

Korea Development Bank

UN Global Compact

Communication on Progress

For 2016 and 2017



KDB forms an ecosystem for innovative industries as a financial control tower for the 4th Industrial Revolution, and spearheads future growth of the national economy as part of a shift in the economic paradigm. We fulfill our role as Korea's representative financial institution for the development of the national economy and the financial industry by concentrating our competencies on innovative growth drivers and enhancing stability in policy financing.

Communication On Progress

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04	SOCIALLY RESPONSIBLE FINANCING
07	ETHICAL MANAGEMENT

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SUPPORT FOR THE UN GLOBAL COMPACT

Since established in 1954, KDB has financed the development of Korea's pillar industries and served as a market safety net, fulfilling its policy roles and contributing to the growth of the Korean economy and the financial sector. With one of the core missions being supporting development, KDB recognizes the importance of the efforts to carry out its business to enhance the sustainability of the public and the private sectors as well as the markets they work in, and to achieve positive development outcomes.

KDB joined the UN Global Compact in 2007 and has supported the Compact's ten principles in respect to human rights, labor rights, the protection of the environment and anti-corruption. In supporting the principles, KDB is committed to making the UN Global Compact and the principles a part of its strategy, culture and business operations, and to engaging in collaborative projects that advance the broader development goals of the United Nations, particularly the Sustainable Development Goals.

KDB has been promoting and disseminating the concept of sustainable development in local and overseas markets to help its partners and borrowers achieve their development goals such as reducing poverty, and engaging in environmental and climate protection. KDB will continue its commitment and make best efforts to implement the principles.

Lee, Dong Gull

Chairman & CEO

Korea Development Bank

SUPPORT FOR HUMAN RIGHTS & LABOR

KDB supports and respects the protection of internationally proclaimed human rights as well as Article 10 of the Constitution of the Republic of Korea which states and upholds human dignity and values. KDB has internal regulations to support the principles on protecting human rights and labor, and is actively pursuing them through day-to-day operations and periodic education.

Support for Freedom of Association and Guarantee of Collective Bargaining

Initiatives	Details
Labor Union	KDB's Labor Union is affiliated to the Korean Financial Industry Union and operates independently from KDB's management.
Collective bargaining	Collective bargaining is held every year to improve the working conditions of the union members according to the Korean Constitution and the Labor Union and Labor Relations Adjustment Act.
Labor-Management Council	In accordance with the Act on the Promotion of Worker Participation and Cooperation, a labor-management council composed of representatives of the labor and the management is organized and meets on a quarterly basis to support cooperative labor-management relation.

Vacation/Leave Policy for Maternity Protection

Leaves	Eligibility Condition	Period
Maternity Leave	Expectant or new mothers (including those who had abortion or stillbirth within 27 weeks of pregnancy)	90 days (of the 90 days, at least 45 days must be reserved for after childbirth)
	Abortion within 11 weeks of pregnancy	5 days
	Abortion within 15 weeks of pregnancy	10 days
	Abortion within 21 weeks of pregnancy	30 days
	Abortion within 27 weeks of pregnancy	60 days
	Abortion after 27 weeks of pregnancy	90 days
Parental Leave	Mothers with infants and toddlers who are younger than the age of 8, including those with adopted children	Less than 2 years (the 2 years include special leave periods for maternity and infertility treatment)

Prohibition of Forced Labor

Initiatives	Details
Overtime compensation/leave policy after 18:00	All employees are given overtime payment (employees can opt for overtime leaves at their own discretion)

Fair and Competency-driven Recruitment Talent

KDB recruits new employees each year so that it can undertake effective responses to the changing external economic situation and business environment influenced by the 4th Industrial Revolution, among others, and intensify organizational competencies. By adopting the blind recruitment practice to ensure equal opportunity and fair selection, KDB has substantially enhanced the fairness of its recruitment procedures. KDB's competency-driven recruitment procedure is reinforced with an emphasis on recruits' basic capabilities and financial sector specialty combined with an assessment of their organizational fit. In 2017, KDB recruited 64 new employees through a multi-dimensional evaluation procedure incorporated in each recruitment stage reflecting the National Competency Standards.

Training Programs for Development of Global Talent

KDB offers employees a wide variety of opportunities to further cultivate their expertise or expand their pursuit to areas other than their current fields of work. For this, KDB established a career training roadmap based on job function and by career phase, in addition to a variety of in-house training courses covering key areas including loans, deposits, and F/X transactions. To help ease employee inconvenience from time and location constraints, KDB also offers virtual training programs through KDB e-campus in partnership with professional training institutions. Apart from the regular training, KDB offers postgraduate opportunities at home and abroad to those who wish to advance their academic aptitude. For employees who joined KDB immediately after high school, KDB runs the KDB Financial University, Korea's first accredited in-company college, also renowned for its outstanding faculty that includes seasoned KDB employees. KDB also provides leadership courses open to all levels of employees.

