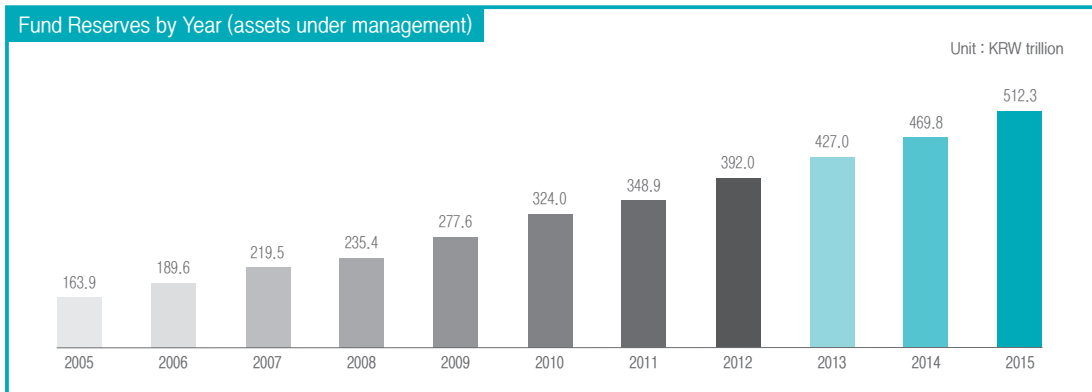
Stakeholder	Opinions	Reflected in management	Page
Fund Management Committee	» A need to expand overseas investment » Demand for the submission of investment strategies and action plans on new overseas investment	» Strengthening operational competency for expansion of overseas investment	32
National Assembly inspection	» A drop in the fund's return on investment	» Raising the return in alternative investments	31
Government policy	» Investment diversification and sophistication of risk management	» Diversifying assets, expanding global high-yield assets, and setting yearly total risk ceiling and risk ceiling per asset type, and constantly monitoring them	32, 34
Management evaluation panel	» A need to strengthen preemptive risk management	» Establishing a risk management system	34
Board of Audit	» Irrationalities in the computing methodologies for the valuation amount on alternative investment assets including beneficiary certificates	» Devising measures for improvement in the methods of reflecting alternative investment assets into accounting and planning to implement them	-





› Management of the National Pension Fund

**Status of Forming the National Pension Fund** The National Pension Fund was established in accordance with the National Pension Act in 1988 to seamlessly secure a necessary resource for NPS' business. The income source of the National Pension Fund is pension premiums and investment returns. The residual amount from the income, after deduction of expenses such as pension benefits for pensioners and operation expense for the management, becomes the source of investment. The National Pension Fund amounts to KRW 638.6 trillion in total as of 2015-end with the accumulated pension premiums, etc. of KRW 404.4 trillion and operating profits of KRW 234.2 trillion. With the revenues formed so far, the NPS paid pension benefits of KRW 120.1 trillion, and manages and operates the remaining reserves. The valuation amount of assets for the National Pension Fund increased to become the world's third largest pension fund with KRW 512.3 trillion as of 2015-end, which is up KRW 42.5 trillion from KRW 469.8 trillion of 2014. Accordingly, the national pension has positioned itself as the world's third largest public pension fund following GPIF of Japan and GPF of Norway. The fund asset consists of the financial category of 99.9%, others of 0.1% and the welfare category of 0.03%.



The financial category is comprised of equities, fixed incomes and alternative investments depending on the type of investment assets. It is classified into direct investment and commissioned investment by management method type. Such assets are managed by being categorized into domestic investment and overseas investment by investment target region. Fixed incomes assets among them take up KRW 292.2 trillion, which amounts to the biggest portion of 57.0% out of total followed by fund assets of 32.2%. In addition, the NPS manages alternative investment assets, whose scale has recently risen in a consistent manner to take up 10.7% of the total assets with the amount of KRW 54.7 trillion.

**Stable Management of the Fund** We strive to maximize the management of income under five fund management principles: profitability, stability, public goods, liquidity and independence in management. The fund management earnings reached KRW 21.7 trillion along with the return on investment of 4.6% throughout 2015.

#### Status of Asset Composition for the National Pension Fund

Based on the market value, Unit: KRW trillion, %, %p

Type	End of 2015 (A)		End of 2014 (B)		Variation (A-B)	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
Financial Assets	511.7	99.9	469.3	99.9	42.4	0.0
Equities	164.8	32.2	140.5	29.9	24.3	2.3
» Domestic	94.9	18.5	83.9	17.9	11.0	0.7
» Overseas	69.9	13.7	56.6	12.0	13.3	1.6
Fixed income	292.2	57.0	282.1	60.0	10.2	-3.0
» Domestic	270.3	52.8	260.5	55.5	9.7	-2.7
» Overseas	21.9	4.3	21.5	4.6	0.4	-0.3
Alternative Investment	54.7	10.7	46.7	9.9	8.0	0.7
» Domestic	22.3	4.4	22.2	4.7	0.1	-0.4
» Overseas	32.3	6.3	24.5	5.2	7.9	1.1
Welfare	0.1	0.03	0.1	0.03	0.01	0.0
Others	0.5	0.1	0.4	0.1	0.05	0.0
Total fund assets	512.3	100.0	469.8	100	42.5	-

Despite the expanded market volatility of home and abroad due to the sluggish economy of China, lower oil prices and the Federal Reserve raising interest rates, the fund was stably managed to the extent of outperforming the benchmark point. In alternative investments, the return on investment stood at 12.3% along with earnings of KRW 5.9 trillion, which contributed to raising the earnings rate of the fund. In overseas equities and fixed incomes, the return rates were 5.7% and 1.5%, respectively, while the domestic equities' and fixed incomes' recorded 1.7% and 4.3%, respectively. The return of investment for overseas assets is as high as 7.0% a year. The NPS manifested a stable performance by achieving the annualized average rate of return of 4.7% for the past five years and that of 5.5% for the past ten years over the medium and long term.

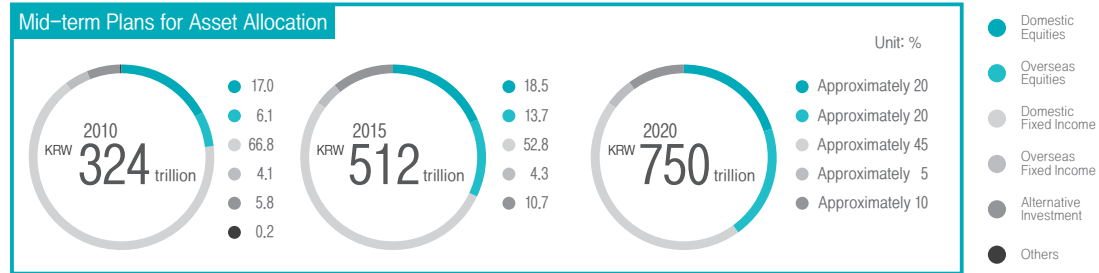
#### Achievement of fund management

Based on the market value, Unit: %, KRW trillion

	Rate of return in 2015	Average rate of return for 5 years (2011~2015)	Accumulated operating income (1988~2015)
Financial Assets	4.6	4.7	214.3
» Domestic Equities	1.7	-0.5	32.7
» Overseas Equities	5.7	7.5	15.5
» Domestic Fixed income	4.3	4.9	137.4
» Overseas Fixed income	1.5	5.5	8.7
» Alternative Investment	12.3	9.1	18.8
» The short-term fund	2.1	2.7	1.4
Welfare	-2.1	-1.0	0.6
Others	0.7	1.2	0.2
Total	4.6	4.7	234.2

Investment Diversification and Competitiveness Buildup

**Efforts for Investment Diversification** The NPS has diversified its investment for the past decade to raise the long-term return along with sustainability of the fund. The portion of fixed income assets taking up 87% of the fund as of 2005-end was reduced to the current level of 57%. The portion of alternative assets including real estate and infrastructure, and equity assets was expanded to 43% out of the total assets of the fund. The NPS has expanded its investment in high-yield assets throughout the world to generate a stable income, and is initiating the development and adoption of new management strategies for stronger profitability at a time when the global economy with low-growth and low-interest rate phenomena are prolonging.



