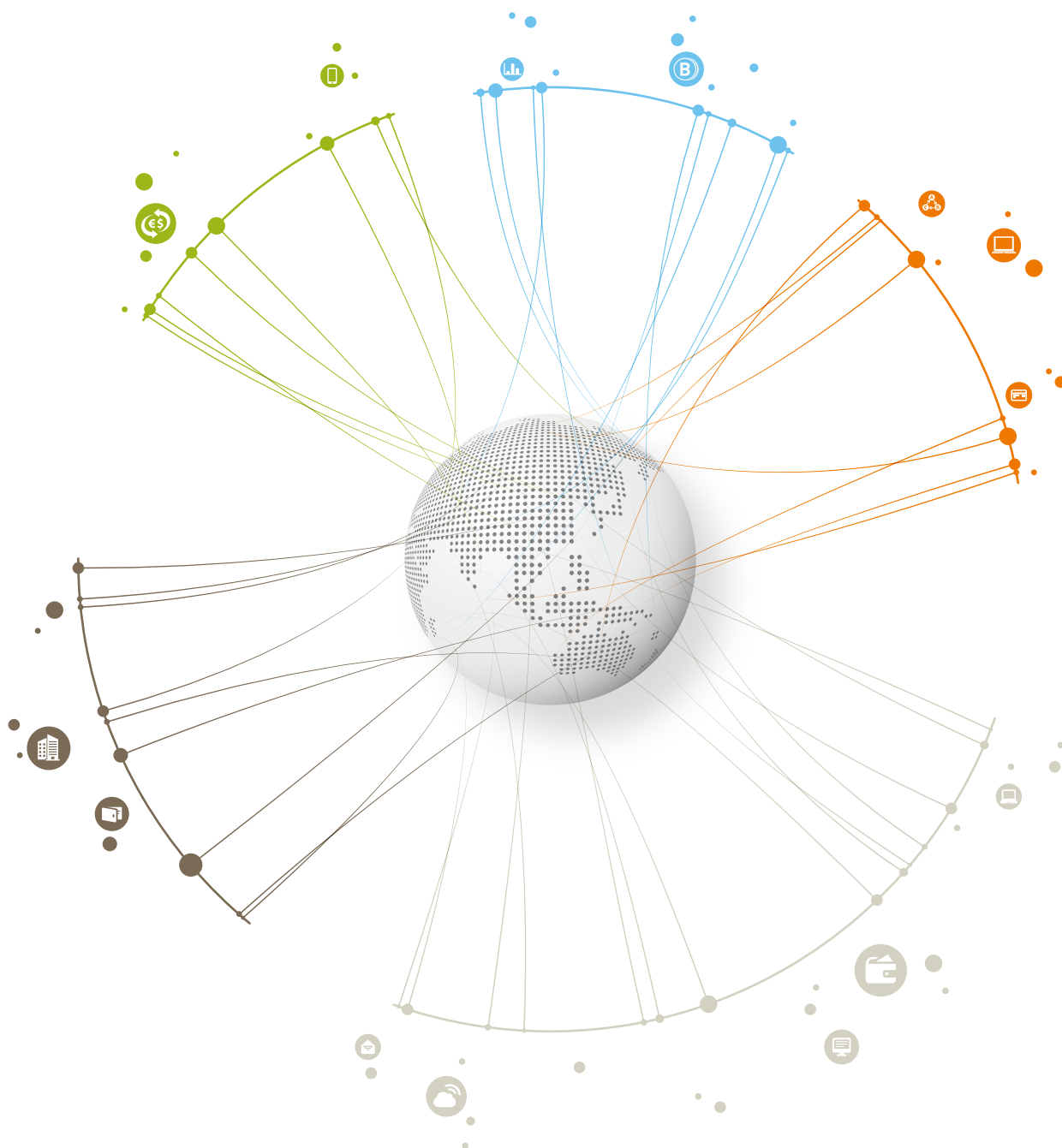


# World Class Securities Service Provider

KSD 2017 Sustainability Report



## About This Report

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Korea Securities Depository (KSD) has published first Sustainability Report in 2010. And this report is the third Sustainability Report published after 2012. KSD hopes to enhance the drive for sustainability management by disclosing the company's sustainability management activities and performances, thereby collecting stakeholder opinions and reflecting them in our management activities.

### **Reporting Standards**

This report complies with the Global Reporting Initiative (GRI) standards which is non-financial information disclosure standards, and reflects major global corporate social responsibility indices such as the Ten Principles of the UN Global Compact (UNGC) and the UN Sustainable Development Goals (SDGs).

### **Reporting Period and Scope**

This Report covers the period from January to December 2016 and in some cases may include data pertaining to the first half of 2017. In the case of data required for performance trend analysis, performances over the past four years have been included. The scope of this Report covers KSD's headquarter in Busan, office in Seoul, three regional branches (Daejeon, Gwangju and Daegu), and Ilsan Center.

### **Reporting Assurance**

This Report has been verified by the Korean Foundation for Quality, an independent assurance service provider, to ensure its objectivity and transparency. The assurance results are provided on page 68~69 of this Report.

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# World Class Securities Service Provider



KSD 2017 Sustainability Report

## Contents

<b>Company Profile</b>	<b>04</b>	CEO Message
	<b>06</b>	Company Overview
	<b>08</b>	Business Model
	<b>10</b>	KSD Highlights
<b>Governance</b>	<b>14</b>	Governance Structure
	<b>16</b>	Risk Management
	<b>20</b>	Sustainability Management Strategy
	<b>22</b>	Stakeholder Engagement
	<b>23</b>	Materiality Assessment
<b>Sustainable Management</b>	<b>26</b>	Ethical Management
	<b>30</b>	Human Resource Management
	<b>36</b>	Customer Value Creation
	<b>42</b>	Strengthening Business Competitiveness
	<b>48</b>	Corporate Social Responsibility
<b>Human Rights</b>	<b>55</b>	Human Rights Management
<b>Appendix</b>	<b>61</b>	ESG Data
	<b>66</b>	GRI Index
	<b>68</b>	Independent Assurance Statement
	<b>70</b>	Sustainability Management Initiative
	<b>71</b>	Human Rights Statement
	<b>72</b>	Awards and Associations
	<b>73</b>	History

## CEO Message



“ With the new sustainability management vision of “creating social values through securities services” the Korea Securities Depository will diversify our sustainability management activities and work more closely with our stakeholders based on the pillars of communication, mutual growth, and responsibility. ”

Dear Stakeholders,

I would like to take this opportunity to extend my sincere gratitude for your support for the Korea Securities Depository (KSD).

Established in 1974, KSD is the only central depository and settlement service institution for marketable securities in Korea, faithfully fulfilling our role as a comprehensive securities service provider by managing marketable securities such as stocks and bonds owned by institutional and individual investors.

While the increasing level of household debt, restructuring of marginal industries, and other uncertainties continue to affect the domestic financial market, we are witnessing vast technological advancements such as blockchain and FinTech, and expect groundbreaking changes to occur following the introduction of the electronic securities system. Amid such challenges and changes in the domestic and global capital markets, KSD is undertaking relentless efforts to establish proactive response systems against various risk factors and provide the best values to our clients and society.

**First of all, KSD will reinforce our conventional functions and lay a solid foundation for the development of the Korean capital market.**

By reforming our governance structure into one that is well-balanced and user-oriented, we will create an environment in which KSD can secure independence as a public service provider. We will contribute to the development of the Korean economy by providing an effective and stable securities trading platform to investors, corporations, and financial institution in both the domestic and global capital markets.

**Second, KSD will create shared values throughout the entire value chain from clients to partners.**

We will create social values based on the idea of shared growth throughout the entire value chain of the Korean capital market from clients to our business partners. We will pursue customer satisfaction (CS) management by holding CS campaigns at the company level and providing CS visiting services through our Bluebird Team in Customer Satisfaction & Support Center. Moreover, we will work closely with the local community and partners toward achieving shared growth.

**Third, KSD will faithfully carry out our social responsibilities and take the initiative in contributing to the development of the local community.**

As a responsible corporate citizen, we will spare no effort in fulfilling our corporate social responsibilities by using our business characteristics. We will create social values and respond to social demands through our social contribution activities such as supporting the self-reliance of the socially vulnerable and strengthening financial education infrastructures. Moreover, we will establish eco-friendly financial infrastructures for future generations by adopting electronic voting and securities systems.

**Finally, KSD will create a workplace in which we, as the company, and our employees can grow together and pursue common values through communication.**

We will endeavor to build a sound corporate culture in which our employees can take pride in their work. We will implement human rights management to prevent any violations of our stakeholders' human rights, while encouraging communication among employees via various channels. Through these efforts and our ethical management activities, we will build an ethical and healthy organization.

With a view to realizing our new sustainable management vision of "creating social values through securities services" we will further promote our sustainable management activities while strengthening cooperation with our stakeholders based on communication, mutual growth, and responsibility.

We will continuously grow based on unwavering interest and support of our stakeholders.  
Thank you.






Chairman & CEO  
Korea Securities Depository

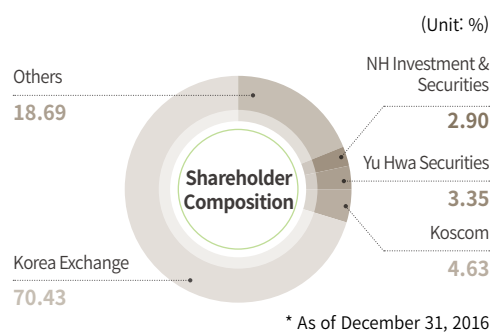
Lee Byungrhae

## Company Overview

### About KSD

The Korea Securities Depository (KSD) is a securities company that serves the purpose of supporting the development of the capital market by providing a wide range of securities services including the issuance and distribution of securities. We have securities worth nearly KRW 3,000 trillion deposited with our system and effectively handle the settlement of trades, in addition to expanding our service areas to create shared values in the capital market.

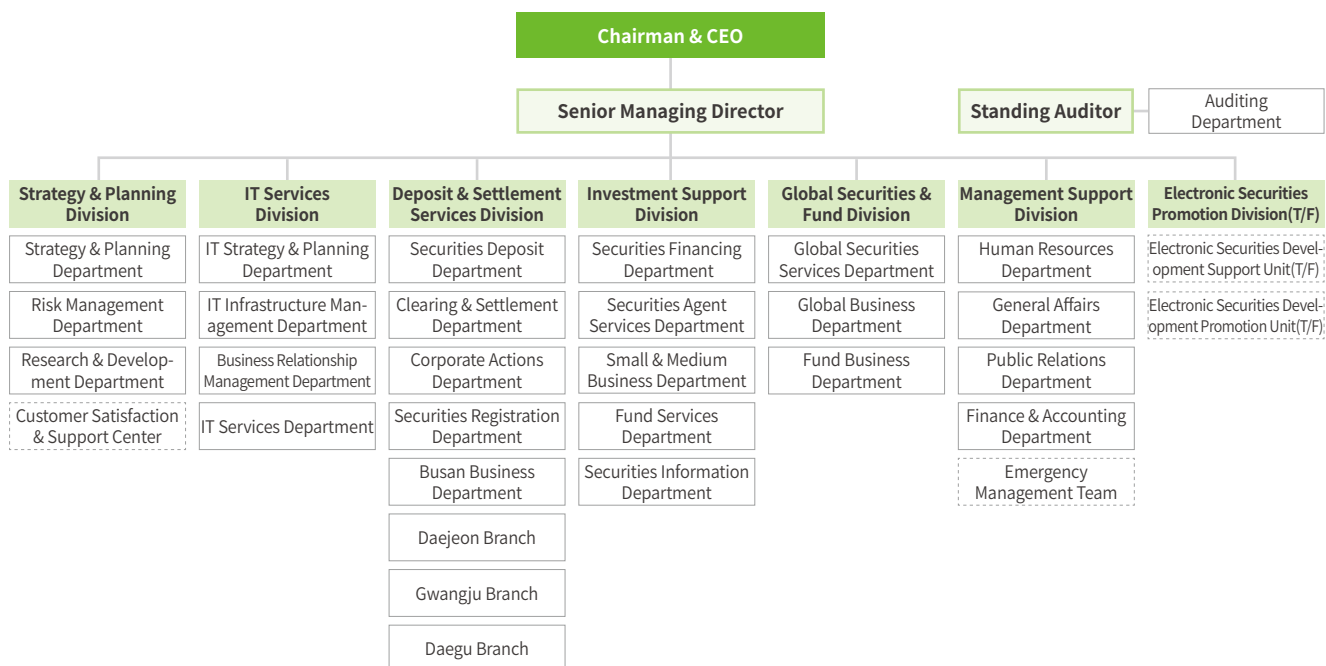
	<b>Company Name</b>	Korea Securities Depository
	<b>CEO</b>	Byung Rhae Lee
	<b>Establishment</b>	December 6, 1974
	<b>Total Assets</b>	KRW 3,286.1 billion
	<b>Revenues</b>	KRW 179.5 billion



### Organization

As of November 2017, KSD has six divisions, 25 departments, and three branches with 577 employees (542 employees as of the end of 2016).

#### Organizational Structure



## Vision

In reflection of the changes in the internal and external management environment, KSD has re-established the management vision and core values so that the mid- to long-term management goals are well received and recognized by stakeholders. Based on the four strategic objectives, KSD will work toward achieving the core values for the three stakeholder groups – clients, community, and KSD employees – thereby contributing to the development of the capital market.

### Mid- to Long-Term Management Goals

Mission



We provide convenient and secure financial investment infrastructures to contribute to the development of capital market.

Vision



World Class Securities Service Provider



Core Values



Trusted Partner



Friendly Corporate Citizen



Responsible Professional

Management Philosophy



Passion



Principle



Professionalism

Four Strategic Objectives



Building World Class Depository & Settlement System

Grow into a electronic securities services company that meets global standards

Providing Competitive Services

Achieve KRW 70 billion in profit from competitive services

Expanding KSD's Presence in the Global Capital Market

Achieve KRW 40 billion in profit from global fund services

Establishing a Business-Centered Sustainable Management System

Build a strong organization with outstanding manpower

13 Strategic Tasks



Implement an electronic securities system

Improve and expand clearing and settlement services

Advance depository and corporate actions services

Strengthen functions for short-term financial market support

Create more advanced securities financing services

Expand securities information business services

Enhance service competitiveness in securities agent and fund business services

Expand asset management market support platform services

Link with global CSD and expand services

Expand overseas consulting and export of business know-how

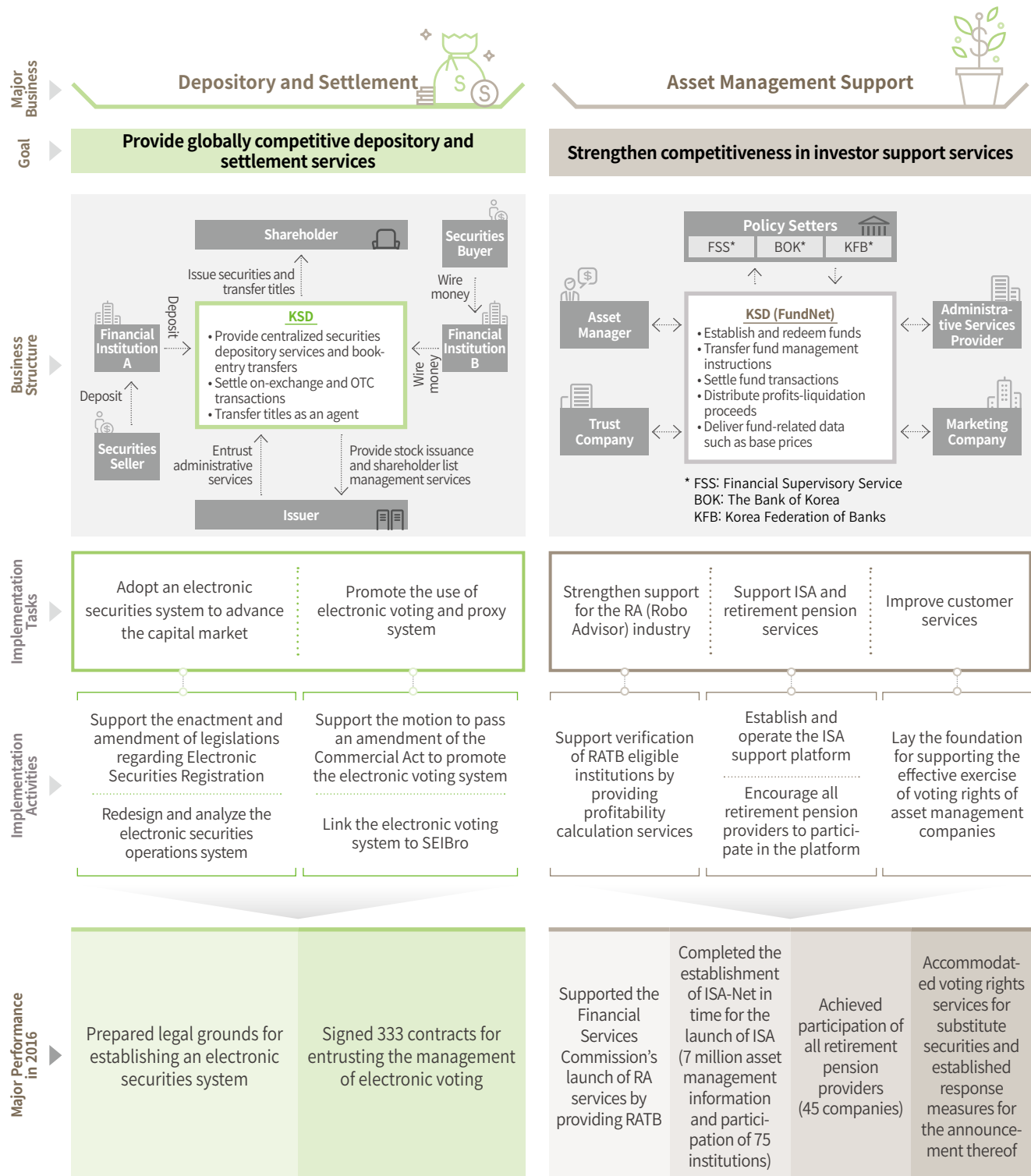
Advance the governance structure and organizational capacity

Reinforce risk management and customer satisfaction management

Build innovative foundation for IT services

## Business Model

KSD contributes to promoting investors' values and developing the financial market by successfully operating the major businesses in depository and settlement, asset management support, international depository and settlement, and start-up business support.

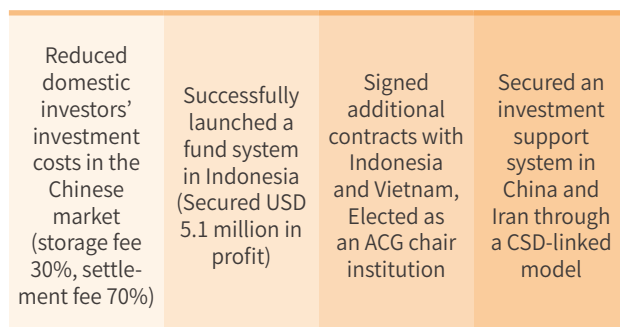
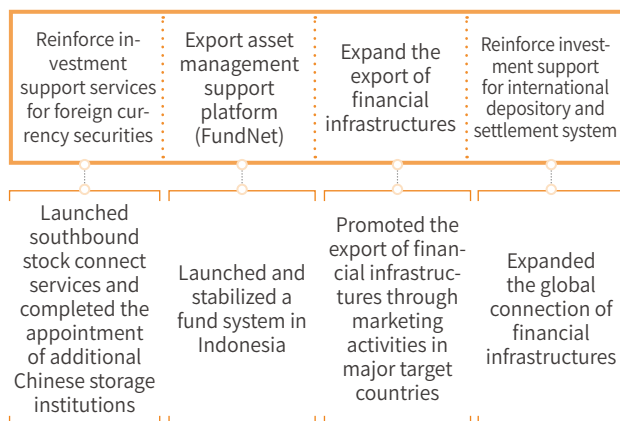
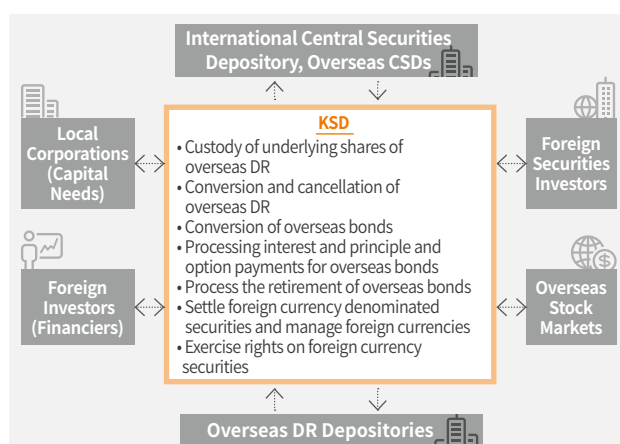




## International Depository and Settlement



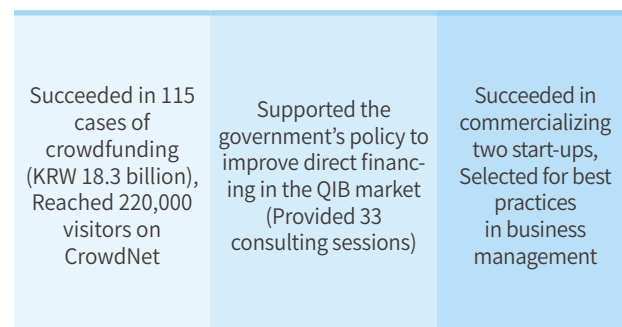
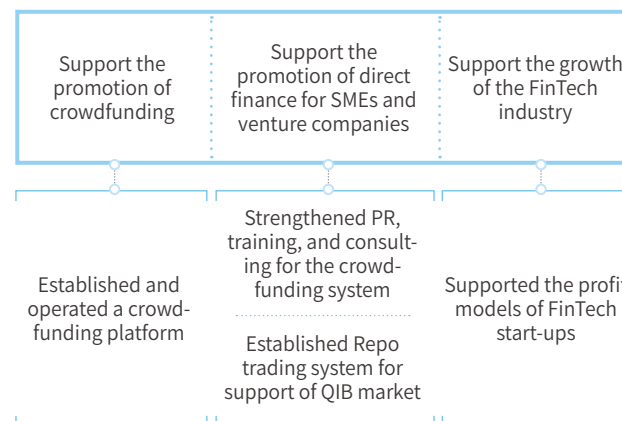
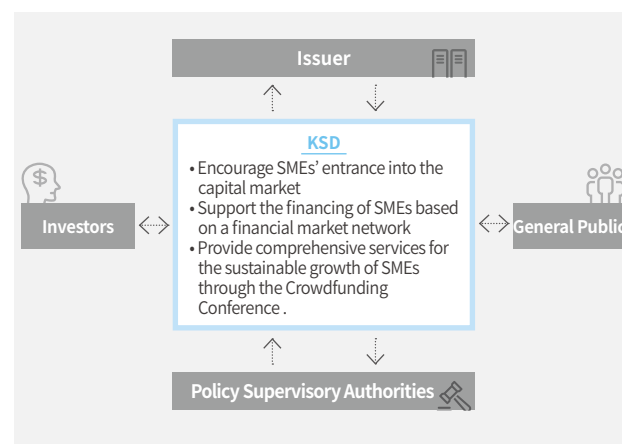
### Expand Global Financial Infrastructures



## Start-Up Business Promotion



### Support the Government's Future Financial Industry Policy



## KSD Highlights

Responding to various changes in the internal and external business environment, KSD relentlessly undertakes innovations in business management and sustainability management activities to create social values.

### 2013~2015

2013.01

Launched asset-backed short-term bond services

2013.04

Launched the securities information portal SEIBro

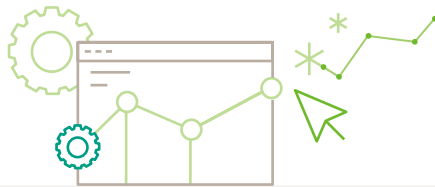
2013.07

Launched KONEX market settlement services

2016.09

#### Authorized as an Electronic Registration Institution

KSD was authorized as an electronic registration institution to establish an electronic securities system which will digitalize the issuance and management of securities to enable the operation of the securities market in a digital environment.