Operating Childcare Facilities for Employees/Providing Financial Aid

Initiatives	Details
Daycare facilities	KDB Dream Tree Day Care Center (9 Daycare Teachers/2 Cooks/305 m ² /located at the annex building) KDB Day Care Center (17 Daycare Teachers/2 Cooks/1 Nutritionist/692 m ² /located at the headquarters building)
Support for tuition fees	Tuition aid for employees' children attending middle and high schools

SUPPORT FOR ENVIRONMENT

KDB makes efforts to nurture environment-friendly industries and pursues sustainable growth by supplying special funding to businesses in industries associated with renewable and environment-friendly energy.

KDB understands that climate change is a serious global challenge and that climate related impacts may impede economic and social well-beings and development efforts. Given the importance of the private sector's role in the reduction of greenhouse gas emissions, KDB will engage in innovative investment and support adaptation measures that promote sustainable investments through the use and development of relevant products, instruments, markets, and advisory services as well as through the adoption of appropriate technologies, processes, and practices in the activities it supports.

KDB also recognizes the importance of ecosystem services and their role in climate change mitigation and adaptation. KDB will build on its experience in energy efficiency, cleaner production, renewable energy, and carbon markets as well as in the development of GHG accounting and approaches to climate change risk assessment, to produce instruments and develop practices that allow its borrowers to consider climate-related risks and opportunities in their investment decisions.

Fully-accredited GCF Implementing Entity

KDB was accredited as an implementing entity of the Green Climate Fund (GCF) for the first time among Korean institutions in December 2016, followed by the signing of the Accreditation Master Agreement in April 2017, the final confirmation step in the GCF Implementing Entity protocol. The accreditation was evidence that KDB has made strides as a world-class financial institution equipped with management systems, and environmental and social standards complying with global guidelines equivalent to those of other international organizations and advanced financial institutions. In addition, KDB organized the Climate Financing Forum in July 2017 under the theme of Business Development of Korean Companies and the Role of Finance in Response to Climate Change, inviting Korean companies looking to work with the GCF in the area of renewable energy. KDB shared its insights on the roles of climate financing and case studies of new and renewable energy projects in developing countries as a GCF implementing Entity.

Adoption of the Equator Principles

As the only Korean institution to have adopted the Equator Principles - the international norms in the financial industry on environmental and social risk management in project finance - KDB has established internal regulations for environmental and social risk reviews for the projects it finances. As part of this review process, when KDB finances projects that are subject to the scope of the Equator Principles (that is, corporate loans over

USD 50 million and PFs exceeding USD 10 million in size), it assigns one of the three categories that are organized in the order of the greatest environmental and social risks to the least. KDB then thoroughly reviews if environmental and social management plans are appropriately established for each of the projects in line with the designated categories.

Green Bond Issuer

In June 2017, KDB issued a Green Bond (USD 300 million, 5-year maturity) to facilitate projects related to renewable energy, while attracting investors interested in eco-friendly and socially responsible investment.

Allocation of net proceeds

As of December 31, 2017, 100% of the net proceeds from the Green Bond issued in June 2017 were allocated to KDB's selected green portfolio as shown in the table below.

(Unit: USD million)

Sector	Regions	Total Project Size	KDB's participation in financing	
			Total Loan Size	Disbursed Amount by 2017
Solar power	Japan, Chile, UAE	1,344	136	65
Offshore wind power	UK, Germany	4,557	164	116
Onshore wind power	UK, Canada, Chile	1,045	166	146
Biomass	UK	1,188	54	28
Sum		8,134	520	355

Composition of KDB's green portfolio

In KDB's green portfolio, wind power projects accounted for 64%, consisting of both offshore and onshore, and solar followed with 26%. Biomass plants for generating combined heat and power took up 10%. Geographically, KDB's investments were relatively well diversified among the continents across Europe, America (North and South), and the Middle East.

Current status of KDB's green portfolio

34% of KDB's selected green portfolio is currently in operation while the others are still under construction and expected to be completed between 2018 and 2020.

(Unit: USD million)

Current status	Total Project Size	KDB's participation in financing	
		Total Loan Size	Disbursed Amount by 2017
Under operations	1,493	175	175
Under construction	6,641	345	180
Sum	8,134	520	355

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Environmental impact

The CO₂ emission avoided (CO₂e Avoided) by using renewable energy generated from KDB's green portfolio serves as an indicator of environmental impact. If all projects under KDB's green portfolio are completed and come into operations, the total CO₂e Avoided will be 5,645,212 tons per year and the KDB Share out of the total CO₂e Avoided will be 425,577 tons per year. Considering investors' investment in KDB Green Bond, the CO₂e Avoided per 1 USD invested in KDB Green Bond would be 1.42 kg/year.