**Expansion of Global Investment** The NPS is committed to raising the stability of its portfolios with diversified investment on the global stage, and expanding its new investment targets to include assets with diversified income and risk structures. The NPS is investing abroad KRW 124.2 trillion, that is, 24.2% of the total assets of the fund as of 2015-end. The overseas investment return as of 2015 stands at 7.0%, which is higher than the total return of the fund at 4.6%, and is driving the improvement of the returns throughout the fund. The NPS launched the Foreign Exchange Management Team and Overseas Infrastructure Team to expand the management capacity for overseas investment in 2015, and increased the number of personnel in overseas investment from 52 to 80. Moreover, the NPS opened Singapore office as its third overseas office in August 2015 following New York office in 2011 and London office in 2012. The new office will serve as a cornerstone to explore new investment opportunities throughout the Middle East and Australia. The NPS, meanwhile, recruited four local fund managers in New York and London offices.

**Scale and Composition of Overseas Investment Status by Year**

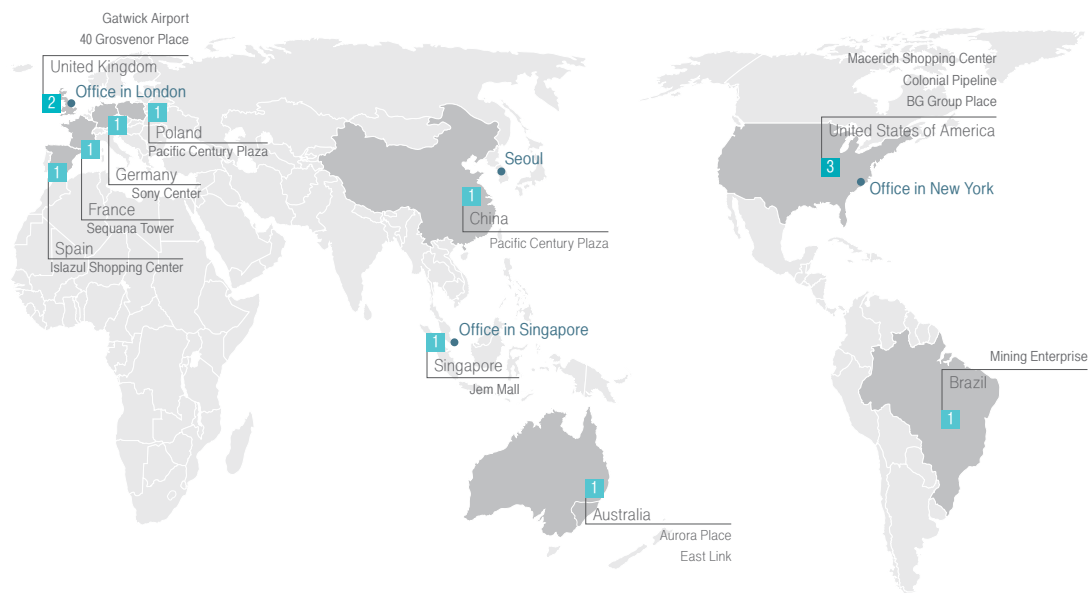
Unit: KRW trillion

Type	2011	2012	2013	2014	2015
Total amount of fund	348.9	392	427	469.8	512.3
Overseas investment (weight %)	45.9 (13.2)	64.1 (16.3)	82.6 (19.4)	102.6 (21.8)	124.1 (24.3)
Overseas investment					
Overseas equities	19.7	31.3	44.4	56.6	69.9
Overseas fixed Income	14.6	18.1	18.4	21.5	21.9
Overseas alternative	11.6	14.7	19.8	24.5	32.3

**Expansion of Investment in Overseas Equities** The investment asset in overseas equities held by the National Pension Fund stands at KRW 69.9 trillion as of 2015-end, taking up 13.7% of the entire fund assets. It is up 1.6%p from the previous year, and is expected to increase over 20% by 2020 in accordance with the mid-and long-term asset allocation plan. The portion of North America in the entire overseas equity portfolio is more than 50% to stand at 54.8%, but is below 1.9%p compared to the MSCI AC World Index ex Korea. By

contrast, the portion of Europe is up 0.5% compared to BM, taking up 23.8% within the overseas equity portfolio. The NPS is gradually expanding its investment in such emerging markets as Latin America and Africa as well as Asia. The NPS' overseas equities garnered the annualized average rate of return of 5.7% as of 2015-end. The annualized average rates of return in overseas equities for the past three and five years are as high as 11.9% and 7.5%, respectively, thus contributing to improving the entire return of the fund.

**Increases in the Rate of Return for Alternative Investments** The volume of the fund's asset in alternative investment is KRW 54.7 trillion as of 2015-end, up 17.2% from the previous year, taking up 10.7% of the fund's entire assets. Among alternative investments, real estate stands for the biggest portion of 38.8%. Approximately 60% of assets in the current alternative investments as of 2015-end are invested abroad. The investment return gained through alternative investments throughout 2015 has reached a tentative level of 12.3%. It significantly contributed to driving the entire returns for the fund with the return of 9.0% in domestic investments and 14.9% in overseas investments. The average returns for the past three and five years in alternative investments stand at 10.4% and 9.1%, respectively, which significantly outperform that of equities and bonds in the same period.



**> Managing Risks for Fund Management** **Risk Management System** The NPS accurately measures risks impacting the fund's finance – market risks, credit risks, liquidity risks, management risks and statutory risks – in managing and controlling them. Moreover, the NPS determined the annualized total risk exposure and risk exposure by asset type based on strategic asset allocation and allocation of active risks, and constantly monitors their implementation status. The NPS Fund Investment Office has the Risk Management Center as an exclusive unit for risk management within the organization, and runs the Risk Management Committee to more effectively manage overall risks associated with fund management. The NPS recruits compliance officers for them to independently handle internal control operations for fund management. Besides, multi-level audits take place from external auditors, the Board of Audit and Inspection and the National Assembly along with internal audits.

**Efforts to Sophisticate Risk Management by Stage** The NPS has established a risk management system for each stage – planning stage, policy implementation stage and monitoring stage – upon managing the fund with precision. In the planning stage, the risk management ceiling is determined at the Fund Management Committee upon devising mid- and long-term fund plans, and manages the shortfall risks\* within a 15% range. In the policy implementation stage, meanwhile, enterprise-wide risk management takes place by unifying the 16 risk management guidelines scattered by asset group. The NPS exclusively developed and manages the Crisis Perception Index to respond to actual crises, and establishes countering measures. The last stage of monitoring selects indicators based on four types and monitors them.