2016.08

#### Exported NFS to KSEI Indonesia

KSD exported S-INVEST, a fund platform for helping to standardize and automate fund-related operations, to Indonesia, laying the foundation for the advancement of the Indonesian fund market.



### 2017

2017.02

#### Participated in SIB\* Investment

Participating in social impact bonds (SIB) as the first public institution, KSD supported the self-reliance of the socially vulnerable in Gyeonggi Province.



2017.03

#### Achieved the Highest Customer Satisfaction Level for Three Consecutive Years

In recognition of continued efforts to create customer values, KSD achieved the highest level (S) in the Public-Sector Customer Satisfaction Index (PCSI) by the Ministry of Strategy and Finance.



\* A form of investment by which social problems are dealt with using private capital by compensating investment capital and incentives according to performance

2014.03

Launched gold spot market storage and settlement services

2014.11

Relocated the headquarter to Busan

2015.01

Launched Legal Entity Identifier(LEI) allocation services

2015.12

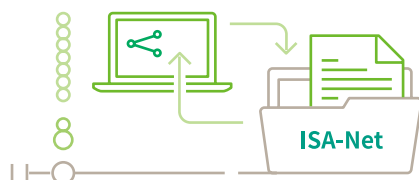
Established the retirement pension platform PensionClear

## 2016

2016.03

### Opened ISA-Net Service

KSD established ISA-Net, a comprehensive support system that provides an automated processing service between financial institutions and provided ISA services to 50 financial institutions.



2016.01

### Opened Crowdfunding Central Record Management Service

Designated as a central record management institution by the Financial Services Commission, KSD developed and opened CrowdNet ([www.crowdnet.or.kr](http://www.crowdnet.or.kr)), providing important information on the equity crowdfunding system.



2017.08

### Promoted the Establishment of Electronic Securities System

KSD is in the process of establishing an electronic securities system by redesigning the business operation process and undertaking consulting on strategic plans for informatization.



2017.10

### Established the Human Rights Management Implementation System

In order to strengthen a corporate culture that values human rights, KSD has established mid- to long-term human rights management strategies including the implementation status inspection system, in addition to the Human Rights Management Declaration.



# Governance





14

Governance  
Structure

16

Risk  
Management

20

Sustainability  
Management  
Strategy

22

Stakeholder  
Engagement

23

Materiality  
Assessment

## Governance Structure

### Composition of the BOD

The Board of Directors (BOD) is the highest decision-making body of KSD with the authority to review and determine important matters such as those set forth by applicable laws, regulations or the Articles of Incorporation, matters entrusted by the General Meeting of Shareholders, or matters concerning the basic management policies and business operations. The Board consists of six directors: two executive directors including the CEO, who is also the Chair of the Board, and four non-executive directors. The CEO is appointed by resolution of the General Meeting of Shareholders and approval of the Financial Services Commission, while senior managing directors and non-executive directors are appointed by a resolution of the General Meeting of Shareholders. The CEO and Public Representatives (two persons) are subject to nomination by the Executive Nomination Committee. The standing auditor is appointed at the General Meeting of Shareholders upon being nominated by the Executive Nomination Committee, and may state his or her opinion by attending a meeting of the Board.

#### Status of the BOD and Auditor

(As of September 2017)

Categorization	Name	Fields of Expertise
Executive Directors	CEO	Byung Rhae Lee
	Senior Managing Director	Im Chool Park
Non-executive Directors	In Ho Cho	Law
	Dae Hae Park	Finance
	Oh Hyun Kwon	Finance
	Shin Kim	Finance
Standing Auditor	Jung Sang Yoo	Finance

### Expertise of the BOD

To ensure the expertise of the BOD, KSD appoints experts not only from the finance industry but also the legal service as our non-executive directors. Major criteria for appointment include general knowledge of the capital market, relevant experience and professionalism of KSD's business, sense of ethics and responsibility.

Management proposals made by non-executive directors are reviewed by the relevant departments to determine whether to adopt them or make them available for further reference, and are then reported to the supervising directors. Non-executive directors are also invited as instructors to management strategy meetings and manager workshops so as to fully benefit from their extensive experience and expertise.

### Independence of the BOD

KSD guarantees the independence of the BOD so that it can fully carry out its role of exerting checks and balances within the company. The BOD also verifies whether there are any legal grounds for disqualification regarding non-executive director candidates, ensuring they have no special relationship to the company. Furthermore, directors who have any special interest in specific agenda items brought to the BOD are not entitled to exercise their voting rights pursuant to Article 8, Clause 3 of the BOD Regulations in order to prevent any conflict of interest within the BOD.

## Activities of the BOD

The BOD convenes once a month for its regular meetings and holds temporary meetings when resolutions are required. To strengthen the functions of the BOD and expand the participation of non-executive members in corporate management, regular meetings of non-executive directors are held at least once every quarter, in addition to temporary meetings prior to the review and resolution of important managerial matters for in-depth explanation and discussion of the agenda in question. The minutes of the BOD meetings are uploaded on the company website, disclosing major managerial issues and decisions to shareholders and external stakeholders in a transparent manner.

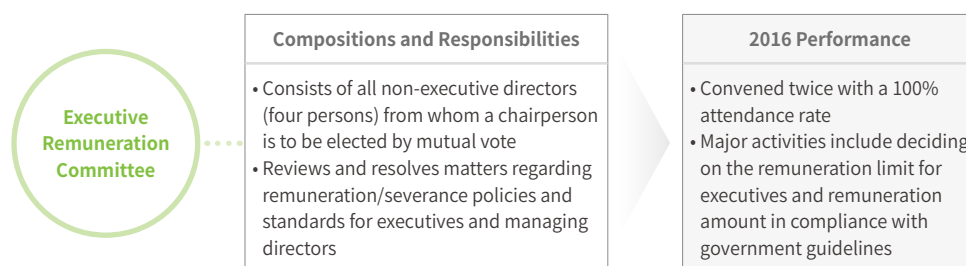
### BOD Operation Performance

Categorization	Unit	2013	2014	2015	2016
Number of Sessions	Times	16	16	12	14
Agenda Items	Number	40	44	38	32
Corrective Resolutions	%	12.5	9.1	7.9	0
Attendance Rate of Non-executive Directors	%	100	94	96	91

### Subcommittees Under the BOD

KSD operates the Executive Remuneration Committee under the BOD in an effort to enhance the transparency of management and improve its governance structure.

#### Status of Subcommittees under the BOD



## Performance Evaluations and Compensation of the BOD

The CEO of KSD signs a management service agreement with the Chairman of the Financial Services Commission regarding KSD's major businesses and its management objectives that need to be accomplished during his or her tenure. Under this agreement, CEO is subject to an annual evaluation of performance of the agreement by the Financial Services Commission. Executives including senior managing director sign service agreements with the CEO and have their performances evaluated through internal and external management assessments and individual evaluations. Management executives are remunerated in consideration of their positions and contributions in accordance with standards set by the Executive Remuneration Committee. Service allowances are granted to non-executive directors.

# Risk Management

## Risk Management System

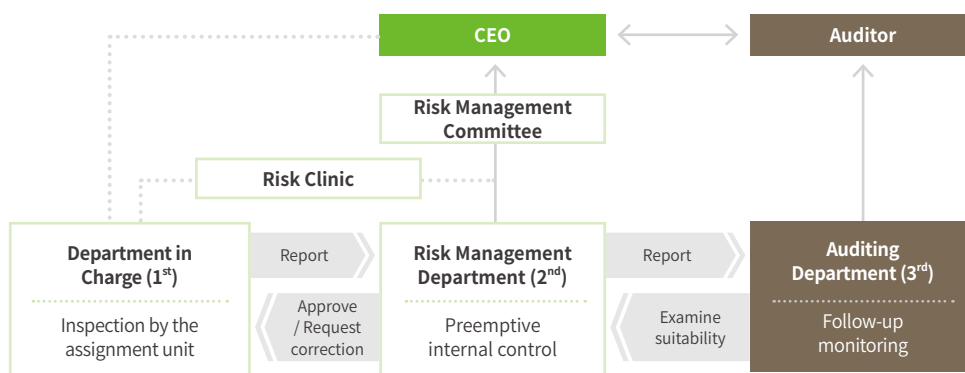
KSD operates the risk management system to prevent various risks that may emerge in the internal and external business environments, and carry out the company's business activities in a stable manner. Through our risk management efforts, we seek to secure a globally competitive level of stability and reliability in our business management, thereby fulfilling our responsibilities as a comprehensive manager of the public's investment assets.



## Risk Management Organization

In an effort to strengthen our execution of risk management at an enterprise-wide level, KSD operates the Risk Management Committee separately from the Board of Directors. We control risks through a three-step approach consisting of the department in charge, the Risk Management Department and the Auditing Department.

### Risk Management Organizational Chart



### Operation of the Risk Clinic

KSD operates the Risk Clinic, a non-standing body consisting of risk experts dealing with emerging risks and contingencies in a prompt and effective manner. The Risk Clinic, which is composed of in-house expert groups in areas such as IT, law, practical affairs and tax can rapid respond based on expertise when complex risk factors occur in various fields.



## Enterprise-wide Risk Management System

In response to rising demands for a stronger capacity to manage and respond to internal and external risks, KSD has established and is operating the Enterprise Risk Management (ERM) system by expanding the company's existing risk management system which was built and further developed to better address operating risks. Since 2014, KSD established a compliance management system to expand the scope of compliance and enable better control of compliance risks. The system was further advanced by being connected to the ERP system for consistent and stronger control activities. Accordingly, they comprise the Governance, Risk Management, Compliance (GRC) system, a comprehensive system based on risk management and compliance, monitoring our overall management activities in line with our management objectives.

### Risk Management Mid- to Long-term Roadmap



### Scope of Risk Management

KSD categorizes risks related to our corporate management activities into financial and non-financial risks. Given the nature of its business dealing with domestic and international financial institutions and various financial investment products, KSD focuses primarily on managing operating risks.

### Areas of Risk Management



Categorization	Description
Financial risk management	<ul style="list-style-type: none"> <li>• Heighten risk assessment and monitoring of respective transactions</li> </ul>
Operating risk management by backup departments	<ul style="list-style-type: none"> <li>• Supervise and monitor risk factors in all backup departments</li> <li>• Apply the risk management system of the department in charge</li> </ul>
Link with the internal accounting management program	<ul style="list-style-type: none"> <li>• Test the reliability of backup operations using the internal accounting management system and utilize upgraded functions for risk management</li> <li>• Utilize operating instructions, guidelines and checklists to examine operating risks</li> <li>• Unify the operator of regulations and systems</li> </ul>

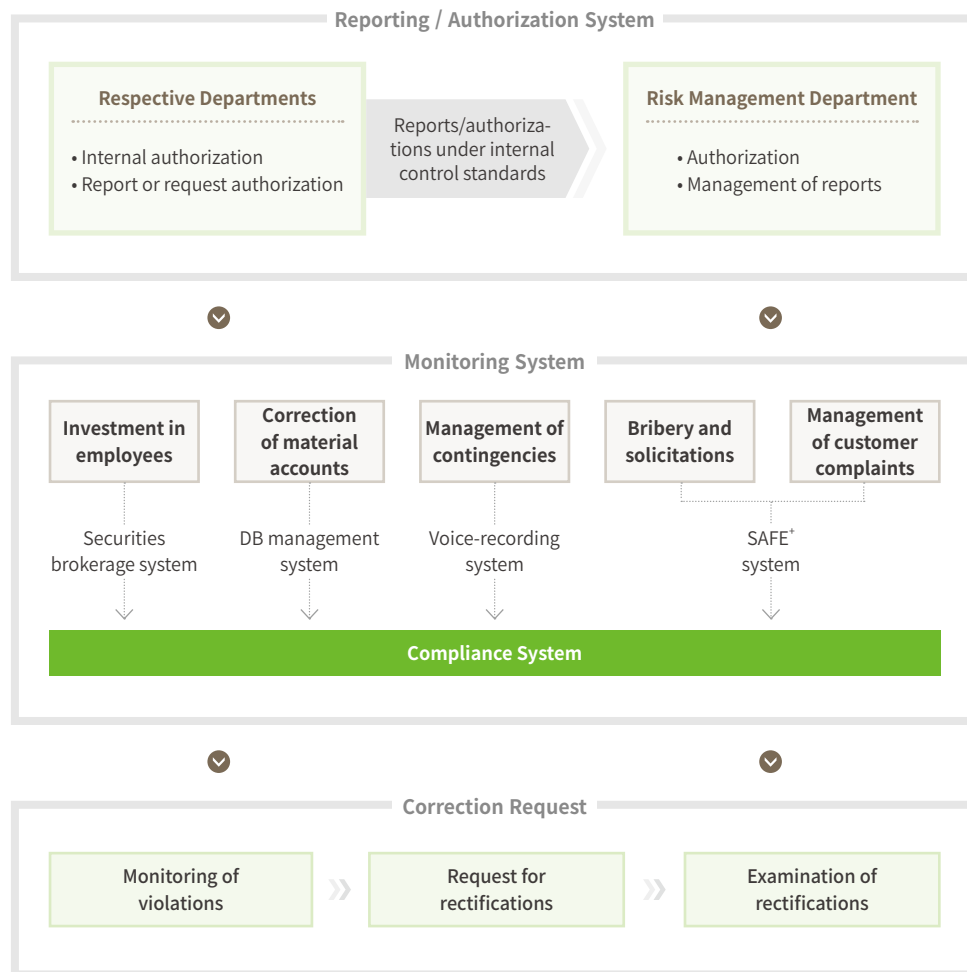
## Strengthening Internal Control Activities

### Restructuring of the Compliance Policy and System

In 2016, KSD carried out various activities to internally stabilize compliance. First of all, in the face of increasing information security risks, we reformed our policy on access authority to our website, making it mandatory to regularly inspect access authority on a semi-annual basis and reducing the number of websites subject to access. Through these changes, we were able to prevent information security risks and strengthen website compliance.

Moreover, we published a revised edition of our compliance manual, raising awareness of compliance among our employees. Furthermore, aging voice-recording devices were entirely replaced with high-performance devices, contributing to greater business stability. KSD plans to make further improvements soon by establishing a comprehensive operating scheme for voice recording systems.

#### Compliance System



## Creating a More Advanced Financial Risk Management System

Since reforming the financial risk management system in 2013, the need for improvement emerged as KSD took on new businesses and faced changes in risk management circumstances such as a financial environment with low interest rates. In this regard, we reformed our financial risk management system in 2016 in consultation with the relevant departments, by expanding the scope and strengthening the monitoring of credit risk management and changing risk calculation methods. Furthermore, by adopting the risk management methods of the International Central Securities Depository (ICSD), KSD was able to enhance flexibility and profitability in fund management under low-interest rate conditions while securing stability through consistent monitoring.



## Strengthening the Enterprise-wide Work-related Risk Monitoring System

KSD operates an internal control system which incorporates real-time monitoring and preemptive alerts of financial and operating risks through Key Risk Indicators (KRI) and Risk & Control Self Assessment (RCSA), as well as regular reporting of monitoring results.

In 2016, an emergency risk assessment system was established within the internal control system in order to promptly assess work-related risks in case of emergency situations such as a financial crisis. By extracting major crisis indicators from the seven departments in charge and enabling their automatic appearance on internal control system screens, the specificity of the indicators can be analyzed. Such computerization of the emergency risk assessment process not only enables effective response to risks and regular monitoring for signs of crisis but also serves as useful statistical references.

## Internalizing Risk Management Awareness in Employees

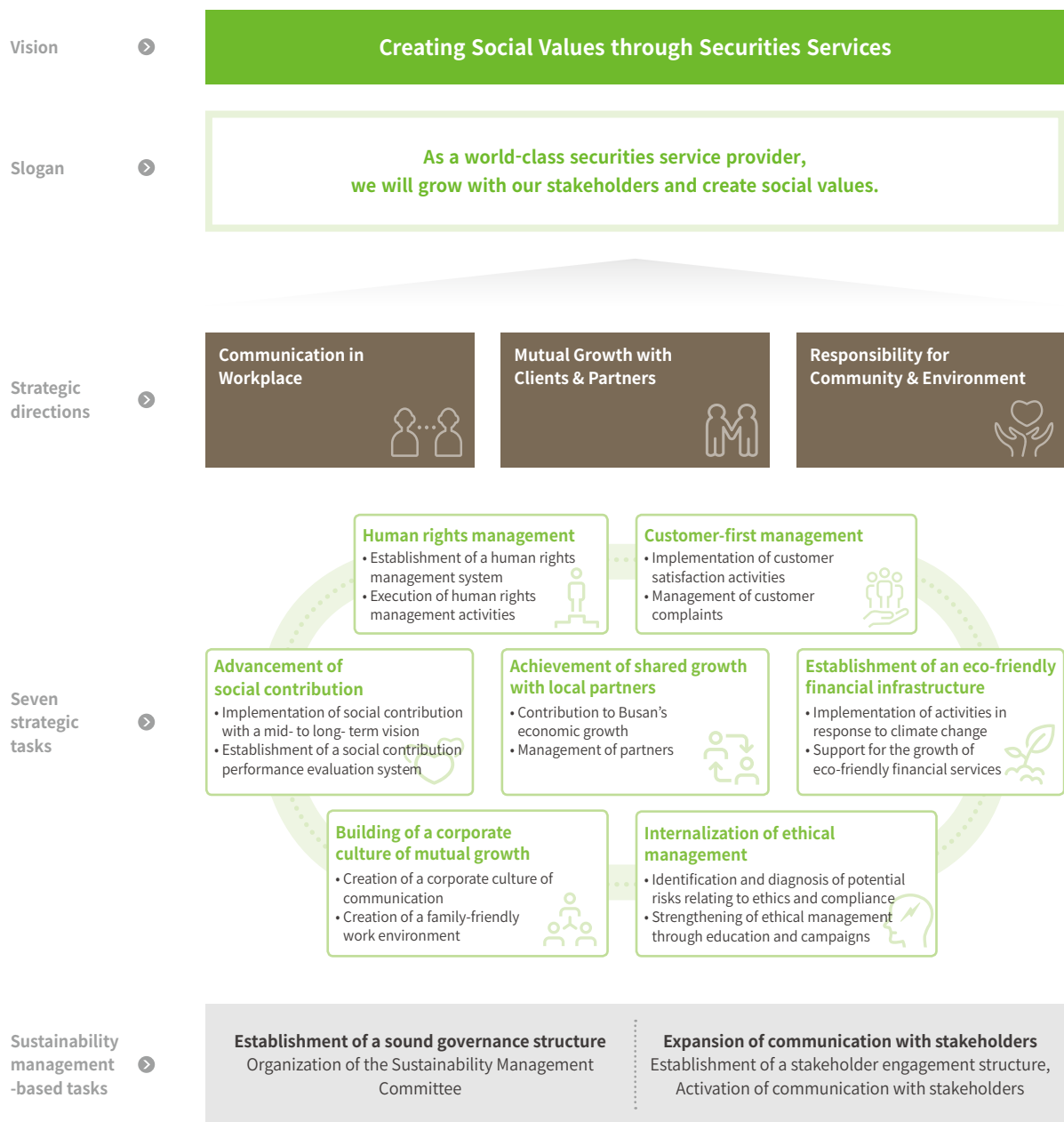
In an effort to strengthen our risk management ability at the enterprise-wide level, we actively share risk-management information with our employees, in addition to publishing and distributing relevant publications such as compliance operation manual and privacy breach case book.

 <b>Information sharing</b>	<ul style="list-style-type: none"> <li>• Gathering of opinions on restructuring the financial risk management system</li> <li>• Announcement of the reformed policy on access authority to the website</li> </ul>
 <b>Publications</b>	<ul style="list-style-type: none"> <li>• Publication and distribution of the compliance operation manual</li> <li>• Publication and distribution of privacy breach cases</li> </ul>

# Sustainability Management Strategy

## Sustainability Management Strategy Framework

KSD has established a new sustainability management strategy framework to creating social values while grow together with stakeholders. To 'creating social values through securities services' the framework consists of three strategic directions, seven strategic tasks, and sustainability management-based tasks. Based on this framework, KSD will carry out the company's sustainability management activities in a systematic manner.



## Communication

KSD will create a workplace where the company and our employees grow together and pursue shared values. We will promote human rights management to prevent any violations of our stakeholders' human rights, while building a corporate culture of shared growth for all our employees. Furthermore, by internalizing ethical management practices, KSD will maintain transparency and integrity at the enterprise level.

## Mutual Growth

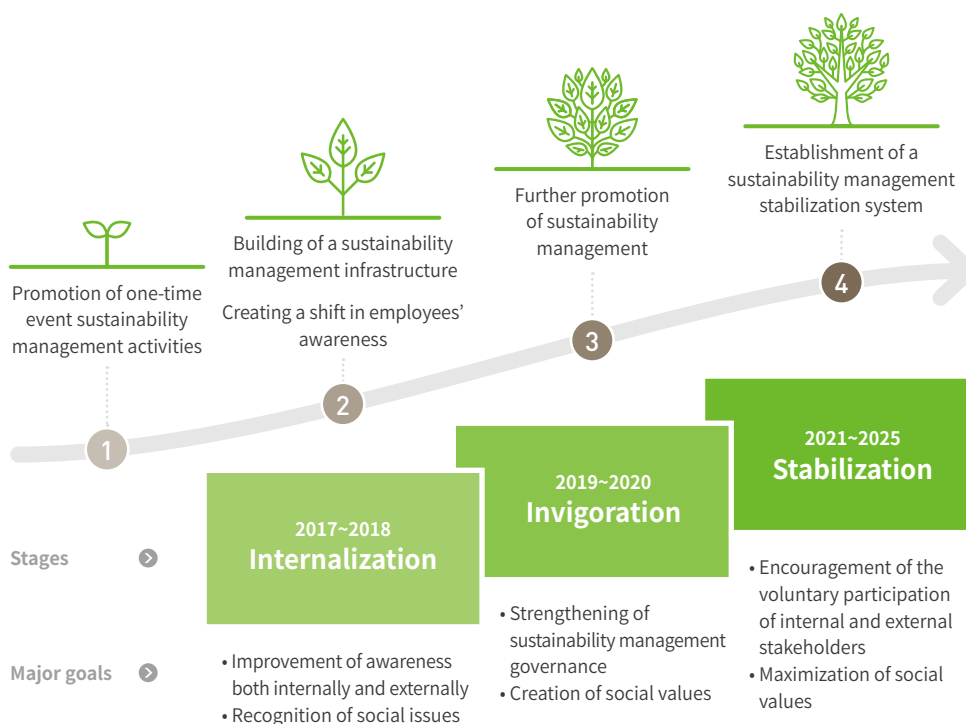
KSD will create social values based on mutual growth throughout our entire value chain from its clients to partners. We will promote customer-first management to enhance customer satisfaction, while achieving shared growth with the local community and local partners.

## Responsibility

KSD will fulfill the company's corporate social responsibility by providing solutions to the fundamental causes of various social issues. We will create social values by actively promoting social contribution activities in line with social demands, while establishing an eco-friendly financial structure for future generations.

## Sustainability Management Roadmap

Based on the company's sustainability management roadmap, KSD will internalize, invigorate and stabilize sustainability management by 2025.














# Stakeholder Engagement

## Stakeholder Communication

KSD categorizes our stakeholders into eight groups and operates communication channels for each group, making earnest efforts to build cooperative relationships with them. In 2017, KSD conducted a survey of our internal and external stakeholders on the status and level of our sustainability management, the results of which will be reflected in KSD's sustainability management activities.