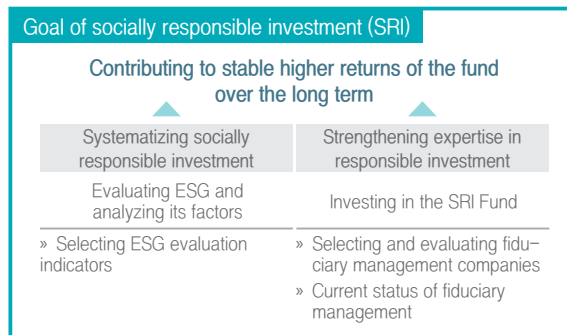
\* Shortfall risk: a probability the accumulated return of the next five years not exceeding the five-year accumulated inflation rate.

**Early Perception of Risks and Preemptive Responses** The NPS minimized crises through rapid responses to financial crisis situations including the recent concerns over Greece's default and China's sluggish economy. The NPS will further strengthen its efforts to rapidly perceive and respond to risks since uncertainties in the financial environment are increasing amid the global economic slowdown.

Breakout of Incidences		Countermeasures and Responses to Crises
Concerns over Greece default	Increases in the Crisis Index due to concerns over Greece default	<ul style="list-style-type: none"> <li>» Forming a taskforce (team director positions) (June 29) – a stage of crisis breakout</li> <li>Changing the Crisis Perception Index: 50.4 on June 26 (Fri) ► 66.0 on June 29 (Mon)</li> <li>» Devising asset group-specific response strategies by creating Scenario 1 and Scenario 2 depending on the concurrence of Greece default and Grexit</li> <li>Preemptive sell-off of Greek stocks 100% (early June, 2015)</li> </ul>
Concerns over the Chinese sluggish economy	Expansion of volatility in the financial market including the depreciation of yuan	<ul style="list-style-type: none"> <li>» Preemptive promotion of positions in a contingency task force of 'severe crisis stage' to division heads by comprehensively considering anxieties in the domestic and international markets (August 19)</li> <li>Changing the Crisis Perception Index: 71.9 on August 19 (Wed) ► 85.6 on August 20 (Thur)</li> <li>» Conservatively managing the fund by expanding the percentage of high-yield mid- and long-term bonds as well as national bonds of advanced economies, and reducing the portion of investment in emerging countries</li> </ul>
Concerns over higher	Occurrence of concerns over	<ul style="list-style-type: none"> <li>» Delaying additional implementation of funds in bonds in preparation against possibilities of higher market interest rates, and inducing gradual shrinkage in the portion of bonds (Investment Committee in July)</li> <li>Minimizing risks by delaying funds implementation in bonds despite the Fed's announcement of raising interest rates in July 2015</li> </ul>

➤ **Intensification of Public Roles of the Fund**

**Establishment of Infrastructure for Responsible Investment** As the weight of the national pension in the national economy is rapidly on the rise, there has emerged a higher demand for the NPS to exercise its voting right and make socially responsible investment as a public pension. The NPS has secured the applicant law for implementing responsible investment for the first time as a domestic pension fund managing institution. Moreover, the NPS has established an evaluation system for ESG (environment, society and governance) to comprehensively support decision-making related to responsible investment. The NPS also discloses the current status of responsible investment by adding it to





the items to be disclosed. The NPS has managed the SRI fund since 2006, and started to manage a virtual fund considering ESG components to expand responsible investment in 2015. The NPS manages the fund as a type of consignment management of domestic equities worth about KRW 6.85 trillion as of 2015.

**Voting Right Execution** Voting rights on equities held by the fund are exercised for the purpose of increasing shareholder values to benefit the insured and beneficiaries. Matters on the voting right execution and procedure, etc. are pursuant to the 'Guideline on the Exercise of the Voting Right for the National Pension Fund'. However, decisions with difficulties to reach an agreement at the NPS Fund Investment Office are passed onto the 'Special Committee on Voting Right Execution' to make decisions. The voting right was exercised on 2,836 agenda items in 2015, the consent rate was 89.6% along with the objection rate of 10.1% and the rate of neutrality and withdrawal at 0.3%.

#### Voting right execution

	Number of stock investment companies	Number of shareholders' meeting executed	Number of agenda executed	Records of voting right execution		
				Agree (%)	Disagree (%)	Neutrality and abstention (%)
2015	791	749	2,836	89.6	10.1	0.3
2014	767	735	2,775	90.8	9.0	0.2
2013	712	645	2,601	89.2	10.8	0.04

**Disclosure Information of the National Pension Fund** The NPS transparently discloses information on fund management for the insured, beneficiaries and other stakeholders to be easily aware of the management status and directions of the fund. The head of the Fund Management Committee discloses the following according to Article 107-4 of the National Pension Act and Article 87 of its Enforcement Decree: fund management guidelines, fund management plans, fund management regulations, financial statements, status and yield of portfolio management, records of consignment management, records of investment items and the records of voting right execution. Information on fund management is available on the NPS website (fund.nps.or.kr) and the website of the Ministry of Health and Welfare (www.mohw.go.kr).

Breakout of Incidences	Countermeasures and Responses to Crises
Fund Management Guideline and related regulations	» National Pension Fund Management Guideline, fund management plans, and fund management regulations, etc. (routinely)
Results of the Fund Management Committee meetings	» Results of the National Pension Fund Management Committee meetings (pursuant to the notification results of the chairman of the Committee)
Management status and performance, etc.	» Current status of the fund portfolio composition (monthly/yearly) » Current status of revenues/expenditures/reserves and financial statements (monthly/yearly) » Current status of revenues and the return on investment (monthly/yearly)
Specific records and institutions in transactions	» Portfolio compositions, investment items and fiduciary funds for securities (yearly) » Current status of fiduciary management companies and securities companies in transactions, selection criteria (quarterly)
Other legal matters	» Records on the voting right execution, and records of block ownership pursuant to the Capital Market and Financial Investment Business Act

\* Disclosure of matters related to the national pension fund management is pursuant to the National Pension Fund Management Guideline and related regulations prescribed by the National Pension Fund Management Committee.

# What kinds of service are provided for a stable old age preparation and welfare for the disabled?



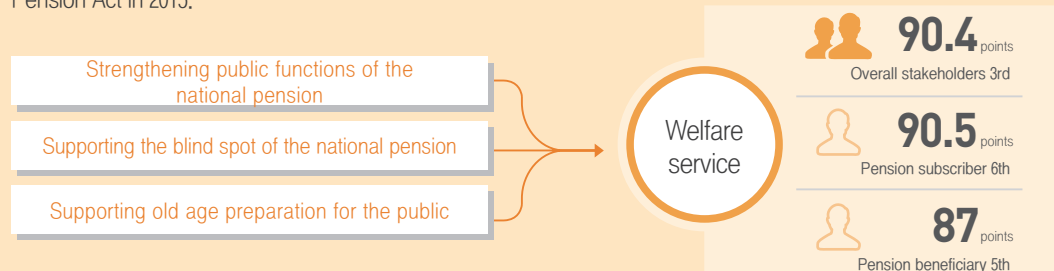
"Although the national pension is a pension for old age guarantee, I hope that the NPS could make proactive responses to national welfare issues on the disabled and social issues which are difficult for the private sector to address over the long term."

Park Yu-jin (24), university student

# Why

Why is the welfare service critical in sustainability of the national pension?

According to the OECD statistics, the percentage of the elderly aged 65 or higher is 13.1% in Korea. It implies that Korea is lagging behind others in old age preparation given its high aging speed where the comparative poverty rate of the elderly is 49.6%, which is about four times higher than the OECD average of 12.6%. With the issues of aging and poverty among the elderly have aggravated, the importance and roles of the national pension to guarantee old age income for the public have increased more than ever before. Its importance is getting even higher as the NPS has become solely responsible for tasks on old age preparation amid the revisions of the National Pension Act in 2015.



# What

What efforts are poured in by the NPS for the welfare service?

In order to implement welfare services arousing citizen empathy, the NPS is striving for 'intensifying the system to support old age preparation for the whole public', 'enriching welfare services for the disabled' and 'strengthening tailored welfare services for the underprivileged'. The NPS systematically manages business execution with the Central Old Age Preparation Support Center at the headquarters with the passing of the Act of Old Age Preparation Support. The NPS also runs 107 branches as the Local Old Age Preparation Support Centers to provide such services nationwide. Old age preparation training has been provided to 2.39 million along with counseling for 560,000 people by the first half of 2016. Moreover, the NPS has rationally improved the criteria for a disability review to enrich its welfare services for the disabled, and improves the scheme for the disabled to enjoy higher benefits in the review process.

# How

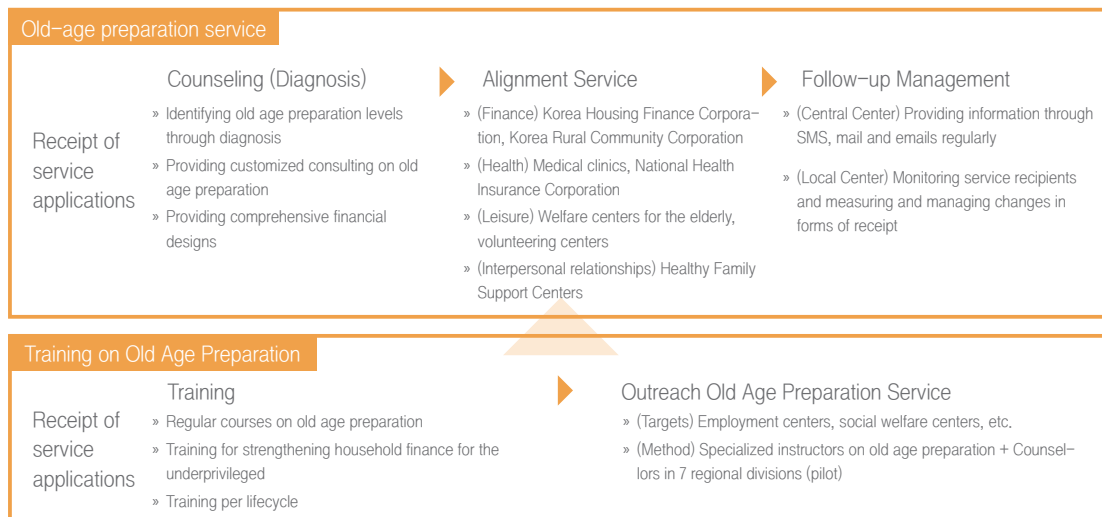
Stakeholder opinions are reflected in corporate management

Stakeholder	Opinions	Reflected in management	Page
Government policy	» Strengthening roles of public institutions in the aging society	» Strengthening the system for supporting old age preparation for the public pursuant to the legislation of the Old Age Preparation Act	38
	» Intensifying empowerment of the rights for the disabled	» When prior review for the same disability takes place, post review is used to determine disabilities based on the results of prior review.	39
VOC of beneficiary	» Revising the ceiling upwards for the contingency fund for old age recipients	» Raising the loan ceiling from KRW 5 million to 7.5 million, and making improvement to set a grace period for 1~2 years	-
VOC of the disabled	» The preparation procedure to receive benefits including the disability pension benefits and disability registration being excessively complicated	» Implementing an extremely convenient disability review application procedure, and directly securing review data for conveniences of the disabled, and facilitating relevant services	39
National pension advisors	» Providing services aligned with community welfare resources for old age preparation service	» Upon receiving applications for old age preparation services, diagnosing old age preparation levels in different sectors including finance, counseling on them and conducting alignment services	38
National policy task	» Providing disability review services catering to disability needs	» Rationally improving disability review criteria	39

➤ **Initiation of Stable Old Age Preparation Services**

**Establishment of a System for an Old Age Service Delivery System for All Citizens** The 'Act of Old Age Preparation Support' which was formulated (June 22, 2015) and enacted (December 23, 2015) stipulates that mid- and long-term basic plans on old age preparation support are to be established in each ministry, and the NPS is to be exclusively in charge of the operations. Against this backdrop, the NPS set a legal stage for providing systematic life plans targeting all citizens. The Old Age Preparation Promotion Group was launched to support the stipulation of enforcement rules and development content for it. The Central Old Age Preparation Support Center was launched after the enactment, specifying operations into the Old Age Preparation Promotion Division (business planning), the Old Age Preparation Management Division (business management), and the Old Age Preparation Development Division (content and system development). In order to provide nationwide old age preparation services, 107 branches were designated as Local Old Age Preparation Support Centers, and Happy Retirement Plan Center was launched as the exclusive division.

**Quality Improvement of Old Age Preparation Services** The NPS has provided old age preparation diagnosis, counseling and training services for the first time in the public sector since 2008. The NPS has conducted old age preparation training to 2.39 million people along with one-on-one counseling for 560,000 people by the first half of 2016. As a result, the 'Citizens' Perception of Old Age Preparation' surveyed by KMAC stood at 92.8 points in 2015, up 11.3 points in 2012. The NPS was selected as a representative brand in the category of 'old age welfare services' in Korea Master Brand Award in 2015 and 2016 (for two consecutive years). The NPS has run 'My Pension (csa.nps.or.kr)' site since 2009, which is used by about 3 million. It allows users to check their national pension benefits, and provides them with self-old age diagnosis, financial diagnosis and my old age preparation information, etc. The "Public-Private Pension Information Linkage Portal Service" has been added to 'My Pension' (csa.nps.or.kr) since April 1, 2016. It enables individual citizens to take a glimpse at the national pension information and personal pension and retirement pension information.



**Intensification of Expertise in Management** The NPS has nurtured specialists by running a course for old age preparation counselors from 2006 for more specialized services. At the NPS, 70.5% of the employees have acquired licenses in comprehensive old age plan, old age income and old age living.

> **Substantiation of Welfare Services for the Disabled**

**Rational Improvement of the Disability Review Standard** The disability recognition standard was eased in July 2016 to improve unreasonable cases where the disabled are not eligible to receive the disability pension benefits although they have no capability of working because their disability grade is not recognized. Mental disabilities resulting from brain damage due to physical shock show a similar level of loss in labor capabilities and damage in a daily life with the existing psychological diseases, but they are not recognized as disabilities. As such, people such mental disabilities have not been registered as the disabled. To solve the problem of equity, the NPS is reviewing the disability recognition standard.

**Conveniences for the Disabled During a Disability Review** The NPS improved a procedure for a disability review through legal revisions so that the NPS could get necessary documents directly issued to it and review them by removing a process of the submission of the letter of authorization and a copy of an ID card. The objective was to ease the inconvenience of the disabled that are immobile having to visit two or three medical clinics or hospitals to receive a disability review. This reduced the cost of issuance worth KRW 790 million for review documents for 74,000 people with disabilities, and the social cost of approximately 10.6 billion was saved by easing the inconvenience from the document issuance. Furthermore, the burden of paying the medical certificate issuance cost of KRW 33 million was saved for 1,088 people a year.

**Substantiation of Projects for the Disabled** The NPS provides services for activity support including daily activities such as eating or washing one's face and assistance for outing for the disabled that find it difficult to perform daily or social activities by themselves. Application targets were expanded from Grade 1 through Grade 3, so as of June-end, 2016, 76,122 beneficiaries were selected. Beneficiaries receive the activity assistance service, home-visit bathing and home-visit nursing service from the NPS. Moreover, diverse public and private welfare resources are aligned to provide one-stop services by identifying individual needs from the disability registration stage.