### Stakeholder Survey Results

<div>High-Performance Areas</div>	<ul style="list-style-type: none"> <li>• Maintain stable depository and settlement business operation</li> <li>• Expand the functions of core infrastructure in the financial market</li> </ul>	<ul style="list-style-type: none"> <li>• Enhance customer satisfaction</li> <li>• Strengthen communications with customers</li> </ul>	<ul style="list-style-type: none"> <li>• Use energy efficiently</li> <li>• Use and manage resources sustainably</li> </ul>
	 <b>Economic Areas</b>	 <b>Social Areas</b>	 <b>Environmental Areas</b>
<div>Low-Performance Areas</div>	<ul style="list-style-type: none"> <li>• Secure a sound governance structure</li> <li>• Comprehensive risk management in the economic, social, and environmental fields</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthen the human rights of employees</li> <li>• Strengthen employee welfare</li> </ul>	<ul style="list-style-type: none"> <li>• Respond to climate change</li> <li>• Strengthen low-carbon financial infrastructure</li> </ul>

	Stakeholder	Communication Channel		Main Activities in 2016
External	Customers 	<ul style="list-style-type: none"> <li>• SAFE* system</li> <li>• CEO conference and letters</li> </ul>	<ul style="list-style-type: none"> <li>• Customer CS camp</li> <li>• Customer conferences</li> </ul>	<ul style="list-style-type: none"> <li>• Participant conference (4 times, 251 participants)</li> <li>• Customer training program (49 times, 2,962 participants)</li> <li>• Support for small-group client meetings (37 times)</li> </ul>
	Government 	<ul style="list-style-type: none"> <li>• Business report</li> </ul>	<ul style="list-style-type: none"> <li>• Major operating meetings</li> </ul>	<ul style="list-style-type: none"> <li>• Received Financial Services Commission approval for regulation changes</li> <li>• Received due diligence of 2015 management evaluation conducted and hosted by Financial Services Commission</li> <li>• Participated in the Government 3.0 Best Practice Competition</li> </ul>
	Peer 	<ul style="list-style-type: none"> <li>• SWIFT international standard message</li> </ul>	<ul style="list-style-type: none"> <li>• Participant communication system</li> </ul>	<ul style="list-style-type: none"> <li>• SWIFT Training for Korea Securities Depository</li> <li>• AFSF 2016 Knowledge Sharing Workshop</li> <li>• Join a PASLA(Pan Asia Securities Lending Association)</li> </ul>
	Local Community 	<ul style="list-style-type: none"> <li>• Nanum Foundation website</li> <li>• Sustainability Report</li> </ul>	<ul style="list-style-type: none"> <li>• Volunteering corps</li> <li>• Partner conferences</li> </ul>	<ul style="list-style-type: none"> <li>• Publication of Sustainability Report</li> <li>• Partner conferences on a semi-annual basis</li> </ul>
	Academia 	<ul style="list-style-type: none"> <li>• Academic conferences</li> <li>• Seminars</li> </ul>	<ul style="list-style-type: none"> <li>• Symposium</li> <li>• Jeunggueon sarangbang*</li> </ul>	<ul style="list-style-type: none"> <li>• Joint advisory council (1 time)</li> <li>• Respective advisory councils (3 times)</li> </ul>
	Media 	<ul style="list-style-type: none"> <li>• Press seminars</li> <li>• Press briefings</li> </ul>	<ul style="list-style-type: none"> <li>• PR meetings</li> </ul>	<ul style="list-style-type: none"> <li>• Seminars and press briefings (9 times)</li> </ul>
Internal	Employees 	<ul style="list-style-type: none"> <li>• Labor-management conferences and meetings</li> <li>• Labor-management workshops</li> <li>• Communication Committee</li> </ul>	<ul style="list-style-type: none"> <li>• TLC system</li> <li>• Grievance management system</li> </ul>	<ul style="list-style-type: none"> <li>• Labor-management conferences on a quarterly basis</li> <li>• Labor-management TF conferences (5 times)</li> </ul>
	Shareholders 	<ul style="list-style-type: none"> <li>• Shareholders' meetings</li> <li>• Board meetings</li> <li>• Operating reports</li> </ul>	<ul style="list-style-type: none"> <li>• Annual reports</li> <li>• Executive meetings</li> </ul>	<ul style="list-style-type: none"> <li>• Business briefings (2 times)</li> </ul>

\* securities market policy and practice seminars

# Materiality Test

## Materiality Test and Selection of Material Issues

KSD identifies material issues in consideration of various internal and external issues relating to our sustainability management activities and stakeholder opinions. Relevant activities and performances are provided in this Report in detail.

### Materiality Test Process

#### Step 1 Develop a Pool of Issues

##### Analyze the external environment

- Analyze reporting issues within the same industry: Consider reporting issues of eight global advanced companies
- Analyze media: Examination media research from January 2013 to June 2017
- Analyze global standards: Examination of connection with GRI Standard, DJSI, ISO26000, UNGC
- Analyze stakeholder surveys: Gathering of an opinion from experts, shareholders, customers, partners

##### Analyze the internal environment

- Analyze internal documents: Examination CEO message, company newsletter, etc.
- Analyze stakeholder surveys: Gathering of an opinion from 161 employees



#### Step 2 Prioritize Issues

##### Analyze stakeholder impact

Conduct an impact analysis through the stakeholder survey results and professional evaluations

##### Review business relevance

Conduct a relevance analysis through benchmarking of reporting issues within the same industry, media analysis, global standards analysis, and internal documents analysis

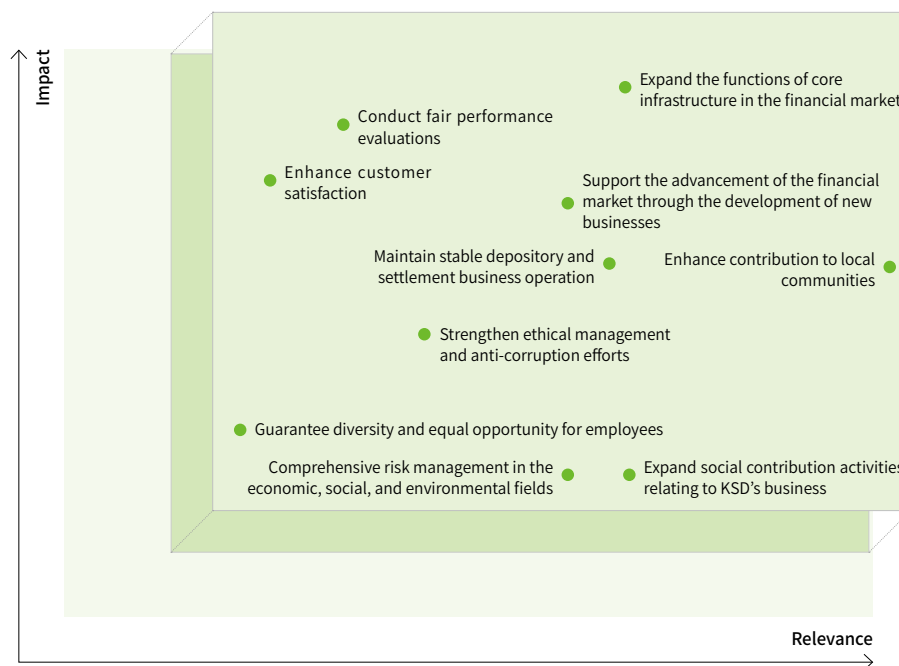


#### Step 3 Review and Identify Material Issues

##### Review by department in charge of sustainability management

Identify material issues by reviewing the relevance to our business activities and business importance

### Materiality Test Matrix

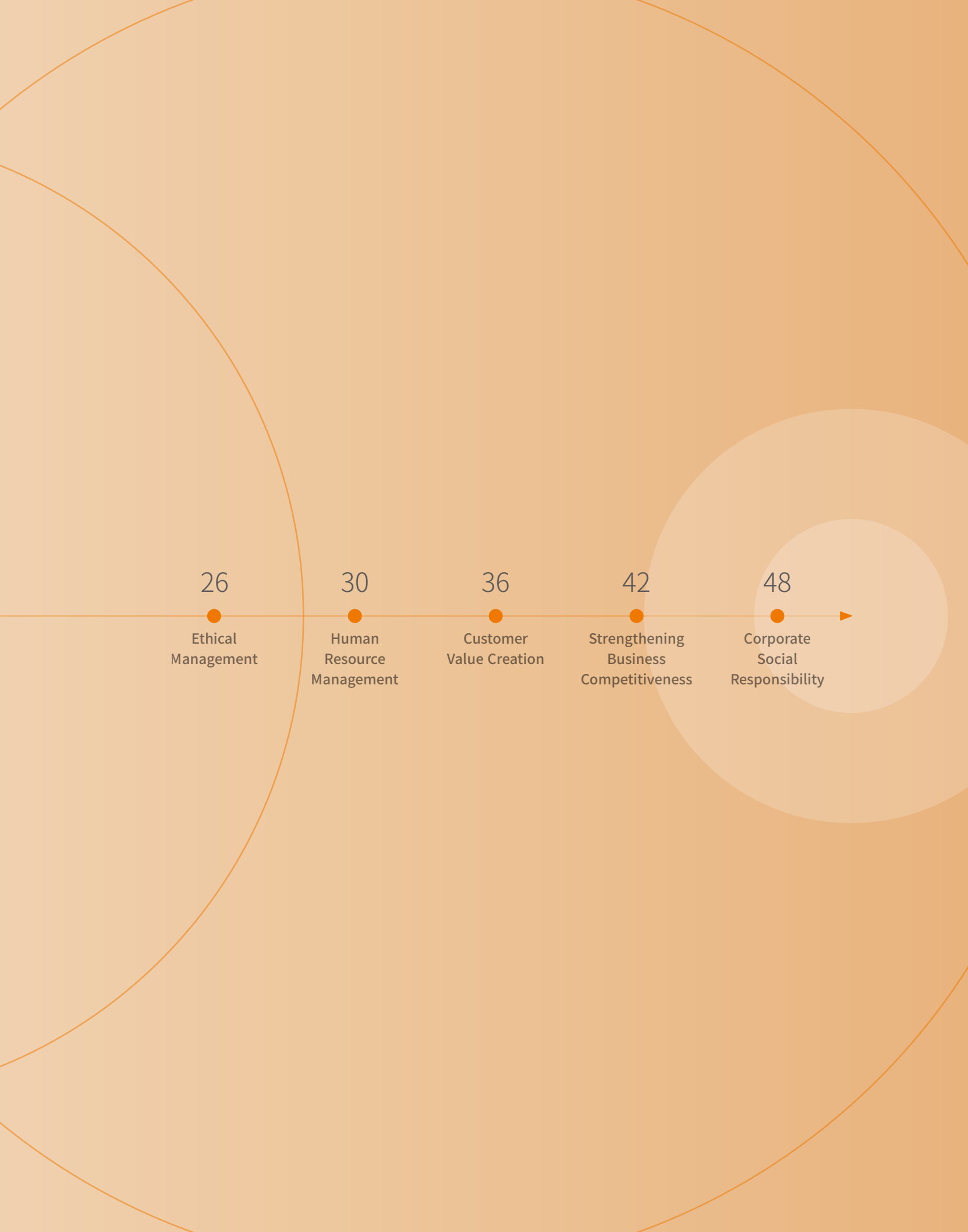


Order of Priority	Categorization	Issue	Pages
1	Social (Local communities)	Enhance contribution to local communities	40, 48~51
2	Economic	Expand the functions of core infrastructure in the financial market	42~47
3	Economic	Support the advancement of the financial market through the development of new businesses	42~47
4	Economic	Maintain stable depository and settlement business operation	43
5	Social (Employees)	Conduct fair performance evaluations	58
6	Social (Customers)	Enhance customer satisfaction	36~41
7	Social (Employees)	Strengthen ethical management and anti-corruption efforts	26~29
8	Social (Local communities)	Expand social contribution activities relating to KSD's business	48~51
9	Economic	Comprehensive risk management in the economic, social, and environmental fields	16~19
10	Social (Employees)	Guarantee diversity and equal opportunity for employees	56

# Sustainable Management







## 01

## Ethical Management



## Risk &amp; Opportunity

The scope of ethical standards is increasingly expanding in the international community with stricter application of the ISO 26000 (guidance on corporate social responsibility), the OECD Anti-Bribery Convention and the Foreign Corrupt Practices Act (FCPA) of the United States. In Korea, companies face stronger regulations regarding the execution of ethical management, following the enactment of the Ethics Charter and the Code of Conduct in the financial industry by a group of financial associations, as well as the enforcement of the Improper Solicitation and Graft Act. Moreover, as the scope and areas of ethical management are broadened to cover privacy breaches and employee embezzlement, the importance of ethical management is further highlighted.

## Our Approach

KSD earns the trust of the company's stakeholders and proactively responds to ethical regulations in the financial industry by strengthening the basis of our ethical management. We take an active role in the government's strong commitment to ethical management by reforming our ethical ombudsman system, improving the employees' practice of ethics and compliance through ethics training, and establishing our own response system following the enactment of the Improper Solicitation and Graft Act.

## Key Performance



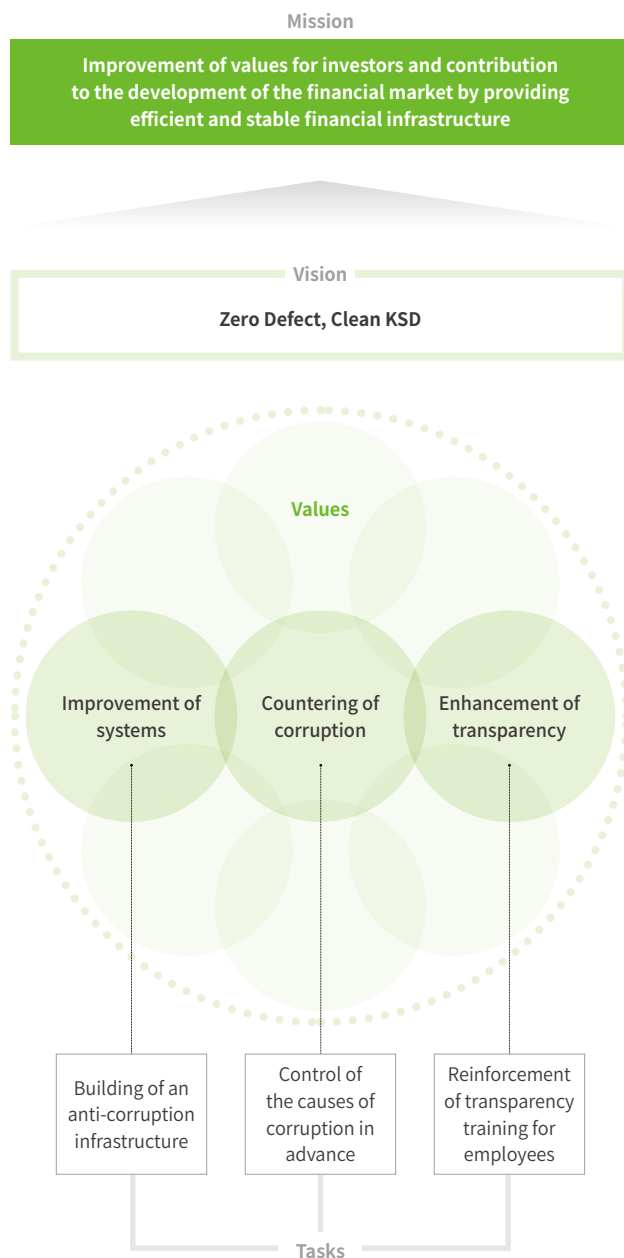
Transparency training  
**1,028** hours



**Strengthening the ethical  
ombudsman system**

## Ethical Management System

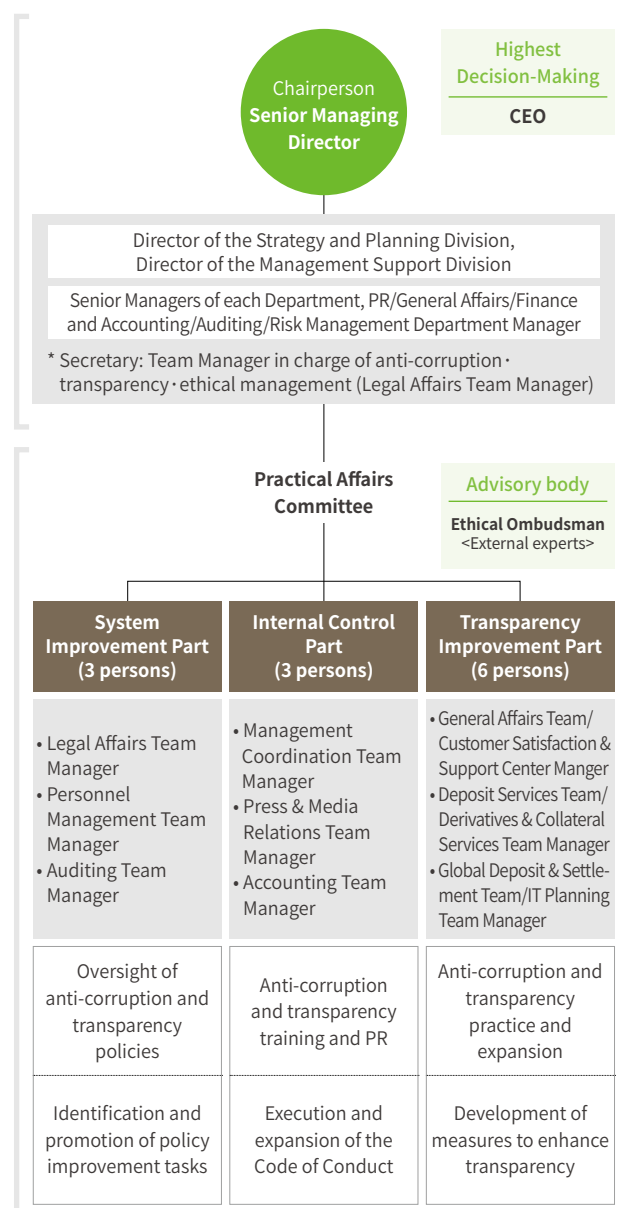
KSD makes great efforts to fulfill our responsibility as an ethical financial company by achieving our ethical management vision of “Zero Defect, Clean KSD” based on three major tasks and values.



## Ethical Management Governance

With the CEO playing a central role, KSD operates the Anti-corruption·Transparency·Ethical Management Committee. In addition, KSD carries out ethical management activities systematically and efficiently by operating the Practical Affairs Committee consisting of major departments in charge and an external advisory body.

### The Anti-corruption·Transparency·Ethical Management Committee



## Compliance with Ethical Regulations

KSD has established the Ethics Code including the Ethics Charter and the Code of Conduct, as well as ethical standards providing detailed operating regulations, forming the foundation of our transparent and ethical corporate culture. Our Ten Ethical Management Principles, consisting of five corporate ethical principles and five job-related ethical principles, provide detailed ethical standards at the enterprise level by specifying the targets of ethical management.

### Ethical Regulations



## Enhancing Anti-Corruption Capacity

### Establishing the Transparency and Ethical Management Infrastructure

KSD operates the ethical ombudsman system to actively handle internal corruption and grievances. Following the division of our organizations into Busan and Seoul in 2017, KSD recognized the need to internally strengthen the ethical ombudsman system through regional activities and far-reaching performance. In this light, by expanding the number of ombudsman from one to two in Busan and Seoul, respectively, we have improved the efficiency of employee participation and method of gathering opinions, and have systematically supported the ethical ombudsman activities. Furthermore, KSD conducted special training on ethics for employees in charge of contracting, in addition to various related compliance activities. Finally, KSD operates the Ethics Consultative Group through which the company provides anti-corruption and ethics education to major clients and private enterprise employees in charge of contracting, and gathers their feedback.

### BUSINESS CASE

#### Establishing a System to Respond to the Enforcement of the Improper Solicitation and Graft Act

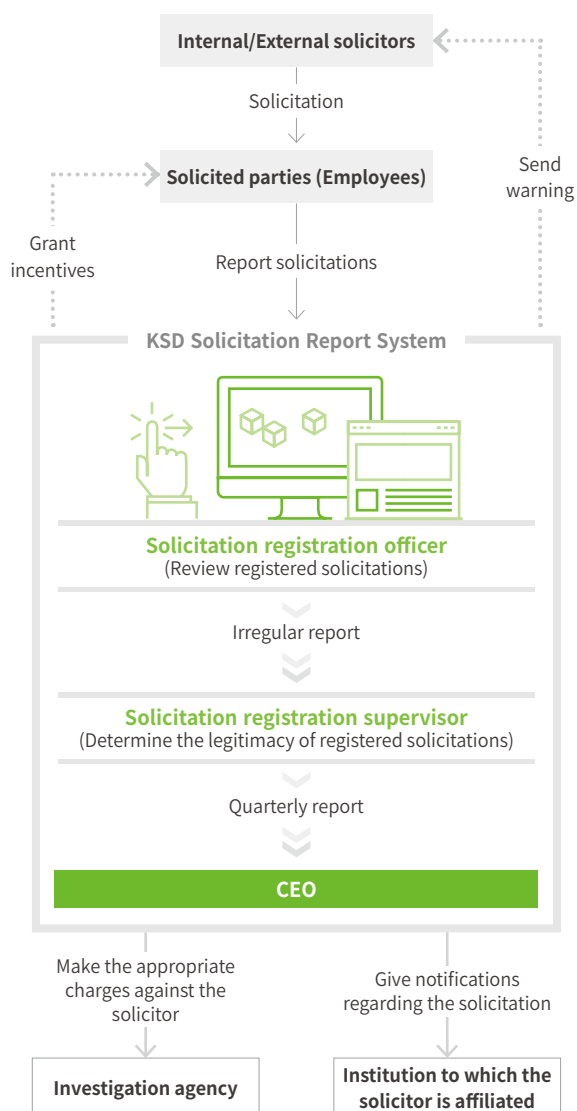
In response to the enforcement of the Improper Solicitation and Graft Act in September 2016, KSD has established regulations for handling reports under the Act such as designating an anti-solicitation officer, as well as a reporting system for violations of the Act. KSD also conducts both online and offline training regarding the Act at least once a year to inculcate the importance of compliance with the Act in our employees, and awards best practice cases within the company.

As a result of these enterprise-wide efforts, no violations of the Act were committed in 2016.

## Operating Solicitation Report System

In 2012, KSD established the solicitation report system and customer meeting registration system to encourage whistle blowers to report violations. The solicitation report system assures the anonymity of the reporter and covers all internal and external unfair solicitations. The customer meeting registration system targets unofficial interviews and meetings with customers, under which personnel transfer and disciplinary actions are undertaken regarding reported cases verified to constitute regulatory violations.

### Solicitation Report System Process



### Promoting a Sense of Ethics in Employees

KSD operates incentive programs and educational programs to build a strong basis for a transparent and ethical corporate culture. The company actively carries out various activities such as offering special lectures on business ethics to all employees. We also encourage executive participation by holding regular meetings of the Ethical Management Committee and aiming for the practical execution of our ethics policy. Incentives are offered to departments and officers in charge of ethics and anti-corruption duties. In addition, KSD's ethical mileage program and ethics certification program provide motivation for employees to participate in ethics activities.

Furthermore, customized education and training in business ethics are provided to different groups of employees such as newly-positioned heads of department and newly-recruited staff, while education programs on reporter protection and welfare/subsidy fraud reporting help to strengthen employees' sense of ethics.

### Sharing Best Practice Cases in Anti-Corruption

KSD strengthens cooperation with relevant organizations and develops anti-corruption policies to share and expand best practice cases in anti-corruption. We have formed an ethics consultative body to benchmark anti-corruption and ethics policies of public financial institutions based in Busan, in addition to sharing reference materials and cooperating with ethics partners through business consulting. KSD's anti-corruption efforts also include devising and executing our own ethics policies based on best practice cases and points of improvement provided by the Anti-Corruption and Civil Rights Commission.

## 02

## Human Resource Management



## Risk &amp; Opportunity

There is an increasing need to strengthen the expertise and capacity of global financial experts, following the acceleration of globalization in the financial industry as well as social and technological advancements. In addition, there are rising demands to establish measures to deal with potential risk factors such as the loss of talent and reduced employee satisfaction following the relocation of our headquarter in 2014.