		
<p><b>Activity Assistance Service</b></p>	<p><b>Home-Visit Bath Service</b></p>	<p><b>Home-Visit Nursing Service</b></p>
<p>Activity assistants who visit houses of the disabled to help them with physical activities or household chores, and movement</p>	<p>Conducting bathing services by care workers using such equipment as bathing vehicles</p>	<p>Providing on-site services by nurses including caregiving, treatment assistance and mouth hygiene</p>

**Work Capability Assessment for Basic Livelihood Security Recipients** The work capability assessment scheme for basic livelihood security recipients was adopted in order to seek for self-sufficiency and rehabilitation of the impoverished by providing adequate services based on objective assessment for work capabilities of such recipients. The NPS eased the regional discrepancy in the work inability ratio by revising the assessment guideline and the work manual. The appeal application rate was lowered from 12.6% in 2013 to 7.4% in 2015 based on fair assessment.



# Is the NPS proactively engaged in solving social issues for win-win growth with community?



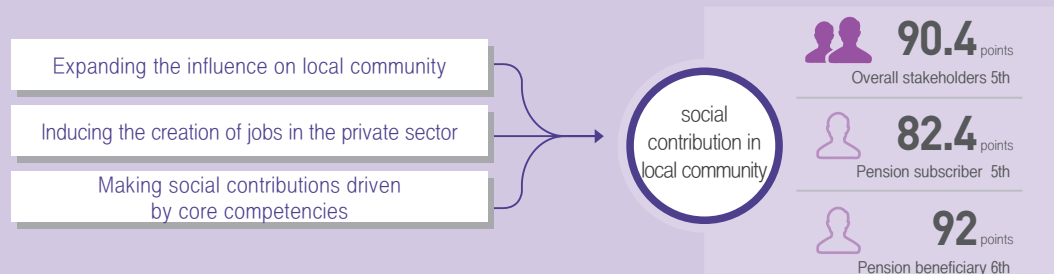
"As the NPS was relocated to the Innovation City of Jeonju last year, our community pins huge expectations on it. It is hoped that the NPS could not only focus on the economic development of our community but also play social roles of looking at the underprivileged with care and solving community issues."

Baek Mi-gyeong (48), a Resident of the Innovation City of Jeonju

# Why

Why is the social contribution in local community critical in sustainability of the national pension?

The NPS holds a strong influence on community as a public organization taking the responsibilities for the elderly life of citizens. While private companies contribute to the society driven by their cost and personnel, the NPS exerts an indirect and broad influence by forging ties with community, partners and the government. Therefore, it is critical for the NPS to take an interest in its social responsibilities and strive for win-win growth with community, job creation in the private sector and social contribution, etc.



# What

What efforts are poured in by the NPS for the social contribution in local community?

The NPS is dynamically involved in community activities for job creation in the private sector, social contribution, leveraging core competencies and win-win growth with community. The NPS Cafe 36.5 Cooperative as the NPS' representative social contribution activity is generating the economic performance of approximately KRW 460 million, as well as the social value in creating jobs for the underprivileged including the elderly and the disabled in the perspective of Creating Shared Value (CSV). The NPS newly created 1,563 private jobs a year through private consignment, order placement for investment projects and private partnerships.

# How

Stakeholder opinions are reflected in corporate management

Stakeholder	Opinions	Reflected in management	Page
Government policy	» A need to facilitate the local economy	» Devising measures to facilitate traditional markets, and recruit talents in socio-equitable manner	42
	» Participation in projects for sharing economic development	» Transferring the pension scheme to less developed countries	44
Local community	» Demanding actions for social responsibilities as a public institution through support for the underprivileged	» Continuously expanding exchanges of sisterhood ties including the One Company One Village campaign » Strengthening charity work by aligning with welfare facilities	44
Management evaluation panel	» Devising incentivizing policies to motivate participants in social contribution	» Implementing incentivizing policies including the Social Contribution Award of the NPS	43
	» Seeking for measures to increase institutional performance through social contribution	» Initiating social contribution programs aligned with business	
Government	» Job creation in the private sector	» Creating jobs through fiduciary management of the fund » Creating new jobs in the private sectors by expanding outsourcing in non-core areas	42, 43
Employees	» A need to boost understanding of social contribution of employees	» Launching 'Funation', an interactive communication channel for social contribution	-





**> Efforts for Win-Win Growth with Community** **NPS Cafe 36.5, Creating Jobs for the Underprivileged** The NPS established the NPS Cafe 36.5 Cooperative in 2011 to create jobs for the socially underprivileged including basic livelihood security recipients and married immigrant women, and spread the culture of donation. The NPS Cafe 36.5 is a cafe built on the image of 'a world as heart-warming as the human temperature (36.5 degrees) that sells coffee with a loving attitude 365 days a year'. The cafe sells coffee at lower prices compared to large franchises, uses fair-trade coffee beans produced in Vietnam and Nepal, etc., and donates 50% of its revenues to those in need in community. The NPS leases the 1F lobby in each of its building to the cooperative consisting of the underprivileged free of charge, supporting the cafe management.



**Contribution to the Regional Economy by Facilitating Traditional Markets** The NPS contributes to facilitating traditional markets and developing the regional economy by spreading success experiences and know-how gained from Mangwon Market in Seoul to New Jungang Market in Jeonju. The NPS' shopping and delivery service called 'Don't Worry Kim Daeri' which began in Mangwon Market has been initiated in New Jungang Market in Jeonju, aiming to expand shopping delivery services to companies beyond citizens. The NPS strived for the program to focus on customized product development and promotion. As a consequence, average monthly sales volume increased by 10.4 times at the call center of New Jungang Market after the relocation, while inducing the participation of other relocating institutions, thus revitalizing community.



> **Creation of Jobs in Private Sector**

**Job Creation through the National Pension Fund** The NPS created private outsourcing jobs for 297 individuals through expanded outsourcing in private asset management companies, 3,128 individuals for investment in funds specialized in job creation and 85 individuals for SOC investment hugely contributing to job creation. The NPS newly created jobs for 3,213 individuals through order placement in investment projects.

**Job Creation through Non-Core Operation Outsourcing and Facility Investment** The NPS is expanding outsourcing in non-core operations which can be outsourced to create jobs in the private sector. Targets of outsourcing are the 1355 Call Center, IT outsourcing, resort management and facility management. The 1355 Call Center which is in operation by outsourcing phone-based counseling operations on the national pension maintains a low turnover rate of 3.2% compared to its competitors thanks to improvement in working conditions. The number of outsourced personnel increased by 96 to 1,120 compared to the previous year, creating jobs for 406 people through outsourcing of facility investment projects.

Unit: number of employees

Type	Total	private consignment	Order placement for investment projects	private partnerships
Regular	6,068	1,025	3,480	1,563
Non-Regular	531	392	139	0
Total	6,599	1,417	3,619	1,563

**Job Creation through Private Partnership** The NPS created social jobs for 25 people by leveraging its resources and competencies: providing its office space free of charge and extending management support, transferring skills on training know-how, utilizing waste resources of the NPS and facilitating traditional markets. The NPS indirectly created 1,563 jobs in total by co-organizing job fairs.

> **Social Contribution Using Core Competencies**

**Establishment of the Social Contribution Strategy System** The NPS contributes to a happy life for the public by establishing a system for social contribution strategies suited to its purpose of foundation and the nature of its business. The NPS is committed to implementing government policies as a public institution by providing comprehensive welfare services including old age preparation services and services for the disabled.

Slogan	A happy community and a warm-hearted society		
Strategy	Strengthening support for self-sufficiency per lifecycle and customer aligned with the business	Initiating social contribution activities by leveraging core competencies	Spreading the culture of sharing
Missions	» Strengthening pension recipient rights	» Overseas social contribution activities	» Facilitating communication with members
	» Supporting stable living of recipients	» Community exchange activities	» Conducting activities for spreading the culture
	» Raising commitment for self-sufficiency of the disabled	» Activities with customer engagement	

**'Love Plus for Subscribers'** The NPS supports low-income subscribers who cannot acquire the pension recipient rights due to their failure to pay premiums. Pension premiums of about KRW 67 million were paid to 167 subscribers in 2015, and 82 of them acquired pension recipient rights. The NPS paid premiums of about KRW 700 million on the behalf of 401 subscribers by 2015. Moreover, the NPS sponsors Didim Siat Bankbook

(Seed Bankbook) for self-sufficiency in livelihood for underprivileged children who receive pension benefits for the bereaved. The NPS also supports pension premiums and childcare services for single parents.

**'Love Plus for Beneficiaries'** The NPS extended KRW 340 million to 705 basic recipient children who receive pension benefits for the bereaved to help self-sufficiency of the underprivileged. Since 2007, Heart-to-heart social volunteering activities are performed including supply of goods, chitchatting and clean-up for low-income beneficiaries living alone in alignment with the survey to identify recipient rights. Through a program titled the Love Connecting for the Elderly Living Alone, operators at the call center make regular phone calls to elders who live alone to engage in heart-to-heart phone conversations on their pressing issues. Emotional support was offered through 18,023 calls (21.3 times per individual).

**'Love Plus for the Disabled'** The NPS supports rehabilitation treatment fees for raising the willingness of the disabled to overcome their disability by launching the 'Happy Together Fund' for rehabilitation support for disabled children through the One-Person One-Sharing Account. The NPS runs Eo-gge Dongmu (shoulder-to-shoulder friendship) Volunteering Group where the disabled take care of the disabled with more severe symptoms. The NPS organized empathy-based trips for the disabled for 64 times by 2015, providing various opportunities for social engagement including outdoor camps and experiential trips for the disabled who cannot afford trips physically or economically.



**'Love Plus for Community'** The NPS continues to initiate voluntary charity work in each division on sites to make our community healthier and happier through dynamic exchanges with the region, opening a marketplace for direct transactions of local specialties, improving the environment, and engaging in local events.



**'Love Plus for Overseas'** The NPS is taking the lead in overseas volunteering while transferring the national pension scheme to Cambodia and Mongolia, befitting the scale of the world's third largest pension. The NPS transferred the national pension scheme first in Vietnam in 2013, and then in Cambodia in 2014 and Mongolia in 2015. The NPS is helping families in multicultural households who could not afford to visit their hometown to spend a happy time with their family.



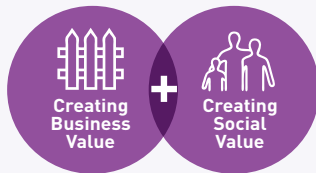


## CSV Activities of the NPS

**CSR and the Management Environment of the NPS** The way companies and institutions contribute to the society might vary significantly depending on the nature of their industry and business. However, the concept of CSR is commonly applied whereby companies return what they have gained from the society. For the NPS, it is surely critical to make social contribution as a public organization through donation and charity work. Yet, it is inevitably with limitations in increasing its budget for social contribution and donation as an institution operated by income through the management of pension benefits for the public.

**System for CSV Strategies** Activities to create shared values in pursuit of economic and social benefits by creating social values where business opportunities of companies and community needs meet have become new growth engines for companies and community. The NPS judged that CSV is a core component of its activities of social responsibilities in that values can be created for both the NPS and community by leveraging its influence. Accordingly, the NPS proceeds with representative projects that play exemplary roles in a public institution by developing CSV-exclusive units and proprietary models, and has generated favorable results.

**Representative Projects and Major Performance of CSV** In order to support economic self-sufficiency of the underprivileged, the NPS has launched the NPS Cafe 36.5, which has been up and running since 2011. A specific amount of space in the NPS' buildings is provided free of charge to the cooperative for the cafe. It consists of the socially underprivileged to donate a part of the sales income (50%) as the NPS' social enterprise supporting project to contribute to the cooperative members' income guarantee and creation of jobs in community. Starting with Jamsil Branch as the first one in October 2011, the cafe has been expanded to include Daegu Branch (second) in July 2013, Gangnam Branch (third) in June 2014, Busan Branch (fourth) in April 2015 and Jeonju Branch (fifth) in June 2015.



Through CSV efforts to enhance the NPS' scheme and reliability,

- 1 The underprivileged will have jobs along with a higher income.
- 2 Over 50% of the revenues are donated to local community.
- 3 Customers are psychologically satisfied for making meaningful consumption with a favorable intent, drinking delicious coffee at an affordable price.
- 4 Democratic decision-making and viability of the underprivileged are enhanced by forming and operating cooperatives.

# Appendix

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# Economic

## Statement of Financial Position

Unit: KRW million

FY	2013	2014	2015
Current assets	187,629	171,750	200,503
Non-current assets	674,159	745,486	803,524
<b>Total assets</b>	<b>861,788</b>	<b>917,236</b>	<b>1,004,027</b>
Current liabilities	124,340	84,759	95,120
Non-current liabilities	840,971	928,818	999,854
<b>Total liabilities</b>	<b>965,311</b>	<b>1,013,577</b>	<b>1,094,974</b>
Deficit	-99,513	-95,224	-89,897
Other components of earnings	-4,010	-1,116	-1,050
Total Equity	-103,523	-96,340	-90,947
Liabilities and Total Equity	861,788	917,236	1,004,027

## Comprehensive Income Statement

Unit: KRW million

FY	2013	2014	2015
Operating revenue	13,637,200	14,333,688	15,769,090
Operating expense	13,609,422	14,307,536	15,745,007
Operating income	27,778	26,152	24,083
Other income	-	-	113
Other expense	3,007	3,599	3,725
Other gains and losses	-18,080	-22,457	-20,137
Finance income	5,158	5,655	4,859
Finance expense	1,095	1,110	628
Profit before income tax	10,754	4,641	4,565
Corporate tax	-	-	-
Net profit for the term	10,754	4,641	4,565
Other inclusive gains and losses (after tax)	1,325	2,893	66
Total inclusive gains and losses	12,079	7,534	4,631

## Economic Value Distribution

Unit: KRW million

Type	2015
Customer (Pension payment)	15,184,010
Employees (Wage, severance pay, benefits)	371,723
Government (Taxes & dues)	28,609
Local community (Social contribution expense)	860
Suppliers (Purchase from SMEs)	98,540