## Our Approach

Discovering and cultivating talented people with professional capacity is an essential factor for a company to achieve sustainable growth. To cultivate talent, KSD has established various educational programs in addition to expanding existing programs. Furthermore, we are helping our employees find a healthy balance between work and life through various welfare policies and a flexible corporate culture.

## Key Performance



Employee Satisfaction  
**88.7** points



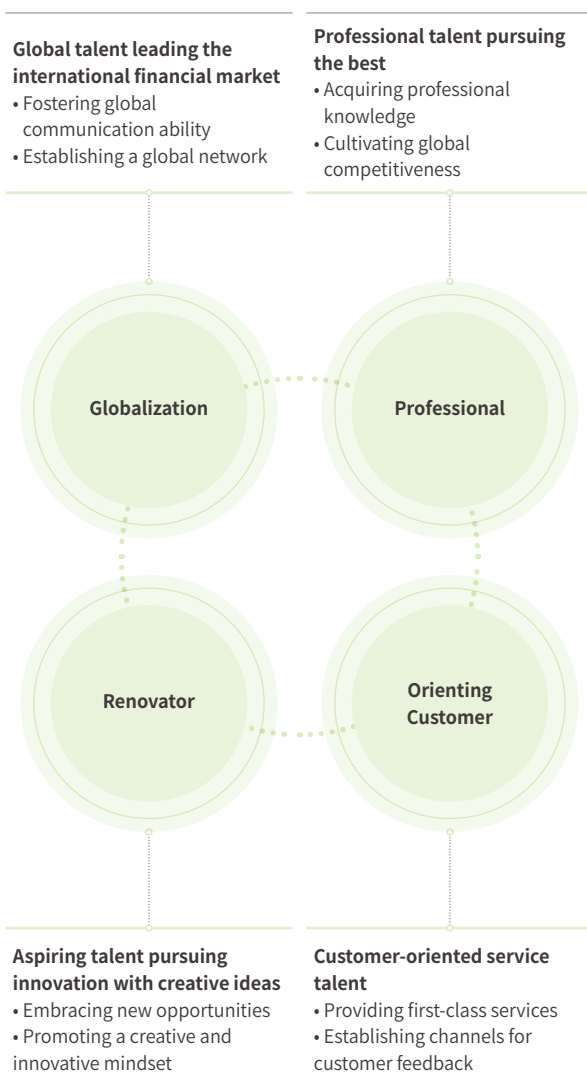
Training Cost per Employee  
KRW **4,129** thousand won

## Human Resource Development

The Korea Securities Depository (KSD) has established our own human resource development target and talent cultivation system, providing various training programs in order to cultivate global top talents in the financial industry.

### Human Resource Development Target

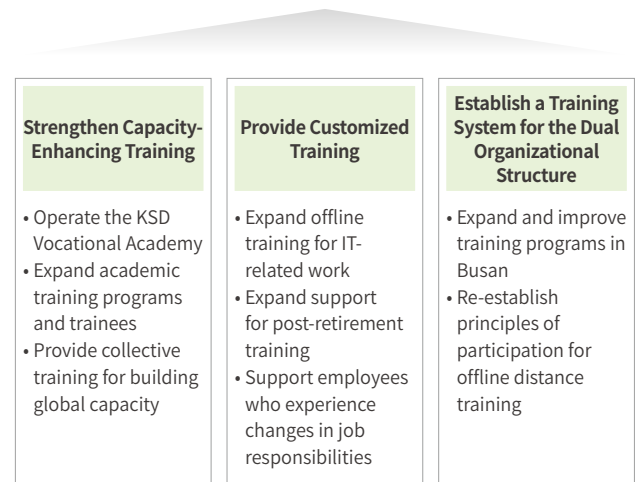
To develop into a global top securities services company, KSD has established the following four human resource development targets in line with our management directions: globalization, professional, renovator, and customer-oriented.



## Human Resource Development System

Following the reorganization of the training system after re-locating our headquarter to Busan, KSD re-established the work-oriented training system in 2017 and operates a human resource development system optimized for changes in the internal and external business management environments.

### Cultivating PRO-KSDian through Capacity-Enhancing Training



### Training System





① Personality's Special Lecture for All Employees ② Organization Invigoration Training

## Strengthening Vocational and Capacity Training

### Providing Capacity Training to All Employees

KSD provides capacity training to all employees to cultivate their vocational capacity and expertise. Vocational training previously offered to frontline departments was expanded to provide more vocational expertise, in addition to strengthening our employees' global capacity by offering more in-house language courses and supporting foreign-language test fees. We also hold special leadership lectures in cooperation with the Korea Women Leadership Academy, enhancing the management capacity of female employees and strengthening their competitiveness.

### Providing Customized Training

KSD provides customized training to satisfy the needs of various employee groups, such as leadership training for new team managers and general education/self-development leadership training for new recruits. We also support our senior employees' retirement plans by promoting retirement support training, newly establishing academic-industrial degree programs, and expanding support for Life Innovation training.

Categorization	Program	Performance in 2016
 <b>Capacity Training for All Employees</b>	Self-vocational training	<ul style="list-style-type: none"> <li>• Number of sessions: 22</li> <li>• Number of hours: 105 hours</li> <li>• Number of participants (cumulative): 1,271</li> </ul>
	Special leadership lecture by Korea Women Leadership Academy	<ul style="list-style-type: none"> <li>• Once in Busan and Seoul, respectively</li> </ul>
	Support for language courses and foreign language test fees	<ul style="list-style-type: none"> <li>• Number of language course participants: 82</li> <li>• Support of foreign language test fees: 101 times</li> </ul>
	Organization invigoration training	<ul style="list-style-type: none"> <li>• Held 8 sessions</li> <li>• Number of participants: 290</li> </ul>
 <b>Customized Capacity Training</b>	Leadership training for new team managers	<ul style="list-style-type: none"> <li>• Held 1 session</li> </ul>
	General education and self-development leadership training for new recruits	<ul style="list-style-type: none"> <li>• Held 4 sessions</li> </ul>
 <b>Retirement Support Training</b>	Retirement support training	<ul style="list-style-type: none"> <li>• Number of eligible employees: 41</li> <li>• Support amount: KRW 44.32 million</li> </ul>
	Academic-Industrial degree program	<ul style="list-style-type: none"> <li>• Newly established</li> </ul>
	Life Innovation training	<ul style="list-style-type: none"> <li>• Support amount limit: KRW 1.8 million per month (increase from KRW 1 million per month previously)</li> </ul>

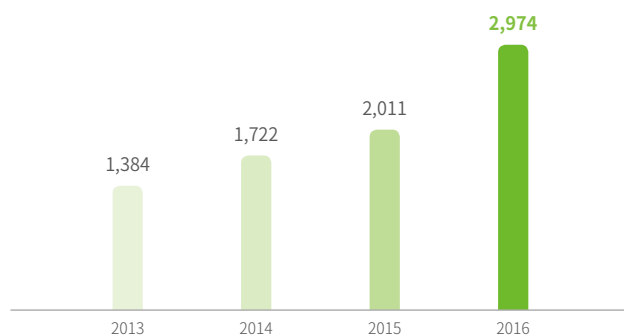


## Education and Training Performance

KSD offers academic programs to encourage high performance employees to earn master's degrees in Korea and abroad, and finances education expenses and foreign language training fees to enhance the vocational capacity of our employees and support their self-development. In 2016, a total of 2,974 counts of vocational capacity development training were provided to employees, incurring an annual cost of KRW 4.129 million per employee.

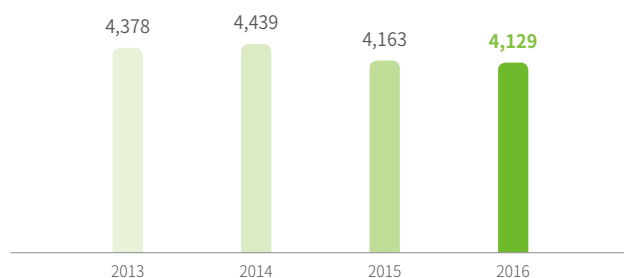
### Number of Vocational Capacity Development Training

(Unit: Number of cases)



### Training Cost per Employee

(Unit: KRW thousand won)



## Welfare Benefits

KSD's welfare policies encourage employees to feel proud of their workplace by creating a pleasant work environment in which they can focus on their work. In particular, we promote various welfare policies such as providing leased corporate housing and boarding house to help employees working in the Busan Office settle down after relocation. In 2016, we established Employee Welfare & Services Team to take charge of handling employee welfare benefit matters.

### Vision

Balance between Life, Work, and Home

### Mission

Employee First

Family Satisfaction

Enjoyable Workplace

Wellness Planning

TRUST

FUN

PRIDE

HAPPINESS

### Major Welfare Benefit Policies

Categorization	Description
Living and Culture	<ul style="list-style-type: none"> <li>Home purchase and rent lending program, leased corporate housing and boarding house support, and special subscriptions</li> <li>Support for children's tuition fees</li> <li>Corporate condominium and employee welfare fund program</li> </ul>
Medical and Health	<ul style="list-style-type: none"> <li>Regular medical examinations</li> <li>Support for medical fees</li> </ul>
Congratulatory and Consolatory Event Support	<ul style="list-style-type: none"> <li>Congratulatory and consolatory leave, congratulatory money</li> <li>Disaster compensation and disaster relief support</li> </ul>
Vacation System	<ul style="list-style-type: none"> <li>Annual leave</li> <li>Sick leave</li> <li>Maternity leave</li> </ul>

## Family-Friendly Management

### Maternity Protection

KSD offers a nursing room and a rest area for pregnant women in support of female employees who are pregnant or raising children. We also provide leave for prenatal exams and infertility leave in addition to basic childcare leave. Furthermore, we actively support the government's policies to promote childbirth by supporting child immunization fees, thereby lowering the economic burden on employees who are raising families. Finally, we help our employees find a balance between work and family by running three daycare centers in the headquarter and Seoul office, with plans to continuously expand the capacity of each center.

### Childcare Leave Status

(Unit: Number of persons)

Categorization	2013	2014	2015	2016
Persons on parental leave	10	9	13	5
Persons on childcare leave	9	14	19	15
Persons returning to work after childcare leave	9	14	18	11
Persons with over one year of service after returning to work	9	14	15	6

### Promoting Safety and Health

KSD offers management programs to promote our employees' physical and mental health. We provide financial support for regular medical examinations and cover medical fees, while operating fitness centers at our Busan headquarter and Seoul office, respectively.

In addition, the Employee Aid Program (EAP) helps our employees to effectively manage their stress and mental health.



Parent Participation Activities at a KSD Daycare Center

### Certified as a Family-Friendly Workplace

The family-friendly workplace certification program designates institutions with exemplary family-friendly work environments in which employees can harmoniously balance their lives at both work and home. In 2012, KSD was certified as a family-friendly workplace by the Ministry of Gender Equality and Family for creating a family-friendly company culture and training family-friendly work environment specialists, among a wide range of efforts. This led to KSD earning a renewal of the certification by the Ministry of Gender Equality and Family in 2015.



### Establishing Human Resource Allocation Principles

Recognizing that employees may experience reduced job satisfaction after being assigned to remote posts following the relocation of the headquarter, KSD has improved our human resource allocation methods. First of all, we gathered feedback from our employees via various channels, which confirmed that they were experiencing increasing anxiety over separation from family and the absence of specific principles for human resource allocation.

In this regard, we have established job transfer principles, according to which the number of transfers required in each region is calculated in consideration of work stability and personnel appointments are made among a priority group that is selected in advance. Such allocation of human resources has enabled employees to make transfer plans ahead of time with their family members, which helped to enhance employee satisfaction and reduce work-related risks.

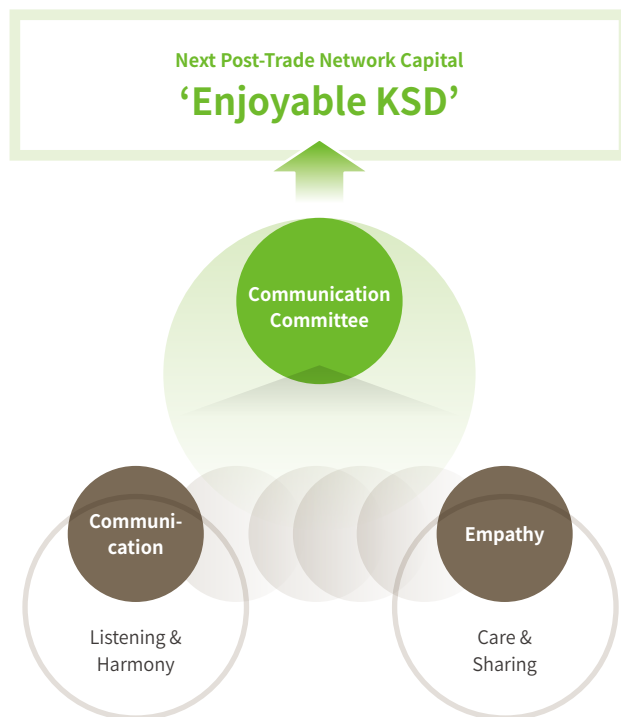
### Activities to Gather Employee Feedback



- Informational session on human resource allocation principles (1 session)
- Employee survey via the company portal (2 times)
- Individual grievance counseling (140 times annually)

## Corporate Culture

The Korea Securities Depository (KSD) endeavors to create a healthy corporate culture in which employees can find happiness in their work through communication and empathy.



## Activating Communication

KSD builds a corporate culture in which our employees feel free to communicate with each other. The Communication Committee, consisting of the smaller Communication Committees of each department, explores ways to promote a culture of communication and maximize each employee's potential by breaking down any walls between employees by putting servant leadership into practice. For example, the CEO explains major management issues to all employees and builds a consensus by encouraging them to freely share opinions. We also operate various consultation bodies serving different purposes in order to promote communication and form a decision-making system. Major management issues are shared with all employees in a transparent manner by uploading relevant information on the company bulletin board and announcing meeting outcomes via email.

In 2016, the corporate title structure was adjusted in an attempt to encourage flexible and horizontal communication among employees. In 2017, KSD underwent a corporate culture diagnosis and consulting session to create a sound corporate culture built on mutual respect and consideration.

## Improving Working Conditions

In an effort to gather employee feedback on ways to improve working conditions and apply them to our business plans, KSD held an employee proposal contest. In the four areas including strengthening business competitiveness, opening new markets and discovering new business projects, 160 proposals were submitted, of which 40 were selected. The selected proposals will be reflected in business plans and implemented, the progress of which will be managed on a quarterly basis.



① Labor-Management New Year's Hiking



② Autumn Sports Day

## 03

## Customer Value Creation



## Risk &amp; Opportunity

The current global business environment surrounding the financial industry emphasizes the creation of maximum customer values through responsible and customer-centered finance, as opposed to quantitative performance-oriented growth. Moreover, it is becoming increasingly important to stabilize the corporate IT environment and protect personal information in the face of rapidly developing information and communications technology (ICT) and the increasing frequency of security incidents such as hacking through external networks and internal leaks.

## Our Approach

KSD has established and is operating a customer satisfaction management system attuned to the changes in the internal and external business environments, such as the expanding institutionalization of the stock market, adoption of the electronic securities system, and stabilization after relocating our headquarter to Busan. KSD strives to achieve customer happiness values by providing optimal customer-centered services. Furthermore, KSD proactively responds to ICT-related risks by securing the IT stability of our services and strengthening security management based on our newly established mid- to long-term strategies.

## Key Performance



PCSI (Public-service Customer Satisfaction Index):  
**Highest level (S)**  
for three consecutive years



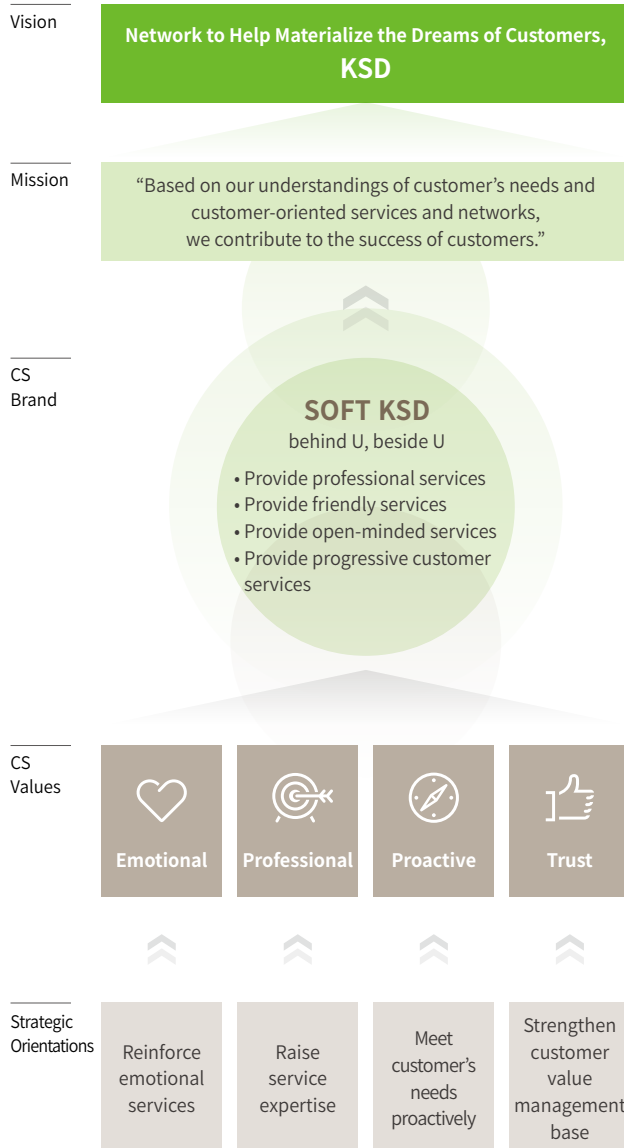
CS activities to promote customer values:  
**232** activities  
per year



Financial and economic education programs provided to **19,190** people

## Customer Satisfaction Management System

KSD established a customer value -oriented CS strategy system to improve customer satisfaction and service quality.



## CS Implementation Governance

KSD has established a company-wide organizational system to achieve customer happiness. CS Management Committee is responsible for establishing the major directions of the company's customer satisfaction management and making relevant decisions while the CS Leaders Conference endeavors to improve and promote CS activities. Customer Satisfaction & Support Center, the department in charge of CS activities manages the implementation and execution of the actual CS activities.

Name of Organization	Major Responsibilities	Composition
CS Management Committee	Highest decision-making body for CS management	Approximately ten persons including the Senior Managing Director(s), Division Director(s), Department Head(s) and Team Manager(s)
CS Leaders Conference	Improve and promote CS activities within departments	Team Manager(s) and staff of each department
Customer Satisfaction & Support Center	Implement and execute CS activities	Team Manager(s) and staff of the department concerned

## Strengthening Customer Communication

### Launch of the Bluebird Team in Customer Satisfaction & Support Center

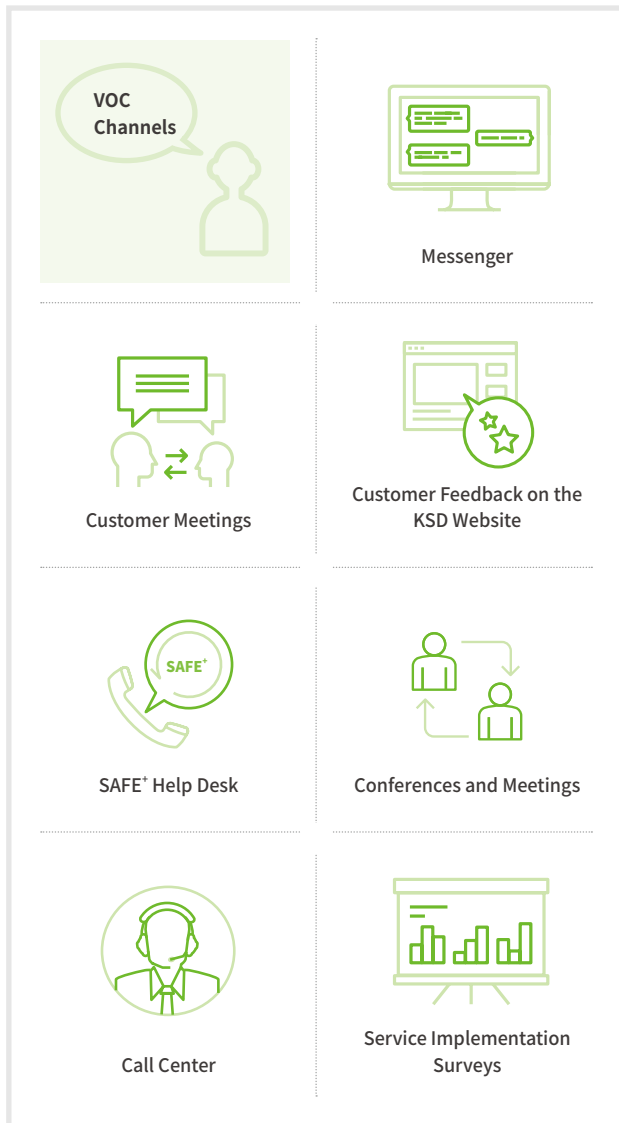
In 2017, KSD launched Bluebird Team in Customer Satisfaction & Support Center consisting of experts in various fields such as project specialists, IT specialists, and attorneys. We provide visiting services for each region with high customer density, according to each customer group, and according to each business issue. This enhances our business effectiveness and stability by responding proactively to customer complaints and problems through active communication.



Launch of the Bluebird Team in Customer Satisfaction & Support Center

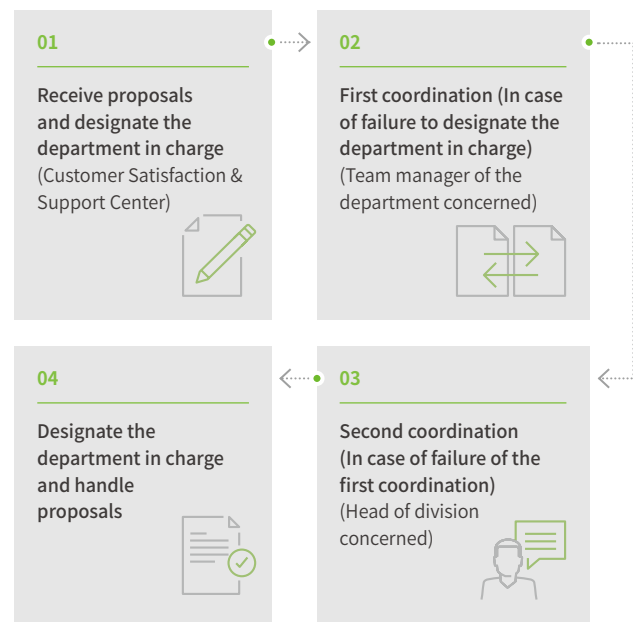
## Advancing the VOC Management System

KSD operates a variety of Voice of Customer (VOC) channels through which we actively identify customer needs and reflect them in our management activities.



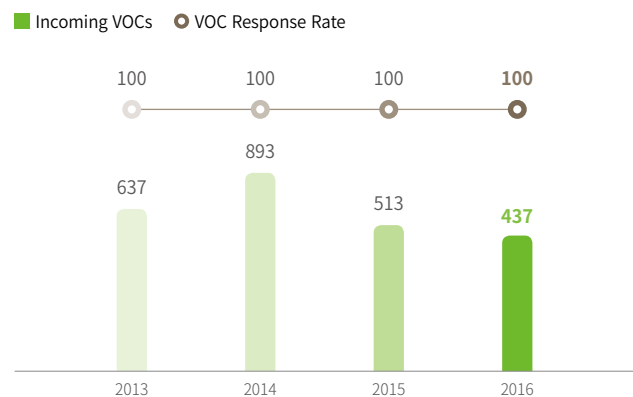
In 2016, KSD established plans to improve VOC management and standardized the process for selecting the department to take charge of customer feedback management. We further advanced the VOC management system by providing feedback on the handling of customer proposals and offering compensation to employees and their collaborators who implement customer proposals.