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# Society

## Track Records of the Board of Directors

No.	Date	Agenda	Attendance Rate
1	2015.1.27	5 agenda in addition to the 2014 business management plan (draft)	90.9
2	2015.2.24	2 agenda in addition to the 2014 fiscal year closing for the NPS (draft)	100
3	2015.3.24	2 agenda in addition to partial revision (draft) of regulations on the management of collection of pension premiums of the national pension, etc.	100
4	2015.4.28	3 agenda in addition to the reporting of unemployment credits	91.6
5	2015.5.12	Some revisions for regulations on the organizational title (draft)	100
6	2015.5.19	2 agenda in addition to some revisions for the Articles of Incorporation (draft)	100
7	2015.7.28	1 agenda in addition to the second supplementary budget for 2015 (draft)	100
8	2015.8.25	2 agenda in addition to formulation of regulations on the additional calculation of the subscription period for unemployment (draft)	100
9	2015.9.22	2 agenda in addition to the regulations on partial revision of Regulations on the Management of Rules and Regulations (draft)	100
10	2015.10.19	2 agenda in addition to the NPS' mid-term management goals (draft)	91.6
11	2015.11.02	1 agenda in addition to some revisions for the personnel appointment regulations (draft)	81.8
12	2015.11.03	Composition of the Executive Recommendation Committee (draft)	100
13	2015.11.24	5 agenda in addition to the CEO's management performance agreement (draft)	100
14	2015.12.22	3 agenda in addition to some revisions for regulations on the organizational title (draft)	100
15	2015.12.28	Partial revision of wage regulations (draft)	100

## Scope of Subscribing to the Labor Union and its Targets

The NPS operates the rational collective agreement and employment rules (appointment, disciplines, etc.) in compliance with the Labor Relations Act and other related acts and government regulations. The eligible ones are those prescribed by the provisions of the labor union as employees of the NPS. However, employees in Grade 2 and above, higher-ranks among Grade 3 employees, general manager positions in Grade 3 (including heads of centers), and employees in Grade 3 involved in personnel appointment, wage and welfare benefits, those involved in labor affairs, audit (those accessing audit information), secretaries and drivers shall be disqualified during the period of their service. As of July 2016, 3,917 eligible employees (96.5%) are subscribed to the labor union.

## Efforts to Protect Employee Rights

The NPS runs the Grievance Committee consisting of one person each from the labor and the management to efficiently handle grievances about the working environment. Employees' grievances are gathered through the Labor-Management Council meetings which are held four times a year. Employee grievances are handled at the NPS in accordance with the 'the Act on the Promotion of Workers' Participation and Cooperation' and the 'Regulations on the Management of the Labor-Management Council'. The numbers of cases handled were 259 in 2012 (69.5%), 183 in 2013 (74.9%), 203 in 2014 (59.1%) and 263 in 2015 (55.9%). The NPS runs an effective grievance counseling organization by coming up with grievance receipt channels – a channel for applying for the management information system, and the internal messenger & e-payment – and designing grievance counselors per department (branch). Grievances on sexual harassment are systematically managed by additionally running the Gender Equality-Based Grievance Review Committee.

## Employee Status

The NPS's ideal employees are 'specialists in pension and welfare who create a happy future with passion and belief.' We do our utmost to create a corporate culture which allows employees to work with joy and passion based on this belief. To this end, we respect the diversity of our employees, and operate a talent recruitment process excluding such discriminating factors as gender, disability, and academic background. The number of employees at the NPS stood at 5,049.5 as of the end of 2015. By gender, men amounted to 2,826, that is, 56.0%; women numbered 2,223.5, taking up 44.0%. The portion of women managers in team leader positions and above took up 17.06%, up 2.16%p from the previous year. The employment rate of the disabled was 3.7%, which exceeds the 3.0% threshold set by the government.

Unit: number of employees

Type	2013	2014	2015
Quota (including 5 executives)	4,786	5,149	5,230
Actual number of employees (excluding an additional quota such as those on childcare leave, etc.)	4,709.5	4,992.5	5,044.5
Regular employees	4,709.5	4,992.5	5,044.5
Employees under indefinite term contracts	2	7	6
Non-regular employees	605	454	170
Indirect employment	655	673	706
Women managers	129	145	172
The disabled	225	208	195
New regular employees			
Total	226	422	206
Women	140	259	96
The disabled	4	2	2.5
Local talents (non-metropolitan area)	96	243	80
High school graduates <sup>1</sup>	53	18	26
Specialized high schools	38	-	-
Science & engineering majors	66	163	84.5
Non-regular employees			
Total	1,307	1,411	1,076
Interns	269	435	130
Counsellors	908	616	578
Exclusively in charge of consignment tasks	130	360	368
Honorary retirees <sup>2</sup>	19	59	49

<sup>1</sup> In 2015, the portion of recruiting job categories (review, social welfare, fund management, researcher, etc.) which is difficult for high school graduates to apply for went up, so the recruitment record for high school graduates is low. <sup>2</sup> Since the post-retirement career of retirees is not tracked, so there is no data on employee turnovers.

## Facilitation of Flexible Work Programs

The NPS expands the flexible work program to support women's continued social activities and prevent the turnover of specialized personnel for fund management and IT, etc. resulting from the relocation of the headquarters to the local region. The NPS currently runs such programs as short-time work, customized work and flexible working time. Despite the quantitative increase, the utilization rate is still low at 7%. The NPS has adopted various flexible work programs, introducing smart work which reduces the time for travel and cost and increase job efficiency and intensive work system, easing application conditions for

Unit: number of employees

Type	Records of 2014	Records of 2015	
Part-time work system	Recruited	28	12
	Converted	59	87
Flexible work system	Flex-time work	713	2,066
	Intensive work	-	74



## Support for childbirth and childcare

Unit: number of employees

Childbirth leave prior and post to giving multiple births (120 days for multiple gestation)	–
Hours of maternal protection (reducing two working hours a day for the pregnant of less than 12 weeks and over 36 weeks)	112
Infertility leave (one day each for infertility treatment and egg retrieval)	13
Childcare leave for men (maximum three years)	15
Childbirth leave for one's spouse (five paid days)	76
Infant childcare leave (once a month for childcare of infants less than three years old)	187
Fetus check-up leave (once a month during pregnancy)	140

## Hours of employee training and satisfaction with training

Type	2014	2015	Variation
Number of training participants	63,603	62,392	1,211 ↓
Average training hour per employee	82.2	82.32	0.11 ↑
Satisfaction level of training (point)	4.52	4.64	0.12 ↑

## Support for the Growth of Small-and Medium-sized Partner Companies

The NPS fulfills win-win effects where small-sized partner companies are incentivized through performance sharing and the NPS' performance is provided to them. The NPS Call Center provides performance-based pay when it is selected as an excellent call center, Cheong Pung Resort offers performance-based pay depending on its operating margin and the NPS provides performance-based pay for IT outsourcing based on the level of service contracts. As a consequence, the NPS Call Center was ranked first in the service category of Korea Management Association, and Cheong Pung Resort enjoyed 193% higher room revenues year to year. For IT outsourcing, the levels of service and satisfaction improved, so the NPS' performance-based pay could also bring up the growth of IT outsourcing companies.

## Endeavors for Establishing Fair Partnerships

The NPS strives to contribute to the liquidity of partner companies through stable payment of proceeds for its partner companies. The NPS paid advance payment 100% for 20 cases of advance payment applications. Subcontracting debit payment was carried out 100% for partner companies that applied for it. The NPS won the prime ministerial commendation at the 2015 Public Procurement Promotion Contest for having its efforts for expanding its participation in public procurement from SMEs.

Type		2013	2014	2015
Records of purchasing products from SMEs	Total amount of purchasing SME products (A) (KRW billion)	75	105	99
	The budget for total purchase (B) (KRW billion)	96	129	120
	A / B (%) Recommended ratio 50%	77.9	81.7	82.46
Performance in financial support	Number of advance payment (ratio)	23(100%)	16(100%)	20(100%)
	Number of payment of subcontracting price (ratio)	99(100%)	37(100%)	16(100%)
	Total amount of support for overseas advancement (KRW billion) SME Cooperation Fund	430	540	540
	Investment in SMEs (KRW billion) Investment in venture funds and small and mid-cap funds	5,900	5,936	6,138

## Initiation of Shared Growth through Competency

The NPS adopted the preliminary management company scheme in 2012 to ease entry barriers into the fund investment market, and supports excellent domestic management companies to advance abroad. A total of 22 preliminary management companies manage

a fund of KRW 750.4 billion, and small- and medium-sized asset management companies have accumulated their investment experiences, promoting four preliminary ones to regular management companies in 2015. The NPS organized the International Conference on Fund Management participated by 194 institutions, supporting excellent domestic management companies to seek for possibilities of overseas advancement by producing and distributing promotional brochures on such companies\* to the conference attendees. The NPS also contributes to higher liquidity of related companies by expanding its investment volume in investment funds of venture capitals and small and mid-cap funds. The NPS' investment volume stands at KRW 6.3 trillion as of 2015-end.

### Boosting Responsible Investment Capabilities

The NPS formulated an applicable law on responsible investment for the first time as a pension fund management institution, and established relevant infrastructure. It revised Article 102.4 of the National Pension Act (formulating a provision on responsible investment) by listening to stakeholder opinions and persuading legislative institutions, thus strengthening its capabilities to implement responsible investment. The NPS also launched the ESG (environment, society and governance) evaluation system, which comprehensively supports decision-making in responsible investment, while expressing its commitment for shared growth throughout the industry as the largest shareholder by leveraging 'shared growth' as evaluation data for ESG issues.

## Environment

### Efforts to Reduce GHG Emission

The NPS determined emission thresholds, and set and executes implementation goals for achieving the GHG reduction target (over 30% by 2020) each year in accordance with GHG and energy target management policies in the public sector. The NPS established a system for managing the GHG emission performance in 2011, inspecting and managing emission levels in all its branches and office buildings. The existing lighting was replaced with LED to reduce GHG emissions, exceeding the penetration target by 60%. The NPS also ensures that compact cars and eco-friendly cars could be procured preferentially upon procuring or renting vehicles for business purposes so that the annual procurement rate of such vehicles could surpass 50%. Energy saving guards are designated in each office building of the NPS to practice energy saving through controlling cooling and heating temperatures and the use of lighting. For new buildings, new and renewable energy equipment and LED lighting are installed 100%. As such, the NPS is engaged in various efforts to reduce GHG emissions and energy consumption.

Type	2013	2014	2015
Emission standard	9,094	9,649	5,625*
Volume of greenhouse gas emissions	7,036	7,833	4,008
Reduction in greenhouse gas emissions (%)	23.0	18.8	28.7

Unit: tCO<sub>2</sub>e

\* For the 2015 data, the data on the headquarters' relocation to a local region (headquarters and Jamsil) and new buildings (Gongju, Jinan, Sacheon and Dongnae) are excluded from evaluation.

### Other environmental data

Type	2013	2014	2015
Energy use (TOE)	3,178	3,122	3,333
Water use (Ton)	58,014	61,947	57,578
Volume of waste treated (Ton)	763	673	311

\* For waste emissions, the portion of waste has been set at 0.3 since 2015, dramatically reducing emissions.


# Memberships & Principles

## Associations and Memberships

Korean Social Security Association	Korea Insurance Research Institute
Social Service Network	Korea Employers Federation
Korean Academy of Social Welfare	PPI (Pacic Pension Institute)
Korean Association of Public Finance	Korean Association for Survey Research
Korea Development Institute	IPC (International Pensions Conference)
Korean Association of Social Welfare Policy	Korean Economic Association
Russell 20-20 (20-20 Investment Association)	Seoul Economist Club
Korean Labor Economic Association	Korea Institutional Finance Association
Korea Labor Institute	Korean Pension Association


## Support and Principles

**UN Global Compact** With the recognition of social responsibility, the National Pension Service signed up the 'UN Global Compact', an international agreement on corporate social responsibility under a UN scheme, in October 2012. Now NPS is in compliance with the UNGC's ten principles in the four areas of human rights, labor, the environment and anti-corruption..

	<b>Human Rights</b>	Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and Principle 2: Make sure that they are not complicit in human right abuses.
	<b>Labour</b>	Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
		Principle 4: The elimination of all forms of forced and compulsory labour;
		Principle 5: The effective abolition of child labour; and
		Principle 6: The elimination of discrimination in respect of employment and occupation.
	<b>Environment</b>	Principle 7: Businesses should support a precautionary approach to environmental challenges;
		Principle 8: Undertake initiatives to promote greater environmental responsibility;
		Principle 9: Encourage the development and diffusion of environmentally friendly technologies.
	<b>Anti-Corruption</b>	Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery

## PRI

With obtaining membership of the UN PRI (Principles for Responsible Investment) in 2009, NPS is in line with six principles for responsible investment of the United Nations.

	Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
	Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
	Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
	Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
	Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
	Principle 6: We will each report on our activities and progress toward implementing the Principles.

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# Third Party's Assurance Statement

To the Readers of NPS Social Responsibility Management Report 2016:

## Responsibility and Independence

Korea Management Association Registration Inc. (hereinafter 'KMAR') has been requested to verify the contents of NPS Social Responsibility Management Report 2016 (hereinafter 'the Report'). KMAR's responsibility is to carry out assurance engagement on the Report and NPS is responsible for the information included in the Report. KMAR is not involved in any other NPS' business operations that are aimed at making profit in order to avoid any conflicts of interest and to maintain independence.

## Verification Methodology

The verification has been conducted as limited assurance using KMAR verification manual and International Standard on Assurance Engagements 3000 (ISAE3000) of IAASB as assurance standards. The assurance team evaluated the reliability of specified data and information in the Report. In addition, the assurance team checked whether the Report satisfied the 'Core Option' requirements of GRI G4 Guidelines. The data and information of outside of the organization among reporting boundaries such as suppliers, contractors is excluded from the verification scope.

## Findings and Conclusion

The assurance team could not find any inappropriate contents in the Report to the compliance with the principles stipulated below, nor could find any evidence the Report did not comply with 'Core Option' requirements of GRI G4.

- **Materiality** The Report includes all important reporting boundaries under NPS' operation and presents specific and long-term CSR strategy and targets. NPS is determining the materiality of issues found out through stakeholder communication channels through its own materiality evaluation process, and the assurance team could not find any critical issues nor any critical stakeholder group left out in this process.
- **Understandability** Being prepared in sustainability context, the Report specifies the targets on sustainability issues which are identified through the materiality evaluation process, and presents the backgrounds of selection of the critical issues and the management approach. And the Report explains the performance indicators in more detail and comparable way.
- **Reliability** The assurance team identified errors in some data and information, and NPS completed the modification before finishing the final version of the Report. We judge the data and information in the Report to be correct and reliable, and the assurance team could not find any evidence that NPS' counter measures to critical stakeholder issues were inappropriately recorded in the Report.

## Recommendation for improvement

We hope the Report is actively used as a communication tool with stakeholders and we recommend the following for improvements.

- Clear identification of the stakeholders' needs – more and more diversifying – is a fundamental of establishment of effective CSR strategies. It is desired that regularly review the appropriateness of implementation of the responding process – including identification and prioritization of stakeholders through materiality assessment – and improve the process. Also, for effective management and improvement of CSR performance, it is recommended that continuously improve performance management process including performance indicators and performance measurements.

September, 12th, 2016



*K. H. Park*

CEO Ki Ho Park

# GRI G4 Index(Core Option)

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To minimize environmental impact throughout the entire lifecycle of this eco-design report, NPS has used soybean oil and shunned the use of spot color printing or coating.

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