### Standardizing the Process of Selecting the Department in Charge of Customer Feedback Management



### Number of VOCs

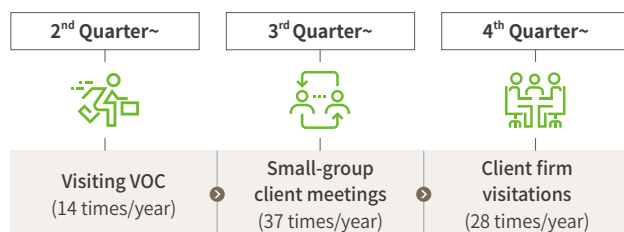
(Unit: Number of Cases, %)





## Implementing CS Campaigns to Enhance Customer Values

KSD actively implements CS campaigns to enhance customer values by holding customer invitation events in the Busan headquarter and carrying out various CS activities. KSD holds CS workshops for departments in charge in the Busan office and top clients to reinforce mutual understanding and cooperative relationships. We also carry out face-to-face customer services such as the visiting VOC service, holding small-group client meetings, and visiting client firms.



KSD has organized 15 conferences covering various client groups, through which KSD receives feedback and builds a consensus regarding our business activities. The Participant Conference, in particular, is our representative customer conference providing participants with information on improvements and changes regarding deposits, settlements, entitlement management and data control, introducing new programs, gathering customer proposals, and discussing future plans. In 2016, the Participant Conference was held on four occasions, covering 14 agenda items and identifying areas of improvement from the customer's perspective. Other VOC efforts include holding client meetings hosted by Division Directors and offering rewards to best proposals and clients whose proposals are selected. We also hold appreciation events for top clients, offering tickets to cultural performances and other rewards as a way of sharing values.

## Customer Satisfaction Monitoring

KSD conducts regular monitoring of our CS activities and an internal survey of customer satisfaction, identifying areas of improvement in our customer value creation activities and taking measures accordingly. As a result of these efforts, KSD scored 96.5 points in call service monitoring in 2016, earning a higher score each year for three consecutive years, and obtained the highest grade (S grade) with 95.8 points in the Public-service Customer Satisfaction Index (PCSI).

## Strengthening CS Capacity

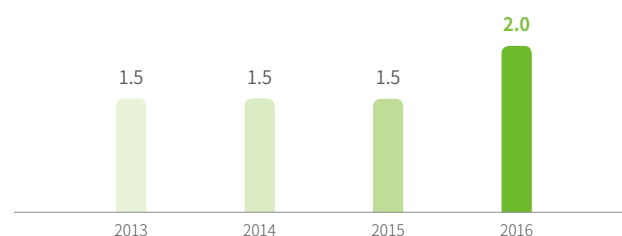
### CS Training Programs

KSD offers customized CS training programs including employee CS training, specialized training for individuals in charge of CS, and CS training for MOT personnel. Every year, KSD provides CS training to employees and all branches, in addition to CS capacity-building training to CS leaders in departments that deal directly with customers. Moreover, KSD provides specialized CS training to employees on the front lines of customer service such as Contact Center agent to help them acquire the skills required to deliver optimum customer service.

#### Training Programs

Categorization	Content
CS Leaders Conference	Discuss and share points of improvement in CS (At least once every quarter)
CS Capacity-Building Training	Overnight training to CS leaders on the front lines of customer service (Once a year)
Employee CS Training	CS special lecture to all employees (Twice in the Seoul and Busan offices, respectively)
MOT Training	MOT employee training (Twice a year)
Contact Center Agent Training	Contact Center agent training (19 times)

#### CS Training Performance (Hours of CS special lectures completed per employee)



## CS Compensation System

KSD has various CS compensation programs as part of our efforts to pursue customer satisfaction management. Such programs include providing CS outstanding employees with opportunities to receive overseas CS training and awarding prizes to top "Yes mileage" earners and employees who receive a perfect score on phone monitoring conducted on a semi-annual basis. In addition, CS scores are reflected in the internal evaluation index, allowing employees' CS efforts to be recognized as part of their performance.

## Enhancing Customer Satisfaction through Customer-Centered Services

To stabilize customer satisfaction management since relocating our headquarter to Busan, KSD creates customer values by providing customer services attuned to local communities and carrying out various activities to support our customers including financial education programs.

### Local Community-Based Services

KSD offers local community-based services to implement customer support tailored to the characteristics of the region and has established an efficient work system for early settlement of new financial services in the region. Particularly in Busan where KSD's headquarter is located, KSD offers support services to help the growth of local small- and medium-sized enterprises and venture companies; for instance, by offering information sessions on crowdfunding. We also provide business support services and educational programs on stock trading and contracting, which were previously insufficient given the lack of geographical access. Furthermore, to provide locally-based services more effectively, we build the capacity of our employees by providing support staff with training programs and strengthening the monitoring system through the Support Business Conference.

## Enhancing Financial Capacity through the Financial Educational Systemization

KSD maintains a cooperative relationship with customers by developing and providing financial education programs that meet the various needs of our customers. KSD offers financial education to local residents and the young adults who are our future potential customers by cooperating with advanced financial research institutes, in addition to opening finance departments and lectures at universities in Busan, Ulsan, and other cities of Gyeongnam Province as well as Qingdao University in China. Through these efforts, KSD endeavors to contribute to enhancing financial capacity by systematizing financial education.

### Customer Education Service Performance

#### Customer Training

Categorization	Unit	2014	2015	2016
Number of Sessions	Times	36	57	80
Number of Participants	Persons	2,328	4,873	5,438

#### Financial Education

Categorization	Unit	2014	2015	2016
Number of Sessions	Times	357	503	518
Number of Participants	Persons	18,729	25,851	19,190

### Locally Specific Activities

#### Busan

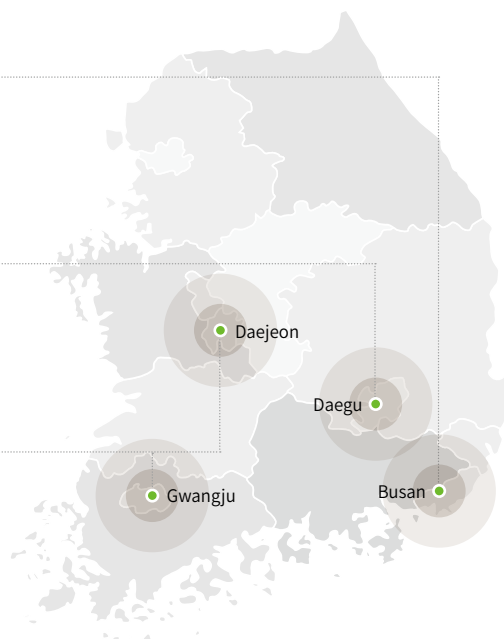
- Establishing educational programs to enhance support capacity
- Providing growth support services to locally based venture companies and SMEs
- Providing consulting on securities transaction services and electronic short-term bond infrastructure services

#### Daegu

- Expanding growth support services for start-up companies
- Expanding financial educational programs in connection with locally based institutions
- Strengthening customer service and risk management

#### Daejeon/Gwangju

- Strengthening support services for locally based venture companies and SMEs
- Establishing an effective local customer management system
- Inspecting the risk management system to build a stable work environment

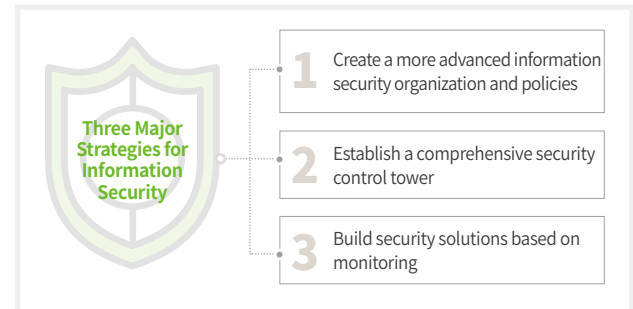




## Strengthening IT Stability and Information Security

### Mid- to Long-term Strategies for Information Protection

Based on our three major information security strategies, we have established mid- to long-term strategies with 14 tasks to be implemented in stages in order to create a more advanced information security system.



### Establishing a Comprehensive IT Security Management System

KSD maintains a high level of security and comprehensively manages IT security through various means. First, we operate an organization in charge consisting of experts in relevant fields. Also, by investing an appropriate budget in IT security, we strictly manage the qualitative implementation of our information security system. Furthermore, we constantly establish and revise regulations on information security to reflect the latest policies and technology trends in practice, and clarify the grounds for performing security works.

#### Information Security Management Requirements by Financial Authorities

	Requirements by Authorities	KSD
Information Security Personnel	5% or more of IT personnel	Approximately 6%
Information Security Budget	7% or more of the IT budget	Approximately 20%

\* As of 2017

### Enhancing Information Security Awareness

In response to increasing damages caused by security incidents in all parts of society, KSD endeavors to strengthen the awareness of information security among our employees. We conduct mock training sessions to respond to a security incident based on a simulated scenario and offers regular information security training to all employees. Through these efforts, we help our employees to develop a strong awareness of information security in conducting their day-to-day work.

Categorization	Description
Internal Education	<ul style="list-style-type: none"> <li>Group training on privacy protection and information security (Once a year, respectively)</li> <li>Departmental training on privacy protection and information security (At least twice a year)</li> <li>Online · offline education on information security (Regularly)</li> </ul>
Training	<ul style="list-style-type: none"> <li>Mock training in response to cyber-attacks (Once a year)</li> <li>Mock training in response to privacy breach incidents</li> </ul>
PR Materials	<ul style="list-style-type: none"> <li>Published and distributed a casebook of privacy breach incidents</li> <li>Published and distributed newsletters on privacy protection (Twice a year)</li> </ul>

## BUSINESS CASE

### Enhancing the Stability of the Depository and Settlement System (SAFE<sup>+</sup>)

KSD has established a protection and management operation model suitable for institutional characteristics such as systematic disaster management for the depository and settlement system designated as the national infrastructure. Using a three-step approach of “Plan” (establishing comprehensive and detailed plans), “Do” (conducting mock training and regular damage recovery training) and “Check” (improving vulnerabilities), we are improving the level of our emergency management through this model. Furthermore, we are providing an internal IT training system to reduce risks caused by regional rotation and turnover of IT personnel. As a result, we have earned high credibility for our IT system and were awarded the Prime Minister Award by the excellent institution (A grade) certification in the ‘2016 National Disaster Management System Assessment’ as the only enterprise in the financial industry to reach this achievement.



# 04

## Strengthening Business Competitiveness



### Risk & Opportunity

In a time of slow growth and low interest rates, we face rising uncertainties in the domestic and global economy as well as stock market fluctuations. In such a volatile financial environment, we are seeing changes in the overall structure and businesses of the depository and settlement industry. These changes include the introduction of electronic securities system as well as rising of the FinTech industry and innovative financial IT technologies.

### Our Approach

KSD makes it a top priority to adopt the electronic securities system in response to various changes in the internal and external business environment. We have also established a systematic business management system for responding to new technological advancements and strengthening the overall competitiveness of the depository and settlement industry, while exploring new business areas for the future.

### Key Performance



Strengthening support for the robo-advisor industry



Establishing the individual savings account (ISA) support platform



Expanding the global financial infrastructure



Supporting crowdfunding and the FinTech industry

## Providing Globally Competitive Services in Depository and Settlement

Business operations depository and settlement services constitute the core operations of the Korea Securities Depository (KSD), consisting of a centralized depository service, settlement service, and transfer agency service.

## Adopting the Electronic Securities System for Advancing the Capital Market

In an effort to reduce social costs associated with the issuance and distribution of paper securities and to root out forgery and alteration, KSD initiated the electronification of securities since 2008, in close cooperation with relevant authorities including the Financial Services Commission and the National Assembly. With our extensive support of the National Assembly's legislative efforts, the Act on the Electronic Registration of Securities, Bonds, Etc. (the "Electronic Registration Act" hereinafter) was promulgated in March 2016. We further contributed to laying the legal foundation for the electronification of securities by providing systematic support for the Financial Services Commission's efforts in establishing the Enforcement Decree of the same Act in addition to enacting and amending relevant laws and regulations.

Following the enforcement of the Electronic Registration Act, significant changes are expected to occur in the securities business system in the capital market. In response to these changes, KSD established a central organization in charge of the electronic securities business and a support organization, based on which we initiated business process reengineering (BPR). Upon identifying 326 issues for each business area in cooperation with internal and external organizations, we received BPR consulting on adopting the electronic securities system and establishing relevant systems.

### 01

#### Identifying implementation tasks



- Identifying **326** issues in 14 business areas  
- 240 tasks connecting two business areas,  
71 tasks connecting three or more business areas

### 02

#### Identifying major tasks



- Tasks in major business areas: **30**
- Implementation measures in each business area: **40**

### 03

#### Identifying matters of consultation

- Matters of consultation with securities companies, transfer agencies and supervisory agencies: **35**

Through these efforts, we have laid the foundation for developing a stable electronic securities system and expect a reduction of KRW 430 billion in the first five years of adopting the system.

## Promoting the Electronic Voting System

Considering the lower participation of shareholders than of corporations in the use of the electronic voting and proxy services, KSD, as the only electronic voting management institution in Korea, has carried out various activities to promote the system in order to protect the rights of minority shareholders. First of all, we submitted an opinion to the National Assembly on the legislative effect and improvement measures of the electronic voting system. We also supported the legislation by the National Assembly on the amendment of the Commercial Act by hosting the 2016 International Conference of the Korean Capital Market Development, helping to raise awareness of the need for domestic legislation.

### Activities to Raise Awareness of the Electronic Voting System

Conferences		Strengthening on-site communication through national tours of relevant organizations such as the Korea Listed Companies Association
Media Advertising		Raising awareness and encouraging the participation of shareholders using banner advertisements via portal sites
Public Relations		Publicizing the issue of the electronic voting system via media including press releases (8 times)

Furthermore, we enhanced the utilization of the electronic voting system by linking the system with the securities information portal system Securities Information Broadway (SEIBro), providing shareholders with the financial status and general management information of corporations before they exercise their voting rights. With the spread of positive understanding of electronic voting and proxy services in step with efforts to increase stakeholder convenience, the autonomous use of electronic systems including electronic voting system has become much more active.

### Utilization of the Electronic Voting and Proxy Services

Categorization	Unit	2015	2016	Increase Rate
Number of Uses	Number of Cases	743	1,071	44.1%
Participating Shareholders	Number of Persons	7,912	14,752	86.4%
Exercised Shares	10,000 Shares	26,014	54,309	108.7%

## Strengthening the Competitiveness of Investor Support Services

Using FundNet, a system designed to support collective investment operations, KSD supports the effective management of the entire process of fund-related business including the establishment, redemption and settlement of funds, and the distribution of fund-related information.

## Strengthening the Support of the Robo-Advisor Industry

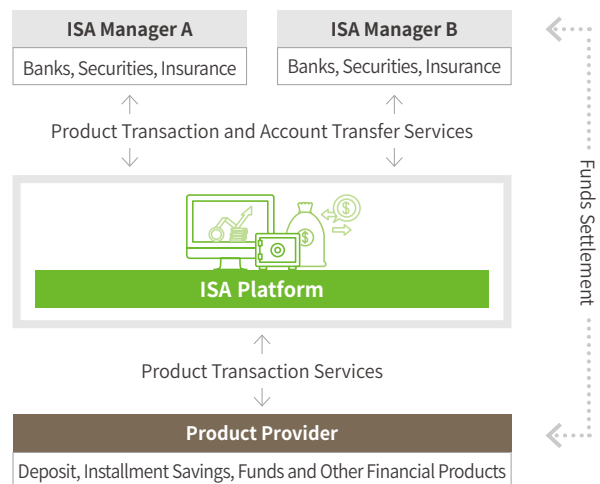
In response to the government's push for the development of the service economy, KSD expanded activities to support the adoption and initial stabilization of the robo-advisor system. We developed an administrative support system for the Robo-Advisor Test-Bed (RATB)\*, the functions of which include the authority management of participating organizations, management of identifier codes and other information, and the development of programs linked with the managed asset platform (MAP) and customized programs for RA companies. By running the first RATB, we completed test verifications of 24 out of 29 companies, thereby contributing to the successful commencement of RA services by the Financial Services Commission in May 2017.

\* RATB: A tool which uses an automatized system and verifies the capabilities of robo-advisors that provide financial services such as asset allocation and management

## Establishing the Support Platform for Individual Savings Accounts (ISA)

In an effort to minimize the burden placed on the industry to establish relevant infrastructures following an early introduction of ISA products and to effectively manage related business, KSA established ISA-Net, a single platform providing support to ISA managers. In 2016, ISA-Net handled 7 million counts of asset management information and had the participation of 75 institutions, playing a leading role in the promotion of the ISA system, while reducing costs and enhancing the overall effectiveness of the industry's operational practices.

### Operational Structure of the ISA Platform



## BEST PRACTICE

### Expanding Participation in the Retirement Pension Platform

In 2015, KSD established and initiated a retirement pension platform which supported the management of retirement pension funds based on a standardized approach. Due to differing conditions of participation among retirement pension providers, however, the platform was not as actively used as anticipated. In 2016, in order to solve problems with the existing system, encourage the participation of all retirement pension providers, and minimize the burden of cost on the providers, we established a commission system. We held a conference for all retirement pension providers introducing the revised platform and commenced the extended platform in June 2016.

As a result, KSD enhanced the effectiveness of business operations and convenience of services by achieving the participation of all retirement pension providers. In recognition of our performance in achieving shared growth in the industry and increasing market efficiency, we had the honor of being awarded the Special Prize at the 3<sup>rd</sup> Korea Retirement Pension Award.



The 3<sup>rd</sup> Korea Retirement Pension Award

## Expanding Global Financial Infrastructures

International depository and settlement services consist of international investment services supporting the crossborder issuance and distribution of securities as well as foreign currency securities depository and settlement services supporting investments in the global capital market. As of September 2017, KSD provides foreign currency securities depository and settlement services to 38 countries worldwide and is expanding the services to more countries in reflection of the rising demands of overseas investment by Korean nationals.

### Strengthening the Export of Financial Infrastructures through Activities in International Organizations

In order to lay the foundation for expanding exports, it is essential to build a global network and a cooperation system by actively participating in international organization activities. In this regard, KSD made multiple efforts to be elected as the chair institution of the Asia-Pacific Central Securities Depository Group (ACG), including face-to-face marketing, election planning, and sending out CEO's letters, which resulted in KSD being elected as ACG's chair institution in March 2017. By strengthening the foundation for exporting Korean financial infrastructures, we expect to contribute to the financial hallyu (Korean wave).

### Expanding Financial Infrastructures on the Global Stage

KSD is expanding financial investment business opportunities in the international securities market by initiating the development

of a central securities depository (CSD) linked model reflecting the characteristics of each country. In China, for instance, we established a CSD-linked model by which KSD handles settlement and storage services on behalf of foreign storage companies. In Iran, we established a CSD-linked investment support platform allowing investment opportunities relating to treasury yields to be provided to domestic financial companies through public diplomacy.

### Promoting the Export of Financial Infrastructures through Marketing in Major Countries

In an effort to open up new business areas in financial hallyu and build a solid foundation for creating consistent profit, KSD has diversified global marketing channels. For instance, we signed additional contracts in Indonesia and Vietnam as a result of direct marketing activities, carried out marketing activities in relation to the Center for International Financial Cooperation, and diversified overseas businesses through international financial organizations.

#### Indonesia

Signed an annual USD 92,000 fund system maintenance contract



#### Vietnam

Signed an advisory service contract regarding fund infrastructure improvement



#### Iran

Introduction of business and marketing, presentation at the International Financial Cooperation Forum



#### Mongolia

Promoted consulting regarding the advancement of clearing and settlement services



## BEST PRACTICE

### Commencing and Stabilizing a Fund System in Indonesia

At the request of the KSEI, Indonesia's central securities depository, KSD developed a centralized operations management system for advancing the Indonesian fund market. The system, built using only domestic technologies, will serve not only as an example of the excellence of Korean financial infrastructures but as a bridgehead for expanding export opportunities in the future by yielding KRW 1.37 billion in net profit against gross profit and cost. Furthermore, we contributed to strengthening the cooperation between the two countries by building trust-based relationships with the Indonesian Financial Services Authority and financial companies.

#### 1 System Development and Unit Test

- Developed an operations program for management support and information management, and completed a unit test



#### 2 Comprehensive System Test

- Generated 658 test cases and 98 scenarios
- Conducted an intensive comprehensive test 5 times to commence the system



#### 3 System Commencement and Stabilization

- Opened a fund system in Indonesia
- Free maintenance and no defects during the stabilization period

## Policy Support for the Future Financial Industry

In line with the government's drive for promoting start-up businesses, the Korea Securities Depository (KSD) works to support the growth of the future financial industry.

### Support for Promoting Crowdfunding

#### Establishing and Operating the Support Platform for Crowdfunding

Following the implementation of the equity crowdfunding system to promote funding for start-up businesses, KSD as the central record management institution undertakes various activities to create an ecosystem for crowdfunding. By establishing and operating a central record management platform which provides intensive management of crowdfunding information and investment·issue limit, we raised KRW 18.3 billion by crowdfunding, thereby contributing to promoting funding for start-up businesses. Moreover, we expanded public access to crowdfunding information by operating the CrowdNet, crowdfunding homepage, and the Funding Information Archive which intensively posts data including closing statements of crowdfunding companies.

#### Raising Awareness of Crowdfunding and Enhancing Capacity

In order to promote the use of the crowdfunding system, KSD carried out multiple PR activities including TV advertising, hosting a booth at the Advance Movie Screening for Financial Reform and operating a crowdfunding exhibit hall at the Seoul Money Show. Further efforts to support the growth of start-up businesses include providing 33 training sessions on the crowdfunding system to the occupants of the Start-Up Business Center and the Center for Creative Economy and Innovation, as well as offering 80 sessions of financing consulting to the occupants of the Cultural Creation Finance Zone.

### Supporting the Growth of the FinTech Industry

In response to rising demands to promote the domestic FinTech\* industry, KSD supports profit models by FinTech start-up businesses as part of our efforts to expand activities that create added value utilizing our securities information. In 2016, we held a Demo Day at the FinTech Support Center, opening an open platform and carrying out various promotional activities. In addition, by organizing the FinTech Support Conference, we contributed to the service development of 12 start-ups. Furthermore, by providing customized securities information we helped two start-ups officially launch their services, after which KSD was selected by the government as a best practice case in business management.

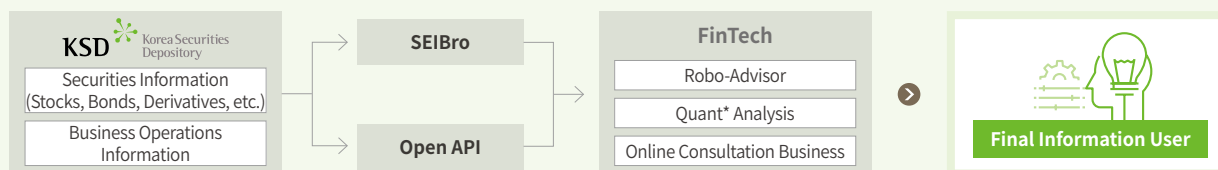
\* FinTech: A compound word of "finance" and "technology," FinTech refers to changes in the financial services and industry as a result of combining finance and IT

## BEST PRACTICE

### SEIBro Open API is Selected as a Best Practice in Business Management

In support of the core tasks of the government's 3.0 policy – opening up public data and supporting the FinTech industry – KSD has provided customized securities information on 43 items in 7 areas in the form of Open API through the SEIBro Open API\* homepage and the Public Data Portal of the Ministry of the Interior and Safety, in addition to supporting the development of new services by start-up businesses. In recognition of such efforts, KSD received an excellence award at the 2016 Government 3.0 Contest hosted by the Financial Services Commission, and selected as a 2016 Best Practice in Business Management by Public Institutions.

\* Open API: A form in which public data is open whereby Internet users can not only access data but develop or utilize applications and services



\* Quant: Investing by predicting the financial market based on mathematics, statistics, etc.



# Special Issue

## Proactive Response to the Fourth Industrial Revolution

At the advent of the Fourth Industrial Revolution, the Korea Securities Depository (KSD) seeks to advance the depository and settlement services by actively adopting innovative technologies such as big data and blockchain\*.

### Establishing a R&D System in Response to Changes in IT Trends

In response to changes in IT trends following the advent of the Fourth Industrial Revolution, KSD is establishing a permanent R&D system for innovative technologies by benchmarking domestic and global advanced technologies. We are exploring various measures for applying innovative technologies to the overall depository and settlement industry by organizing the Innovative Technology Committee, which has the participation of all executives including the CEO, and the Advisory Committee consisting of external experts.

#### Benchmarking Advanced Technologies

- Participated in the Global Blockchain Consortium
- Proposed a business consultation for the Global Blockchain Consortium and collaboration for blockchain PoC
- Launched the Blockchain Conference of Financial Institutions
- Conducted a technology survey of blockchain start-ups (technology trends, application cases)

#### Technology Survey and Seminars

- Hosted a seminar and participated in a conference on the technological structure of blockchains and application cases
- Established a departmental cooperation system and hosted a PoC technology seminar

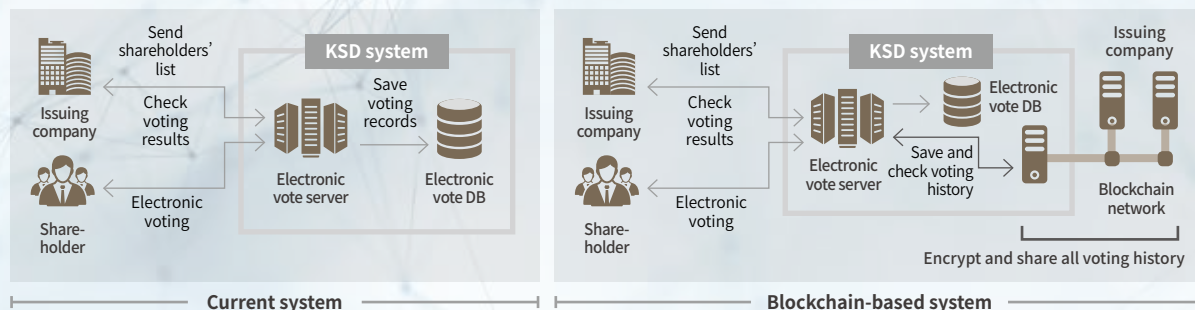
### Developing Securities Information Products Using Big Data

In order to secure competitiveness in the future securities information market using big data, KSD has organized a reference group to evaluate the securities information and analyze big data, in addition to undertaking consulting to establish a roadmap for securities information business using big data. Through these efforts, KSD identified ten new user-based securities information products such as stock lending and borrowing for different leverage types, and will further develop them into new businesses.



### Establishing a Blockchain-Based Electronic Voting System

A blockchain-based electronic voting system brings the existing electronic voting system together with the blockchain technology, enabling votes to be saved on blockchain and the results checked in real-time. In 2017, KSD completed the proof of concept (PoC) on blockchain-based electronic voting and will conduct a pilot service and commercialize the system in 2018. Through these efforts, KSD seeks to prevent any possibility of hacking and manipulation of voting results, thereby enhancing shareholders' trust.



\* Blockchain: A technology of recording all transactions in blocks using distributed ledger technology, and jointly recording and managing ledgers between participants by additionally linking blocks to existing ones once their validity is secured

## 05

## Corporate Social Responsibility

Risk &  
Opportunity

Following the introduction of the social value evaluation for public enterprises, there are increasing public awareness and social demands for companies to fulfill their corporate social responsibilities. In this regard, companies are required not only to yield financial performance but create social values by supporting public needs through active communication with local communities, while actively responding to the issues of achieving shared growth and reducing greenhouse gas emissions.

Our  
Approach

KSD not only plays a central role in the Korean capital market but endeavors to fulfill our responsibilities as a corporate citizen by carrying out various regional development activities in Busan. We also provide support to help SMEs to become more competitive. In response to climate change, we actively support global efforts by participating in a Forest Carbon Offset project and creating low carbon financial infrastructure.

Key  
Performance

Execution cost for  
social contribution  
KRW **2.36** billion



SME product  
purchasing ratio  
**82.0%**



Greenhouse gas  
reduction rate exceeding  
BAU Level  
**22.56%**



## Social Contribution

Rather than rely on donations and sponsorships, KSD responds to social and environmental issues more effectively by participating in social investments and activities related to our business.

### Social Contribution Strategy



## Financial Education

### Projects Associated with the KSD Securities Museum

As a representative social contribution project utilizing the characteristics of the business, KSD offers Securities Museum joint programs for youths including career exploration programs and special vacation programs. In 2016, a total of 10,111 participants joined the youth programs held on 165 occasions. In addition, we initiated the establishment of the Busan Securities Museum which is expected to become a landmark of the financial hub in Busan.

### "Dream Start" Financial Education Program

KSD helps students establish sound financial values and grow into responsible members of the society through the "Dream Start" financial education program. In 2016, a total of 5,953 students participated in the program, which was held on 274 occasions.



### Award of the Minister of Education at the Donation for Education Award

In 2016, we received the Award of the Minister of Education at the Donation for Education Award, in recognition of our contribution to promoting donations for education in finance and the economy for children from socially vulnerable families.



① Securities Museum Special Vacation Program    ② "Dream Start" Financial Education



① Korean Language Training Completion Ceremony in Vietnam ② Training in Korea Offered to Outstanding Vietnam Participants

## Global Social Contribution Activities

### Providing Korean Language Education to Capital Market Professionals in Developing Countries

Since 2014, KSD has been providing Korean language training to capital market professionals in developing countries such as Indonesia and Vietnam. In 2016, 2<sup>nd</sup> Korean language training was offered to 20 people in Indonesia, of whom the best three were invited to participate in a short-term training program in Korea which included experiencing the Korean capital market and traditional culture. In this way, KSD has contributed to expanding “financial hallyu” (Korean wave in the financial industry) by promoting the Korean language as well as the excellence of Korean capital market.

### Support Activities for the Socially Vulnerable

#### Youth Sponsorship

KSD offers a performance-based sponsorship program to vocational high school students, providing scholarships to students who receive top grades in economic and financial literacy certification exams. Unlike one-way donations, this program is a value-linked social contribution activity, offering support to those who earn it. In 2016, scholarships worth about KRW 200 million were provided to 29 vocational high schools and students achieving outstanding performance.

### Rural Support Programs

Since 2006, KSD has carried out rural support programs to strengthen communications between cities and farming/fishing villages. Forming partnerships with three villages, KSD has helped during high seasons, purchased agro-fishery products, participated in coastal clean-ups and supported village facilities, in addition to providing financial training to village residents.



#### Award of the Minister of Oceans and Fisheries the City-Farming/Fishing Village Exchange Award

In 2016, KSD received the award of the Minister of Oceans and Fisheries for its contribution to promoting partnerships between cities and fishing villages

### Support for the Disabled

To promote the welfare of the disabled, KSD has been involved in a wheelchair support project since 2012. In 2016, we donated KRW 50 million worth of stroller-type wheelchairs to 25 children with physical disabilities and brain lesions. As of September 2017, we have provided KRW 280 million worth of wheelchairs to 143 children with disabilities (Cumulative basis).

## BUSINESS CASE

### Impact Finance: KSD Participates in a SIB Project as the First Public Enterprise

With a view to contributing to society through finance, KSD has been conducting joint research on impact finance\* with the Korea Capital Market Institute since 2014. In 2017, we participated in a social impact bond (SIB) project as the first domestic public enterprise in order to promote impact finance and support the sustainable self-reliance of the socially vulnerable. The “Haebom Project” of Gyeonggi Province, an SIB project supporting the welfare exit of public assistance recipients, aims to help 20% of 800 participants to exit welfare through employment. KSD has plans to contribute to similar social contribution projects in the future.

\* Impact finance refers to finance in the form of investment and mortgage for the purpose of solving housing, cultural, environmental, and other social issues. Examples of impact finance include social impact bonds (SIB), micro finance, surety, and loans.

# Special Issue

## Social Contribution Activities in Busan

Following the relocation of our headquarter to Busan in 2014, KSD has carried out various social contribution activities to build cordial relationships in the region and support regional development. In 2016, we were awarded a meritorious award for our contribution to local industrial development.

### Enhancing the Capacity of Local Talents and Supporting Job Creation

In an effort to contribute to invigorating regional economic development through job creation, KSD employed 21 local talents from the Busan region in 2016 including permanent employees and youth interns. In addition, we contributed to enhancing the capacity of local talents and strengthening the finance industry infrastructure by supporting the opening of finance-related departments in three universities in Busan and providing CEO lectures on three occasions to university students in the region.

### Leadership Camp for Children from Socially Vulnerable Families

As part of our financial education programs, KSD invites children from socially vulnerable families to Summer Leadership Camps. Since relocating our headquarter to Busan, KSD has offered the program to children in the Busan region. In 2016, in cooperation with KSD Nanum Foundation, we invited 80 children from low-income families in Busan, helping them develop a sense of economy and healthy character through a variety of programs including participatory financial education workshops and character-building workshops which is improving the self-esteem and consideration.



Leadership Camp for Children from Socially Vulnerable Families

### Dream Come True Store Project for Disabled Small-Business Owners

Since 2015, the KSD Nanum Foundation has helped promote the self-support and self-reliance of the socially vulnerable in the local community by supporting disabled small-business owners in Busan through the Dream Come True Store project. In 2017, the 38<sup>th</sup> Dream Come True Store opened(cumulative basis) and KSD donated KRW 22.2 million worth of rice to a disabled welfare facility in Nam-gu, Busan, in celebration of the Day for the Disabled bought from a Dream Come True Store.

#### **23<sup>rd</sup> Dream Come True Store “Mokhwa Hair Salon”**

Mokhwa Hair Salon, located in a residential area in Haeundae-gu, Busan, underwent a makeover after being selected as the 23<sup>rd</sup> Dream Come True store. Since remodeling the store by replacing the signboard from its previous owner with a new one and restoring old furniture, more customers have been coming to Mokhwa Hair Salon. The store owner, who has been making a living for herself and her husband diagnosed with grade 1 disability (brain lesions), thanked the Dream Come True Store project team for their encouragement and showed her determination to work hard and share with the community in return for the support she was given.



Dream Come True Store “Mokhwa Hair Salon”



## Shared Growth

In an effort to achieve sustainable shared growth with small and medium-sized partners, KSD carries out a variety of activities to help enhance their competitiveness and establish a corporate culture of mutual growth through our SME Shared Growth Committee.

### Selecting Sustainable Business Partners

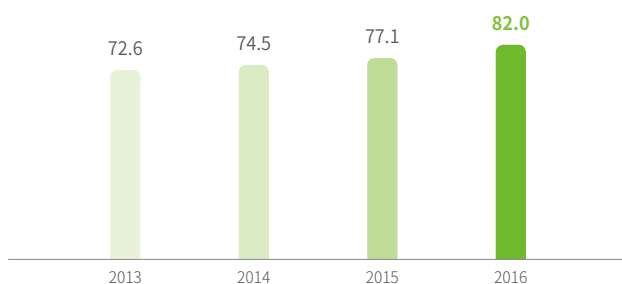
KSD reviews financial stability, credit rating, quality and delivery history in general when the screening and selection of business partners. We apply no explicit human rights standards, but examine their human rights management of employees. We also conduct annual transparency surveys of partners to inspect their transparency and identify any cases of corruption. The partners are required to sign transparency and fair transaction pledges as attachments to bidding or contracting documents. When this requirement is not met, bidding results are revoked, contracts terminated, or the eligibility to participate in bidding restricted.

### Supporting the Business Management Activities of Small- and Medium-sized Enterprises

KSD operates a crowdfunding central records management platform and a crowdfund, supporting the financing of start-up firms. In addition, we preferentially procure supplies from SMEs, technology developers, female-led corporations, social enterprises, and companies hiring severely disabled employees, to secure a market for SMEs and small businesses.

#### SME Product Purchasing Ratio(Compared to total purchases)

(Unit: %)



## Enhancing the Capacity of SMEs

KSD provides educational consultation to SMEs on securities service training to strengthen their business capacity pursuant to the MOU signed with the Korea Industrial Complex Corporation and the Korea Technology Finance Corporation, respectively. In 2016, we provided consultations on four occasions.

### Supporting the Direct Financing of SMEs and Venture Companies

To strengthen the financing functions of SMEs, KSD has established a repo trading system supporting the QIB (Qualified Institutional Buyers) market\* and held an informational PR event. By enhancing the utilization of securities through repo trading, KSD supported the government's policy on improving direct financing of SMEs and contributed to strengthening the direct financing of SMEs.

\* A market in which the obligation of public notice is mitigated to ease financing through the private equity market of SMEs and corporate bonds are traded among QIBs with investment risk-bearing capacity such as banks.

## Expanding Supply Network Communications

To achieve shared growth with our partners, KSD regularly holds the SME Conference to gather management proposals and monitor acts of corruption related to contract work and unfair work practices. We also use the Self-Management Committee of the Busan International Finance Center Occupants to find high-performing SMEs.

#### Business Partner Conference (Seoul, Ilsan)



- Operation: Regular meeting on a semi-annual basis
- Composition: Partners with a long-term contract of at least one year with KSD

#### Contracting Advisory Group (Busan, Gyeongnam)



- Operation: Regular advisory meeting at least twice a year
- Composition: Partners with recent contractual transactions of at least KRW 10 million

## Green Management

KSD is becoming established as a green financial corporation leading eco-friendly finance by minimizing our environmental impact and strengthening the low-carbon financial infrastructure.

### Establishing a Green Office to Reduce Greenhouse Gases

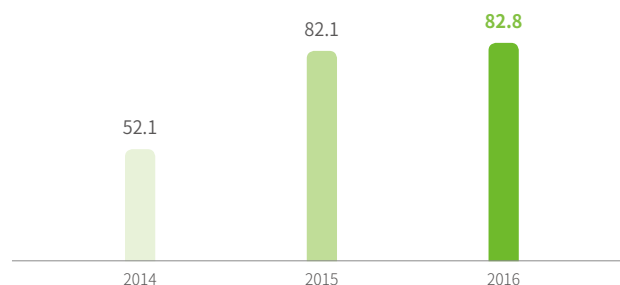
In 2016, KSD reduced the company's greenhouse gas (GHG) emissions by 22.6% more than the BAU level through efforts such as replacing office lighting with LED lights and installing double glazing windows. In addition, we are undertaking various energy-saving initiatives such as designating an energy saving manager and conducting energy saving training and campaigns. Other efforts include "green purchasing," prioritizing the purchasing of green products such as eco-friendly paper.

### Strengthening the Low-Carbon Green Financial Infrastructure

KSD contributes to building green financial infrastructure through business such as electronic securities and the electronic voting system. First of all, the electronic securities system saves the cost of issuing and circulating paper securities and reduces the consumption of resources. In addition, the electronic voting system helps reduce paper consumed for shareholder notice letters and ballots used at general shareholders' meetings and minimize the use of transportation to attend such meetings, indirectly reducing greenhouse gas emissions. We will make further efforts in the future to strengthen green finance in response to climate change.

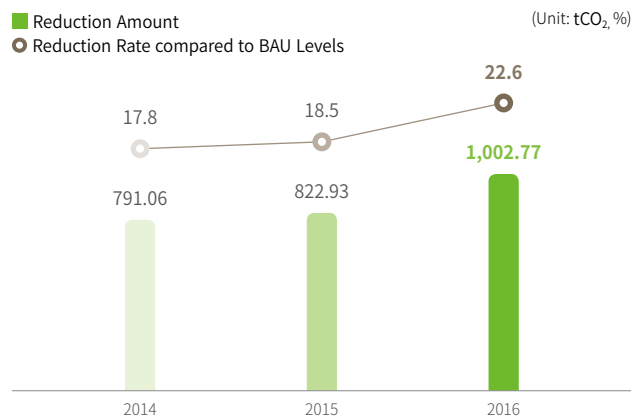
#### LED Light Replacement Status (Compared to Total Existing Lighting)

(Unit: %)



#### Greenhouse Gas Reduction Status (compared to BAU Levels\*)

(Unit: tCO<sub>2</sub>, %)



\* average emissions in 2006-2008

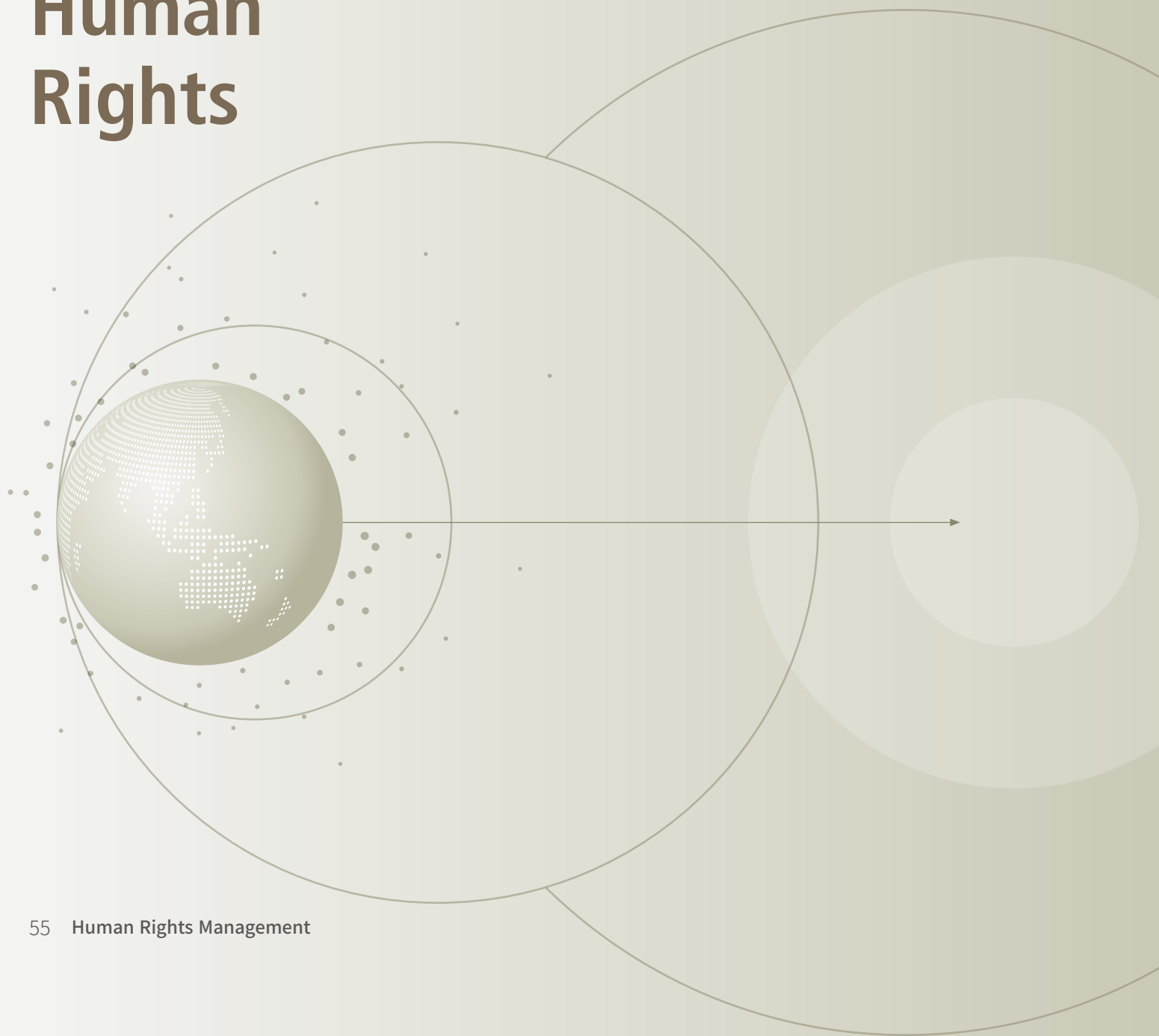
## BUSINESS CASE

### Participation in the Pyeongchang Forest Carbon Offset Project

Forest Carbon Offset is a voluntary engagement of enterprises, forest owners, and local governments, in which they undertake activities to reduce greenhouse gas emissions by increasing carbon sinks and obtain the government's certification for the amount of carbon absorption as a result of their activities. Since participating in the project in 2012, KSD has signed an MOU with the Korea Forest Service and Pyeongchang-gun and planted 7,380 birch trees in the 2.46ha forest in Pyeongchang. In 2017, additional trees were planted replacing 700 withered trees.

As a result of these efforts, KSD was able to secure 26 tons of tradable carbon absorption guaranteed by the Korea Forest Service in October 20, 2017 for the first time as a public enterprise. KSD donated 23 tons and the additional purchase of 909 tons of carbon credits to the Pyeongchang Organizing Committee for the 2018 Olympic Games, excluding the 3 tons from the secured 26 tons as an obligatory deposit amount.

# Human Rights



# Human Rights

## Human Rights Management System

As businesses are required to play more social roles in the society, the issue of human rights violations against employees, local communities, and business partners is garnering greater attention. The United Nations Human Rights Council recommends that businesses voluntarily align their business management practices with the UN Guiding Principles on Business and Human Rights, while the Human Rights Management Guideline and Checklist of the Anti-Corruption and Civil Rights Commission of Korea provides institutional standards by which to implement human rights management.

The Korea Securities Depository (KSD) recognizes human rights management as an important management issue. Accordingly, we have established a human rights management system in reflection of both domestic and international standards.

## Human Rights Management Governance Structure

In order to implement human rights management in a systematic manner, KSD will organize a Human Rights Management Commission, a Working Group, and a Secretariat. The Working Group will examine major human rights issues in each department and discuss matters for resolution, while the Commission will make decisions on major matters for resolutions. The Secretariat will examine the implementation status of human rights management and carry out various activities both inside and outside the company to raise awareness of human rights.

## Examining the Implementation Status of Human Rights Management

By conducting a voluntary examination of the implementation status of human rights management, KSD identifies and takes measures to eliminate any elements of human rights violations in its management practices. checklist

### Human Rights Management Checklist



#### Establish a human rights management system

- Establish and declare human rights policies
- Conduct a human rights impact analysis
- Take measures to institutionalize human rights management
- Manage and announce human rights management performances
- Provide relief measures to those vulnerable to human rights violations



#### Prohibit Discrimination in Employment

- Prohibit discrimination based on gender, religion, disability, age, region or place of origin
- Prohibit discrimination against temporary workers



#### Guarantee Freedom of Association and Right to Collective Bargaining

- Recognize the freedom of association and right to collective bargaining
- Guarantee employees' right to participate in union activities
- Accept union representative's fair requests for information disclosures



#### Prohibit Forced or Compulsory Labor

- Prohibit all forms of forced or compulsory labor
- Prohibit storage of important personal documents belonging to employees
- Implement measures to prevent forced or compulsory labor by partners



#### Prohibit Child Labor

- Prohibit the employment of minors under 15 years of age
- Exclude minors under 18 years of age from work that is harmful to health



#### Guarantee Industrial Safety

- Take safety and hygiene measures for pregnant and disabled employees
- Conduct training on industrial safety
- Provide employees with medical examinations
- Provide support for industrial injuries or diseases



#### Manage a Responsible Supply Network

- Demand that partners fulfill their obligations to protect human rights
- Conduct monitoring on partners' compliance with human rights protection
- Prevent violation of human rights by employees overseeing security



#### Guarantee Environmental Rights

- Establish and maintain an environmental management system
- Make a public announcement of environmental information
- Establish principles on a preventive approach to environmental issues



#### Protect Consumer Rights

- Take security measures to protect privacy information



## Respecting Diversity and Eliminating Discrimination

### Provide Fair Job Opportunity

KSD offers fair job opportunities through transparent employment policies. We practice blind recruitment to eliminate discrimination based on education, age, and gender. KSD also reinforced recruitment of minority groups such as females and the disabled to provide fair job opportunities and enhance diversity in our employees.

On 2016, with the goal of boosting local talents, KSD provided educational support of our employment processes to the local community. Nine regional talents were hired using the process and this accounted for 31% of our new recruits of the season, showing KSD's efforts to achieve inclusive growth with the local community. We also hired 17 female employees to continuously expand female employment and this exceeded the internal goal of female hiring by 30%. Additionally, KSD actively practiced fair job opportunity by hiring 2 veterans and hiring more disabled applicants than obligatory requirements.

### Supporting Female Talent Growth

KSD is reinforcing our human resources development program in order to promote female talents to become competitive in management capabilities regardless of prejudices against their gender. We offer various employee capability development programs and some of our efforts include attending the Female Talent Academy hosted by the Korean Institute for Gender Equality Promotion and Education at least twice a year. As a result, the ratio of females among managers has shown a steady increase over the past 5 years to reach 10.6% in 2016.

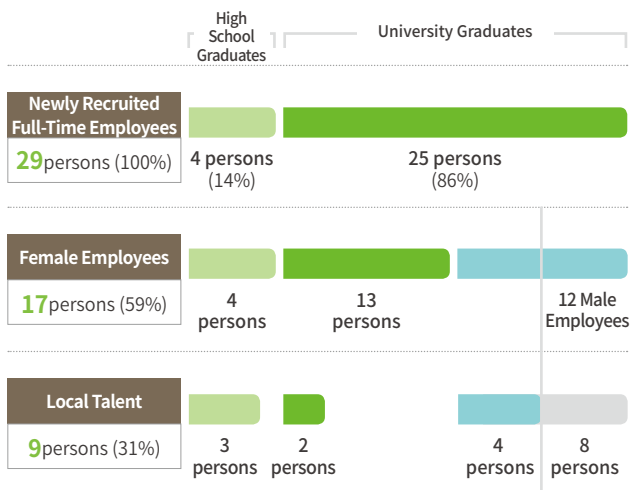


Special Lecture of Female Leadership

### Policy of Fair Job Opportunities

<b>Additional Credits</b> <ul style="list-style-type: none"> <li>Veterans: 5% or 10% of full score</li> <li>Disabled applicant, social contributor, low income applicant: Additional credits</li> </ul>	<b>Elimination of Discrimination</b> <ul style="list-style-type: none"> <li>Remove all discrimination based on factors such as physical condition, education, age, and gender</li> <li>Remove from resume information irrelevant to position such as photo, age, and education</li> </ul>
<b>Employment Goals</b> <ul style="list-style-type: none"> <li>Regional Talents in Busan: Hiring over 20% of new recruits</li> <li>Female: Hiring over 30% of new recruits</li> </ul>	<b>Position-Centered Employment</b> <ul style="list-style-type: none"> <li>Practice position-centered employment from document interview to systemized interviews</li> <li>Discover competitive talents through outsourced hiring experts</li> </ul>

### Affirmative Action Program Performance in 2016





## Creating a Humane Work Environment

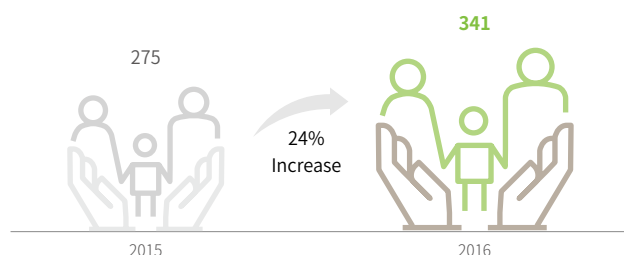
### Building a Flexible Work Environment

KSD creates a sound work environment in which employees can experience an enhanced quality of life by finding a balance between work and life. Employees can better concentrate on their work by reducing unnecessary overtime work and expanding the use of annual leave. Every Wednesday and Friday, which are designated as Family Day, employees are encouraged to leave work on time to spend time with their families.

In addition, we have diversified the types of flexible work programs for child rearing mothers from two to four types, while applying child rearing hours (1 hour) to male employees as well. Furthermore, we support employees in finding a balance between work and childcare by limiting the number of overtime hours for pregnant and child rearing mothers using flexible work programs and those within one year of childbirth, as well as making it mandatory for the CEO to approve any request of spousal parental leave. In 2016, the number of employees using flexible work programs was 341, a 24% increase from the previous year. KSD will continue its efforts to further develop its family-friendly welfare programs.

#### Use of Flexible Work Programs

(Unit: Persons)



### Internalizing an Awareness of Human Rights Protection

KSD promotes an awareness of human rights protection throughout the company in an effort to internalize respect and consideration for stakeholders both within and outside the company. Notably, we have established Guidelines on Sexual harassment prevention in the workplace in addition to recurrence prevention and disciplinary measures in order to prevent and eliminate sexual discrimination and harassment. We provide sexual harassment prevention training at least once a year to all employees and offer a grievance handling system specifically for sexual harassment so that employees can promptly deal with any such incidents.

Furthermore, we train our security personnel, who face the risk of breaching human rights regulations due to the nature of their work, and provide them with education regarding human rights regulations specified in constitutions and criminal codes, work procedures, and efficiency tips to prevent potential human rights violations against stakeholders outside the company.

#### Sexual Harassment Prevention Education Performance in 2016



Categorization	Target	Number of Participants
Training on the prevention of sexual harassment, prostitution, sexual violence, and domestic violence	Newly recruited employees	25 persons
Training on the prevention of violence including sexual harassment	Employees	510 persons
Professional training for sexual harassment counselors	Sexual harassment counselors	1 persons

#### Security Personnel Training Performance in 2016



Number of security personnel who completed training	50 persons
Number of training hours per session	1.5 hours
Vocational training for security personnel	3.5 to 4 hours per program

In 2017, we hired an outside consulting firm to conduct a complete enumeration-based anonymous survey on sexual harassment, social rejection and other abuse in order to study the status of human rights violations in the workplace. Factors of discord and human rights violations revealed in the survey were thoroughly analyzed and solutions prepared, contributing to the establishment of a sound corporate culture.

## Fair Performance Evaluation and Compensation

### Implementing a Rational Performance Evaluation System

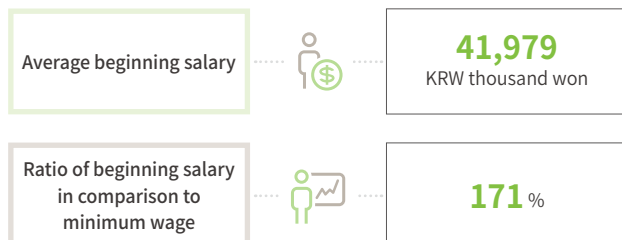
KSD implements fair and rational human resources policies to efficiently allocate and maximize the performance of our human resources. Compensation is based on the evaluation of each employee's performance of his/her roles and job responsibilities. In order to establish a performance evaluation system that is acceptable to our employees, we provide an informational session prior to conducting an evaluation as well as offering detailed feedback and procedures for objection after it is completed. Evaluation results are applied to various areas of human resource management and used in deciding promotions, appointments, selection for participation in training and incentive payments. Such a performance-oriented compensation system contributes to enhancing individual capacity as well as managerial efficiency. In 2017, we strengthened the fairness of our evaluation system by making continuous efforts to examine and reform it – for instance, by adopting the individual MBO system.

### Compensation System

Employee wages exceed the legal minimum wage and are determined based on the level of expertise, risk, and responsibilities required for the job. We also increased management efficiency by simplifying the compensation system for executives so that it consists only of a base salary and incentives based on a management performance evaluation.

In 2016, the monthly salary of a newly recruited permanent employee stands at 171% of the legal minimum wage and there are no factors affecting a difference in salary between male and female employees.

#### Beginning Salary in Comparison to the Minimum Wage



## Labor-Management Relationship

### Adjusting Mid- to Long-Term Labor-Management Strategies

KSD has established a mid- to long-term roadmap for improving the labor-management relationship in consideration of the changes that took place in the internal and external management environments in 2016. Furthermore, we operated the exclusive teams such as the Corporate Culture Enhancing Team and Employee Welfare & Services Team to adjust the organizational response system for enhancing the corporate culture and establishing a culture of inclusive labor-management relations.

#### Mid- to Long-Term Labor-Management Roadmap



## Expanding Training on Human Resource Management and the Labor-Management Relationship

Based on the consensus between labor and management on the need to strengthen the capacity for managing the labor-management relationship, KSD increased the number of training programs on human resource management and the labor-management relationship from 33 in 2015 to 47 in 2016. In addition, we offered a labor training program to union members as a regular training program, while laying the foundation for establishing a sound labor culture and labor-management relationship by including a training course on the labor-management relationship in new recruits' training. In the near future, we plan to organize an advisory mentoring group consisting of employees with professional knowledge and experience in order to create a virtuous cycle of human resources.

## Preventing Potential Labor-Management Risks

KSD deals with labor-management disputes in a systematic manner and prevents potential risks through consultations provided by labor-management specialists from both within and outside the company. We actively seek consultation services from a labor law firm regarding human resources and labor laws, while professionally handling labor-management issues by assigning an in-house attorney to the Personnel Management Team in charge of labor-management relations, thereby promptly responding to grievances and effectively managing labor-management risks.

## Improving the Labor-Management System through Cooperation

Our collective agreement is a product of dialogue and discussion between labor and management. In 2016, both sides agreed on strengthening the authority to adjust the timing of human resource allocation at each branch as well as expanding family-friendly welfare policies and training programs.

### Improving Family-Friendly Welfare Policies

- Granting two days of annual leave for child rearing
- Limiting long-distance and long-term business trips for pregnant employees



### Expanding Training Programs

- Reviving the senior-junior mentoring program
- Enhancing professional capacity by strengthening promotional training programs



## Promoting Labor-Management Communication

In order to build an amicable labor-management relationship and facilitate mutual understanding, KSD endeavors to strengthen communication between labor and management. In addition to collective bargaining, we hold workshops and meetings between labor and management representatives during which they share opinions on major issues and build mutual trust. Furthermore, working-level employees in charge of labor-management relations hold meetings as required to strengthen the labor-management relationship.

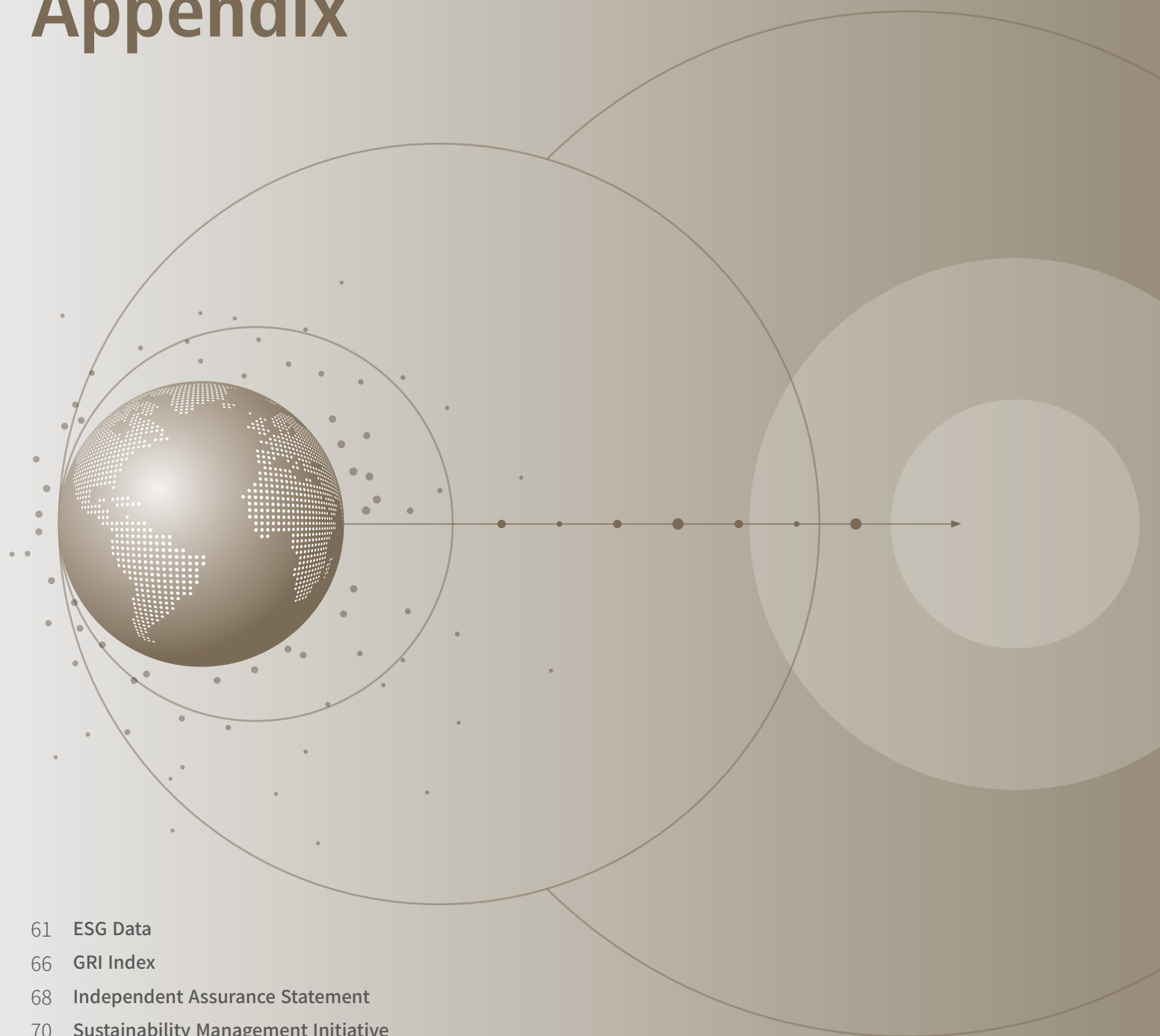
Communication channels	Time	Agenda
Labor-management meeting	On Quarterly Basis	Major issues including improving the human resource management system
Labor-management TF meeting	Five Sessions	
New Year's hiking & workshop	January 2016	Improving labor-management relations
Union members' workshop	August 2016	
Support for the delegates' conference	October 2016	

Furthermore, both labor and management participated in social contribution activities in the local community, together fulfilling their social responsibilities toward achieving shared growth with the community and building a common understanding. In 2016, both sides participated in various volunteering activities, including lending a helping hand in farming villages affiliated with KSD, volunteering for the disabled, and grocery shopping for senior citizens living alone to help them during holiday seasons.



Labor-Management Joint Volunteering Activities (Grocery Shopping for Senior Citizens Living Alone)

# Appendix



61	ESG Data
66	GRI Index
68	Independent Assurance Statement
70	Sustainability Management Initiative
71	Human Rights Statement
72	Awards and Associations
73	History

# ESG Data

## Economic Performance

■ Major economic performance					
Categorization	Unit	2013	2014	2015	2016
Revenue		1,253	1,331	1,682	1,795
Operating income	100 Million won	202	269	493	480
Net profit		448	505	628	514
Total asset		19,362	23,840	33,775	32,861
Net profit per share	Won	4,498	4,828	6,008	4,912

■ Performance by service category					
Categorization	Unit	2013	2014	2015	2016
Depository and settlement services		73,746	77,969	98,646	98,695
Issuance services		7,818	8,059	10,283	10,504
Supporting the derivatives trading market	Million won	24,979	26,174	32,220	38,492
Supporting the asset management industry		14,126	14,962	16,880	18,225
International depository and settlement services		4,610	5,902	10,154	13,566

■ Key financial indicators					
Categorization	Unit	2013	2014	2015	2016
Profitability	Net profit margin	35.76	37.95	37.36	28.62
	Return on equity	4.95	5.39	6.42	5.06
	Return on asset	1.99	2.34	2.18	1.54
Growth	Operating profit growth	-29.37	32.81	83.44	-2.74
	Sales growth	-2.81	6.21	26.39	6.72
	Net income growth	-28.90	12.73	24.43	-18.24
Stability	Debt-to-equity*	110.09	149.91	236.92	219.66
	Current ratio	145.84	126.77	119.84	121.88
	Total borrowings	-	-	-	-

\* No borrowings from financial institutions are included in the assessment of debt-to-equity as debts consist purely of customer deposits.

■ Distribution to stakeholders						
Categorization	Activities	Unit	2013	2014	2015	2016
Government	Taxes	100 Million won	141	141	155	93
Shareholders	Dividends		129	157	202	251
Customers	Lower commissions		356	380	535	472
Academics	Subsidies		11	12	12	12
Employees	Wages		552	550	606	681
Community	Donations		44	32	33	37
Public	Return of unclaimed stocks*		12	376	307	248

\* Return of unclaimed stock in 2013 refers to return of unclaimed inherited stock

## Environmental Performance

### ■ Energy consumption

The Korea Securities Depository (KSD) uses LNG, diesel, gasoline, electricity, and steam to fuel operations. Most of the energy consumption are made for the operation of computing centers, air conditioning, heating, and lighting. Provided by the Korea District Heating Corporation, steam power is used to control temperatures at the Ilsan Center.

Categorization		Unit	2013	2014	2015	2016
Energy consumption	Total	TJ	69.51	71.35	70.36	70.82
	Direct energy sources	TJ	8.46	7.89	7.84	7.99
	LNG	TJ	5.20	5.23	5.85	6.18
	Diesel	TJ	1.19	1.12	0.65	0.67
	Gasoline	TJ	2.07	1.54	1.34	1.14
	Indirect energy sources	TJ	61.05	63.46	62.52	62.83
	Electricity	TJ	57.48	58.57	58.08	57.84
	Steam	TJ	3.57	4.89	4.44	4.99

### ■ Greenhouse Gas (GHG) emissions

Greenhouse gas (GHG) emissions are produced through the use of liquefied natural gas (LNG) and electricity, primarily for the use of air conditioning and heating during the summer and winter seasons, respectively. KSD mapped out energy-saving plans to reduce power consumption, a major cause of GHG emissions, pursuant to the government's Public Institution Energy Consumption Guidelines.

Categorization		Unit	2013	2014	2015	2016
GHG emissions	Total	tCO <sub>2</sub> e	3,632.61	3,654.78	3,622.91	3,443.07
	Direct emissions (Scope 1)	tCO <sub>2</sub> e	487.05	448.07	432.91	446.58
	Indirect emissions (Scope 2)	tCO <sub>2</sub> e	3,145.56	3,206.71	3,190.00	2,996.49

### ■ Waste production

The majority of the waste produced by KSD is domestic waste, which is properly managed through the volume-rate garbage disposal program. Paper, batteries, and lamps are discarded into recycling bins. KSD does not produce any harmful substances in the course of offering services.

### ■ Consumption of other resources

Categorization		Unit	2013	2014	2015	2016
Paper consumption		Box	2,020	2,550	2,450	1,470
Water usage*		Ton	27,103	26,870	27,516	29,894

\* Pertains to the Ilsan Center and Seoul Office

### ■ Green purchasing and environmental investment

Categorization		Unit	2013	2014	2015	2016
Green purchasing	Green purchases	Thousand won	880,881	208,880	1,499,722	281,667
	Proportion of green purchases	%	68.7	72.5	76.9	84.1
Environmental investment	LED light installations	Thousand won	51.7	52.1	82.1	82.8
	Ratio of eco-friendly vehicles	%	3.57	51.61	51.61	51.51

## Social Performance

■ Workforce						
Categorization		Unit	2013	2014	2015	2016
Region	Busan	Persons	5	278	306	317
	Seoul		485	241	239	248
	Gwangju		7	9	7	7
	Daejeon		4	5	4	5
	Daegu		4	4	4	4
Gender	Male		397	415	425	434
	Female		108	122	135	147
Total*			505	537	560	581

\* Based on permanent and temporary employees (excluding management executives and youth interns)

■ Newly recruited employees						
Categorization		Unit	2013	2014	2015	2016
Total	Number	Persons	20	15.75	14	29
Female	Number	Persons	14	7.75	4	17
	Ratio	%	70.0	49.2	28.6	58.6
Engineering graduates	Number	Persons	5	3	5	7
	Ratio	%	25.0	19.0	35.7	24.1
Local talent	Number	Persons	9	7.75	1	9
	Ratio	%	45.0	43.7	7.1	31.0

■ Employee turnover						
Categorization		Unit	2013	2014	2015	2016
Turnover rate		Persons (%)	5(0.9%)	3(0.6%)	3(0.5%)	4(0.6%)

■ Education and training						
Categorization		Unit	2013	2014	2015	2016
Vocational capacity development training		Number of sessions	1,384	1,722	2,011	2,974
Training hours per employee		Thousand won	4,378	4,439	4,163	4,129

■ Percentage of employees receiving regular performance and career development reviews						
Categorization		Unit	2013	2014	2015	2016
Percentage of employees receiving performance reviews		%	100	100	100	100

■ Range of the standard entry level wage compared to the legal minimum wage						
Newly hired full-time employees are paid 171% compared to the legal minimum wage in 2016. No gender discrimination was identified in pay.						
Categorization		Unit	2013	2014	2015	2016
Average entry level wage		Thousand won	38,621	40,107	41,140	41,979

■ Parental leave and childcare leave						
Categorization		Unit	2013	2014	2015	2016
Parental leave	User of parental leave	persons	10	9	13	5
	User of spousal parental leave		10	11	8	11
Childcare leave	User of childcare leave	persons	9	14	19	15
	Male		0	0	2	1
	Female		9	14	17	14
	Return from childcare leave		9	14	18	11
	Returnees who re-mained employed for a year or longer following return		9	14	15	6

#### ■ Right to exercise freedom of association and collective bargaining

KSD has a labor union, under which all employees other than 46 directors and higher-ranking managers are registering as members pursuant to the collective agreement. KSD guarantees employees' right of organization, collective bargaining, and collective action pursuant to relevant laws and collective agreement. Furthermore, KSD does not restrict unionizing or compel resignation from the union. Non-unionized workers are also entitled to resort to grievance management procedures to protect their basic rights.

Categorization	Unit	2013	2014	2015	2016
Unionization rate	%	85.7	85.3	83.8	90.7

#### ■ Minimum notice period regarding significant operational changes

We try to prevent conflicts and disputes through various labor-management communication channels and share key issues to aggregate the opinions of employees. When significant changes occur, they must be informed in advance to enhance the operating stability and mutual trust between the union and the employer.

#### ■ Percentage of the total workforce represented in formal Joint Management-Worker Health and Safety Committees

The labor union represents the rights of workers related to safety and health. A labor-management conference is also established as the final decision-making agency on safety and health issues through collective agreement. The conference consists of seven respective representatives of the employer and the union.

■ Rates of injury, occupational diseases, lost days, and absenteeism						
Categorization		Unit	2013	2014	2015	2016
Occupational diseases	Occurrence of Occupational diseases	Number of cases	0	0	0	0
	Occupational disease rate	%	0	0	0	0
Industrial accidents	Industrial accident incidents	Number of cases	0	0	0	0
	Industrial accident rate	%	0	0	0	0
Lost days	Lost days	Number of days	0	0	0	0
	Lost day rate	%	0	0	0	0

#### ■ Elimination of child or forced labor

KSD complies with the International Labour Organization's Convention Concerning the Prohibition and Immediate Actions Toward the Elimination of the Worst Forms of Child Labor and the labor standards of the UN Global Compact. We have not breached any regulations related to forced or child labor since establishment. Child labor is fundamentally prevented.



■ **Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments**

KSD conducts external transparency surveys concerning our headquarter and branch offices including relations with suppliers. We also undertake periodic self-assessments to enhance the compliance with human rights regulations and fairness.

■ **Total hours of employee training on policies and procedures concerning aspects of human rights**

Categorization		Unit	2013	2014	2015	2016
Sexual harassment prevention education	Participants	Persons	495	480	466	491
	Education hours	Hour	4	4	4	4

■ **Local purchasing policy**

KSD preferentially procures supplies and consumables from local suppliers and partners at our operations in Seoul, Daejeon, Daegu, Gwangju, and Busan for purchasing and specifying partners.

■ **Type of product and service information required by procedures**

KSD offers business information through IR disclosures, press releases, and other formats to help stakeholders gain accurate understanding.

■ **Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data**

Categorization		Unit	2013	2014	2015	2016
Violations of privacy		Case	0	0	0	0
Customer complaints caused by customer data and privacy		Case	0	0	0	0

■ **Marketing communications and non-compliance with laws and regulations concerning the provision and use of products and services**

KSD clearly describes the services offered through public disclosures, and its Risk Management Department and Auditing Department to examine legal compliance in advance to control exaggerations and false data. The company also operates a preliminary commission to consider consumer complaints in the development of services and establishment of marketing policies in order to prevent such complaints effectively. We have not witnessed any violations of advertising and marketing regulations in the reporting period.

Categorization		Unit	2013	2014	2015	2016
Violation of laws and regulations		Number of cases	0	0	0	0

# GRI Index

## GRI Standards Index

Universal Standards(GRI 100)				
Classification	Disclosure	Indicators	Page	Note
Organizational Profile	102-1	Name of the organization	6	
	102-2	Activities, brands, products, and services	8-9	
	102-3	Location of headquarter	2	
	102-4	Location of operations	40, 45	
	102-5	Ownership and legal form	6	
	102-6	Markets served	8~9	
	102-7	Scale of the organization	6	
	102-8	Information on employees and other workers	63	
	102-9	Supply chain	8-9, 52	
	102-10	Significant changes to the organization and its supply chain	GRI Index	No major changes
	102-11	Precautionary Principle or approach	16-19	
	102-12	External initiatives	70	
	102-13	Membership of associations	72	
Strategy	102-14	Statement from senior decision-maker	4-5	
	102-15	Key impacts, risks, and opportunities	4-5	
Ethics and Integrity	102-16	Values, principles, standards, and norms of behavior	26-29	
	102-17	Mechanisms for advice and concerns about ethics	28-29	
Governance	102-18	Governance structure	14-15	
	102-22	Composition of the highest governance body and its committees	15	
	102-23	Chair of the highest governance body	14	
	102-24	Nominating and selecting the highest governance body	14	
	102-25	Conflicts of interest	14	
	102-26	Role of highest governance body in setting purpose, values, and strategy	14-15	
	102-28	Evaluating the highest governance body's performance	15	
	102-33	Communicating critical concerns	15	
	102-35	Remuneration policies	15	
	102-36	Process for determining remuneration	15	
Stakeholder Engagement	102-40	List of stakeholder groups	22	
	102-41	Collective bargaining agreements	64	
	102-42	Identifying and selecting stakeholders	22	
	102-43	Approach to stakeholder engagement	22	
	102-44	Key topics and concerns raised	22	
Reporting Practice	102-46	Defining report content and topic Boundaries	23	
	102-47	List of material topics	23	
	102-48	Restatements of information	GRI Index	Unrelated
	102-49	Changes in reporting	23	
	102-50	Reporting period	2	
	102-51	Date of most recent report	2	
	102-52	Reporting cycle	GRI Index	Publishing two years since 2017
	102-53	Contact point for questions regarding the report	2	
	102-54	Claims of reporting in accordance with the GRI Standards	GRI Index	Core
	102-55	GRI content index	GRI Index	
	102-56	External assurance	68-69	

Topic-specific Standards				
Economic Performance(GRI 200)				
Classification	Disclosure	Indicators	Page	Note
Economic Performance	103	Management Approach	42	
	201-1	Direct economic value generated and distributed	61	
	201-2	Financial implications and other risks and opportunities due to climate change	53	
Market Presence	202-1	Ratios of standard entry level wage by gender compared to local minimum wage	58	
Indirect Economic Impacts	103	Management Approach	48	
	203-1	Infrastructure investments and services supported	48-53	
	203-2	Significant indirect economic impacts	48-53	
Anti-corruption	103	Management Approach	26	
	205-1	Operations assessed for risks related to corruption	28-29	
	205-2	Communication and training about anti-corruption policies and procedures	28-29	
Environmental Performance(GRI 300)				
Classification	Disclosure	Indicators	Page	Note
Energy	302-1	Energy consumption within the organization	62	
	302-2	Energy consumption outside of the organization	62	
	302-4	Reduction of energy consumption	62	
	302-5	Reductions in energy requirements of products and services	62	
Emissions	103	Management Approach	48	
	305-1	Direct (Scope 1) GHG emissions	62	
	305-2	Energy indirect (Scope 2) GHG emissions	62	
	305-5	Reduction of GHG emissions	62	
Effluents and Waste	306-1	Water discharge by quality and destination	62	
	306-2	Waste by type and disposal method	62	
Social Performance(GRI 400)				
Classification	Disclosure	Indicators	Page	Note
Employment	103	Management Approach	30	
	401-1	New employee hires and employee turnover	56, 63	
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	33-34	
	401-3	Parental leave	34	
Labor/Management Relations	402-1	Minimum notice periods regarding operational changes	64	
Occupational Health and Safety	403-1	Workers representation in formal joint management-worker health and safety committees	64	
	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	64	
	403-4	Health and safety topics covered in formal agreements with trade unions	64	
Training and Education	103	Management Approach	30	
	404-1	Average hours of training per year per employee	33	
	404-2	Programs for upgrading employee skills and transition assistance programs	31-33	
	404-3	Percentage of employees receiving regular performance and career development reviews	63	
Diversity and Equal Opportunity	405-1	Diversity of governance bodies and employees	14, 56	
	405-2	Ratio of basic salary and remuneration of women to men	58	
Non-discrimination	406-1	Incidents of discrimination and corrective actions taken	56-57	No cases of discrimination
Freedom of Association and Collective Bargaining	407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	64	
Child Labor	408-1	Operations and suppliers at significant risk for incidents of child labor	64	
Forced or Compulsory Labor	409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	64	
Security Practices	410-1	Security personnel trained in human rights policies or procedures	57	
Human Rights Assessment	412-2	Employee training on human rights policies or procedures	55-59	
	103	Management Approach	48	
	413-1	Operations with local community engagement, impact assessments, and development programs	49-51	
Local Communities	413-2	Operations with significant actual and potential negative impacts on local communities	GRI Index	Unrelated
Marketing and Labeling	417-3	Incidents of non-compliance concerning marketing communications	GRI Index	No cases of violations
Customer Privacy	103	Management Approach	65	
	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	65	
Socioeconomic Compliance	419-1	Non-compliance with laws and regulations in the social and economic area	65	

# Independent Assurance Statement

## Preface

KFQ was engaged by Korea Securities Depository (further 'KSD') to provide limited assurance on the 'KSD Sustainability Report 2017' (further 'the Report'). Our responsibility is to perform a limited assurance engagement and to express a conclusion based on the work performed. We conducted its assurance based on completeness of the data and information provided by KSD. KSD is responsible for all contents within the Report including the reporting principles and standards.

## Independence

KFQ is not involved in the preparation of any part of the Report, other than providing an assurance opinion, and there has been no interest between KSD and us. We have no biased opinion on stakeholders of KSD.

## Assurance Standards

KFQ has designed and implemented assurance according to the following standards.

- AA1000 Assurance Standard 2008
- AA1000 Accountability Principles Standard 2008
- GRI Standards
- ISO 26000
- UN SDGs (UN Sustainable Development Goals)

## Assurance Scope

KFQ identified the followings as its scope:

- KSD's sustainable management activities and performances of the headquarter and all domestic business establishment described in the Report
- Compliance with the guidelines according to GRI Standards Core Option
- GRI Standards compliance assessment regarding contents of the Report and assurance principles of reporting quality
- Application of Type 1 assurance approach according to AA1000 APS 2008 and AA1000 AS 2008 to assess compliance with inclusiveness, materiality and responsiveness principles and reliability of sustainability performance information. The term 'Moderate Assurance' used in AA1000 AS is designed to be consistent with 'Limited Assurance' as articulated in ISAE 3000.
- Core subjects in ISO 26000
- The link between the core subjects and the UN SDGs

## Assurance Procedures

KFQ designed procedures to have reasonable assurance of the Report's critical errors or inappropriate information. We verified the reliability of the contents, processes and systems of data generation and report preparation.

- Document Review

We reviewed the reliability of non-financial data in respect of the 'Sustainability' by cross-checking the Report with GRI Standards, quantitative data of KSD, and internet & media research information. We also confirmed whether or not the financial information mentioned in the Report was correctly derived from internal documents and the audited financial statements from business report on All Public Information In-One (<http://www.alio.go.kr>).

- On-site Verification

We visited KSD headquarter and conducted on-site verification to confirm reliability of the sustainability activities and performance data contained in the Report and to evaluate the effectiveness of the reporting process. We performed verification in the accuracy topic of the aggregated data from KSD. These procedures included the following:

- Materiality assessment process, stakeholders inclusiveness, key issues, internal response procedures, and etc.
- Assessment of data analysis and descriptions and sustainable management performance in the Report
- Consistency between the financial data contained in the Report and the audited financial statements 2016
- Interviews with relevant staff responsible for providing information in the Report

- Resolution of Findings

We confirmed that some errors, inappropriate information, and ambiguous expressions found during on-site visit were properly reflected in the final Report.

- Limitations

The Report has been prepared solely for KSD in accordance with the terms of our engagement. We do not accept or assume responsibility to anyone other than KSD for our conclusions we have reached in the statement. Completeness and responsiveness of sustainability performance information presented in the Report have inherent limitation due to their nature and the methodology used for determining, calculating and estimating such data.

### Opinion

Based on the verification activity stated herein, KFQ confirmed that the Report meets the GRI Standards 'Core Option'. According to the principles of AA 1000 APS 2008 and AA 1000 AS 2008, inclusiveness, materiality and responsiveness, sustainability performance information were assessed and we could secure reasonable grounds to provide Type 1 level of assurance with the following confirmation:

1. **(Stakeholders Inclusiveness)** KSD subdivided eight stakeholders related to the major issues of sustainable management. To hear any concerns and opinions from them, KSD had a customized communication strategy for each stakeholder group and reflected their responses and opinions to its sustainable management activities.
2. **(Sustainability Context)** In terms of sustainability, KSD continues to actively respond to the economic, environmental and social effects that stakeholders requires based on the core issues. KSD is actively implementing social responsibilities such as human rights, labor and environmental rights pursued by UNGC through the establishment of human rights management strategies, the development of checklist, and the monitoring of implementation status.
3. **(Materiality)** KSD established issue pools and reviewed by internal guidelines and external assessment criteria (GRI Standards guideline, DJSI, ISO 26000, UN SDGs, media coverage, benchmark, and issue analysis) in compliance with the materiality assessment process. As a result, KSD appropriately reflected that ten key topics derived from the process along with key performance in 2016~2017.
4. **(Completeness)** KSD applied reporting scope, boundary and temporal criteria. We confirm that the Report is suitable for stakeholders to assess sustainability performance.

### Recommendation for Improvement

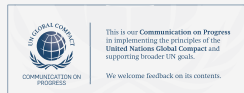
For further advanced sustainable management, KSD needs to strengthen its reporting on ongoing management and response of key topics raised by stakeholders. We expect that the newly established human rights management strategy and implementation plan will be reflected in KSD's sustainability management activities through continuous monitoring. In addition, we recommend that sustainability management activities in accordance with the sustainability management roadmap are reported in connection with the creation of domestic and international social values in the future report.

November 2017  
Seoul, Korea

CEO Nam Dae Hyun  
Korean Foundation for Quality (KFQ)



## Sustainability Management Initiatives



### UNGC (United Nations Global Compact)

In October 2008, KSD joined the UN Global Compact (UNGC), a voluntary corporate initiative encouraging corporations to fulfill their social responsibilities. We meet the international standard for corporate social responsibility by complying with the ten principles such as human rights, labor, environment, anti-corruption pursued by UNGC and report it through Sustainability Report.

Categorization	Principles	KSD's Activities
Human Rights	1. Businesses should support and respect the protection of internationally proclaimed human rights; and 2. make sure they are not complicit in human rights abuses.	In an effort to establish a sound corporate culture that respects human rights, KSD has developed a human rights management checklist, regularly inspecting and improving its execution. Through fair and transparent human resources management practices, we have expanded socially equitable employment and strengthened our support for the growth of women in management. Furthermore, we recognize our employees' freedom of association and the right to collective bargaining, as well as handling their grievances through regular labor-management communication.
Labor	3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; 4. the elimination of all forms of forced and compulsory labor; 5. the effective abolition of child labor; and 6. the elimination of discrimination in respect of employment and occupation.	
Environment	7. Businesses are asked to support a precautionary approach to environmental challenges; 8. undertake initiatives to promote greater environmental responsibility; and 9. encourage the development and diffusion of environmentally friendly technologies.	
Anti-Corruption	10. Businesses should work against corruption in all its forms, including extortion and bribery.	KSD undertakes various activities to enforce strict ethical discipline among our employees, such as establishing the Code of Ethics and operating regulations, conducting ethics training, and sharing best practice cases in anti-corruption.

### SUSTAINABLE DEVELOPMENT GOALS UN SDGs (Sustainable Development Goals)

As a global corporate citizen, KSD strives to contribute to achieving the Sustainable Development Goals (SDGs) adopted by the United Nations in 2015. In this light, we have strengthened activities in areas that relates to our sustainability management and will devise a strategic implementation system in the near future.

Categorization	Goals	KSD's Activities
 Goal 4.	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	<ul style="list-style-type: none"> <li>• Provide financial education to young adults and local communities and operate the Securities Museum</li> <li>• Promote the financial education infrastructure in Busan</li> </ul>
 Goal 5.	Achieve gender equality and empower all women and girls	<ul style="list-style-type: none"> <li>• Practice socially equitable employment and operate female HR development programs</li> <li>• Conduct anti-sexual harassment educational programs and operate grievance handling channels</li> </ul>
 Goal 8.	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	<ul style="list-style-type: none"> <li>• Support the socially vulnerable by participating in the SIB project</li> <li>• Support disabled small- business owners through the Dream Come True Store project</li> <li>• Create high-quality jobs by strengthening local recruitment</li> </ul>
 Goal 13.	Take urgent action to combat climate change and its impacts	<ul style="list-style-type: none"> <li>• Establish a green office to decrease greenhouse gas emissions</li> <li>• Participate in the Forest Carbon Offset project in Pyeongchang</li> <li>• Build low-carbon financial infrastructure including electronic securities and the electronic voting system</li> </ul>
 Goal 16.	Promote peaceful and inclusive societies for sustainable growth and build effective, accountable and effective institutions at all levels	<ul style="list-style-type: none"> <li>• Establish the Code of Ethics and operating regulations</li> <li>• Operate the solicitation registration and internal control systems</li> </ul>

# Declaration of Human Rights Management

At Korea Securities Depository (KSD), a depository and settlement service provider dedicated to the development of the capital market and national economic development, we are strongly committed to human rights management that places people at the core of our business management activities. We fully support international standards and norms on human rights and pledge to protect the human rights of all our stakeholders including employees, customers, partners and local communities.

① We shall implement human rights management that respects human dignity and value.

② We shall make active efforts to prevent human rights violations and take affirmative actions, and continuously implement activities to improve human rights-related issues.

③ We shall not discriminate against our stakeholders on the basis of gender, age, disability, religion, race, place of origin, political views, etc.

④ We shall prohibit all forms of forced and child labor.

⑤ We shall guarantee our employees' freedom of association and create a corporate culture of cooperation built on mutual trust.

⑥ We shall provide a safe and pleasant working environment for our employees.

⑦ We shall engage in transparent and fair trade with our partners and support their implementation of human rights management.

⑧ We shall endeavor to prevent human rights violations against residents in areas adjacent to our headquarter and local and overseas offices. We shall carry out social contribution activities to build a win-win relationships with local residents.

⑨ We shall comply with domestic and international environmental laws and regulations, and disclose relevant information.

⑩ We shall respond to customer demands in a prompt and accurate manner, and protect customer information collected for business purposes.

## Awards and Memberships

### Awards

Awards	Hosting organization	Year
Company with Excellent Gender Equality Culture by the Ministry of Employment and Labor	Ministry of Employment and Labor	2014
Award of the Minister of Gender Equality and Family for Social Contribution in Empowerment of Women	Ministry of Gender Equality and Family	2014
Prime Minister's Award in the National Infrastructure Disaster Management Assessment	Ministry of Public Safety and Security	2015, 2016
Grand-Prix in Creative Management at the Management Grand Awards	KMAC	2015
Customer Satisfaction and Management Award	Korea Economic Daily, Korea Sustainability Management Evaluation	2016
Gold Prize in IT Innovation at 2016 Korea Securities Award by Maeil Business Newspaper	Maeil Business Newspaper	2016
Awarded as an Exemplary Taxpayer by the Director of the National Tax Service on the 50th Taxpayer's Day	National Tax Service	2016
Award of the Minister of Education at the Korean Donation for Education Award	Korea Foundation for the Advancement of Science and Creativity, Ministry of Education	2016
Award of the Minister of Oceans and Fisheries for City-Fishing Village Exchange	National Federation of Fisheries Cooperatives, Ministry of Oceans and Fisheries	2016
Commendation of the Minister of Land, Infrastructure and Transport for National Merit in the Promotion of Regional Industry	Ministry of Land, Infrastructure and Transport	2016
Best Practice in Business Management by Public Institution in 2016	Ministry of Strategy and Finance	2017
Commendation of the Mayor of Busan as a Golden Taxpayer on the 51st Taxpayers' Day	Busan Metropolitan City	2017
Special Prize (Meritorious Service Award) at the Korean Retirement Pension Grand Prize	Maeil Business Newspaper, FnGuide	2017

### Memberships

Categorization	Associations	Key activities
Overseas	ACG(Asia Pacific CSD Group)	The Asia-Pacific Central Securities Depository Group (ACG) is an international organization with the objective of facilitating the exchange of information and promoting mutual assistance among member securities depositories and clearing institutions in the Asia Pacific region.
	ICOM(International Council of Museums)	International network of museums for cultural, social, and economic issues on contemporary society assisted members of the museum community in their mission to preserve, conserve, and share cultural heritages.
	ISSA(International Securities Services Association)	Collect and disseminate information on the developments in international securities markets, and offer a forum for securities operations professionals to exchange ideas.
	UN Global Compact	Comply with global ethics codes and submit COP reports.
	Hong Kong-based Korean Financial Investment Institution Conference	Cooperation and information exchange among Hong Kong-based Korean financial institutions.
Domestic	Gyeonggi Provincial Museum Council	Gyeonggi province association of museums and preservation of society and cultural heritage.
	Korea Listed Companies Audit Association	Independent association in the examination of information of entity, size, or legal form for the mutual exchange of data.
	Seoul National University Center for Financial Law	Public institution on the education and research of latest trends of financial systems and the encouragement of academics.
	Securities Agency Council	Provide network formation and consultations for securities agency businesses.
	Korea Options, Swaps & Derivatives Association (KOSDA)	Promote the derivatives market, share information related to the derivatives market, improve systems, suggest policy alternatives, cooperate with local and overseas partners, build a community for derivatives market operators, and enhance ethical awareness among participants.
	Korea IR Service Association	Hold workshops and provide information to offer corporate data to investors through active communication among corporations, shareholders, and investors and build reliability.
	Korea Institute of Internal Auditors	Internal audit specialist working in internal auditing, risk management, governance, internal control, information technology audit, education, and security.
	Korea Financial Law Association	Conduct systematic research, analysis, and academic discussion on local and overseas financial laws.
	Korea Financial Investment Associate	KOFIA, a sole self-regulatory organization (SRO) of the Korean financial industry.
	Korea Corporate Governance Service	Cooperate in the research of corporate governance and social responsibility.
	Korea Management Association	Management association for professional development, training solutions, and advancing skills for businesses.
	Korean Museum Association	Membership organization guarding the interest of museums and galleries to advocate and set ethical standards.
	Korea Commercial Law Association	Share information related to commercial laws and provide sponsorships.
	Korean Financial Management Association	Research corporate finance, investment, financial theories, and international finance.
	Korea Securities Law Association	Share information and opinions about securities-related regulations between legal and securities experts and securities-related institutions and conduct comprehensive researches.
	Korea Securities Association	Exchange opinions over academic and practical issues and provide sponsorships.
	Korea Payment and Settlement Association	Research economic and business issues related payment and settlement and applicable laws.
	Korea Accounting Association	Promoting the International Accounting Standards (IFRS) for the excellence in accounting education, research, and practice.



# History

## Korea Securities Settlement Corporation 1973 ~ 1993

1974	Founded as the Korea Securities Settlement Corporation (KSSC)
1975	Initiated separate safe-custody, transfer agent, and trade settlement services
1976	Opened the Busan branch
1982	Launched book-entry transfers for bond trading
1983	Centralized deposit of securities
1985	Implemented the Consecutive Deposit System
1988	Opened branch offices in Jeonju, Daegu, Daejeon, and Gwangju
1990	Initiated depository services for overseas securities and institutional settlement services
1992	Adopted the New Issue Blanket Deposit and proxy voting service, and initiated the OTC stock trading settlement service
1993	Launched the participant terminal system (KSD-Net) and was authorized as a registrar of public and corporate bonds

## Korea Securities Depository 1994 ~ Present

1994	Transform into the Korea Securities Depository (KSD), launched depository and settlement services for foreign currency securities, and was designated as a public organization pursuant to the Regulation of Tax Reduction and Exemption Act
1995	Partnered with EuroClear and joined the Society for Worldwide Interbank Financial Telecommunication (SWIFT)
1996	Initiated the beneficiary certificate issuance service and securities lending transaction services
1997	Adopted the beneficial owner certificate system and initiated the CD deposit service and Development Trust Notes deposit service
1998	Initiated the CP (commercial paper) deposit service and completed the construction of the Ilsan center
1999	Initiated the overseas CB conversion agent service, substitute securities management service for futures transactions, and gold deposit service
2000	Launched third-market settlement services and held the 4 <sup>th</sup> ACG General Meeting in Seoul
2001	Launched the Repo management service for customers
2002	Launched the stock option settlement service and relocated to a new office building in Yeouido
2003	Transfer agent service certified with ISO9001 and securities deposits surpassed 1,000 trillion KRW in total market capitalization
2004	Commenced the registered issuance of housing bonds, opened the Securities Museum, was designated as an F/X information reporting institution, launched FundNet
2005	Renamed as the Korea Securities Depository (KSD), exported the SLB & Repo system to Thailand, and opened an online Securities Museum
2006	Established the STP system for the deposit and settlement of foreign currency securities and founded KSD Happy Makers Volunteering Corps
2007	Held CSD9 and securities deposits surpassed 2,000 trillion KRW in total market capitalization
2008	Launched the foreign currency collateral system for securities lending and signed a KDR depository agreement with a Japanese corporation for the first time
2009	Renamed as the Korea Securities Depository (KSD), founded the KSD Nanum Foundation, and initiated global fund investment services
2010	Opened the internal control system and initiated the electronic voting management system (K-evote)
2011	Opened the next-generation SAFE <sup>+</sup> , established the Hong Kong Office, and held ACG15
2012	Initiated the ABCP plan registration service and cut securities trading related commissions by 20%
2013	Opened electronic short-term bond services, opened the securities information portal SEIBro, initiated settlement services for the KONEX market, and was licensed as a Central Counterparty (CCP) for institutional settlement of equity pursuant to the Capital Markets Act
2014	Launched the custody and settlement service for gold spot market and relocated the headquarter to Busan
2015	Commenced the Legal Entity Identifier (LEI) issuance service and launched the PensionClear system
2016	Launched the central record management service for crowdfunding, launched the ISA-Net service, exported NFS to KSEI Indonesia, and was licensed as an Electronic Securities Registrar
2017	Launched SLB collateral transaction services, opened the Korean GCF Repo trading system, and was licensed as the Local Operator Unit (LOU) for Legal Entity Identifier (LEI) issuance



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