(Unit: tCO₂/Year)

Sector	Regions	Energy Generation Capacity (MWh)	Estimated CO ₂ e Avoided	Estimated CO ₂ e Avoided - KDB share
Solar Power	Japan, Chile, UAE	939	1,047,562	92,496
Offshore Wind Power	UK, Germany	893	2,297,240	105,206
Onshore Wind Power	UK, Canada, Chile	572	1,211,251	173,417
Biomass	UK	299	1,089,159	54,458
Sum		2,703	5,645,212	425,577

* Please be noted that the CO₂e Avoided is calculated based upon the "Methodology for the assessment of Project GHG Emissions and Emission Variations" released in 2014 by European Investment Bank and the "Projected Costs of Generating Electricity" published in 2015 by International Energy Agency for the capacity factors of the renewable energy plants by country.

Special On-Lending for Eco-friendly Companies

In May 2017, KDB launched Special On-lending for Eco-friendly Companies to extend funds to SMEs involved in eco-friendly businesses. The product was extended for a total amount of KRW 100 billion through eight intermediary financial institutions which have signed on-lending loan agreements with KDB, and its recipients were SMEs involved in businesses for energy efficiency and renewable energy facilities. Through the product's facility loans, Energy Service Companies (ESCOs) and energy users could minimize initial investment costs for projects to replace existing energy facilities with high-efficiency ones.

SUPPORT FOR ANTI-CORRUPTION

Compliance

KDB practices ethical management by continuously realigning its anti-corruption infrastructure and running a wide range of programs to promote its code of conduct. Employees are being regularly trained to enhance their ethical awareness, and as a result, KDB has a culture of ethical management that promotes a transparent and fair workplace.

2017 was a year that required a high level of ethical awareness as well as fair conduct of business by employees of the policy finance institutions in Korea. External financial environment underwent rapid changes with the advent of the 4th Industrial Revolution while crimes, illegal acts, and overheated speculation have sprung from extreme fluctuations in the valuation of cryptocurrencies.

Aiming to proactively respond to these changes, KDB has made concerted efforts to enable the 1) establishment of an autonomous anti-corruption culture of integrity to eradicate potential inside corruption and irregularities; and 2) creation of a bank-wide compliance infrastructure based on an effective internal control system.

As part of these efforts, the newly launched Working-level Council on Internal Control is in operation consisting of team heads from internal control-related departments. The council aims to enhance the management of the Internal Control Committee which was organized in 2016 and to facilitate prior consultation on the agenda of the Committee.

The National Anti-Corruption & Civil Rights Commission upgraded both KDB's Integrity Assessment (IA) and Anti-Corruption Initiatives Assessment (AIA) ratings after its evaluation in 2017. In addition, on-site compliance training took place for employees at the headquarters and branches.

Under the goal of adopting strengthened standards against money laundering and financing of terrorism, KDB has implemented risk assessment, improved Suspicious Transaction Report (STR) rules, enhanced quality and promptness in reporting, and intensified internal controls related to anti-money laundering at overseas branches. In 2017, in particular, KDB conducted risk assessment for money laundering and financing of terrorism at both domestic and overseas branches, and made improvements based on the outcomes.

Lastly, KDB took measures to improve the ethical management system of its financial subsidiaries by establishing the relevant internal control process. Specifically, KDB verified the implementation status of ethical management plans and conducted management evaluations on a monthly basis at each of the subsidiaries.

Major compliance management programs

Programs	Details
Evaluation/reward programs	Evaluates and rewards integrity-related tasks which are voluntarily taken on by each department
Securities report system	Requires employees engaged in loan business to report on their securities accounts biannually
Financial investment product trade report system	Requires employees engaged in Capital Markets Act-defined functions to report on their buying and selling of financial investment products on a monthly or quarterly basis
Clean report center / no gift campaign	Bans gifts and benefits exceeding specified amounts
Solicitation report system	Requires executives and employees to report on unlawful solicitation from fellow employees and people outside the Bank
Compliance self-check system	Checks the compliance status of all employees biannually
Whistleblowing system	Rewards whistleblowers and ensures their anonymity
Executive pledge of ethics	Mandates registered directors to maintain integrity in job performance
Code of conduct pledge	Mandates new hires to abide by the pledge
Compliance training	Trains new hires and employees by job rank and job function
Compliance monitoring	Monitors compliance including the results of self-inspection by branches and monthly compliance training

As Korea's representative financial institution, KDB will make concerted efforts to ensure stronger internal controls and transparency in corporate management for 2018. To this end, we plan to designate and promote key tasks in specific areas: 1) internal controls, 2) ethical management, and 3) anti-money laundering.

In terms of internal controls, KDB will devise a checklist for compliance monitoring reflecting the nature of the Bank's operations and enhance the role of internal control specialists to encourage effective compliance monitoring.

In order to promote a culture of integrity and enhance ethical management, KDB will hold bank-wide contests for best practices and policies and task each department with a unique integrity mission. In addition, a pilot program called Voice of Integrity will be launched to facilitate internal whistleblowing.

In the area of anti-money laundering, KDB will revamp its system dealing with cryptocurrencies and small-sum international money transfers in order to boost the ability to address risks resulting from new technologies. Furthermore, KDB will enhance internal controls related to anti-money laundering operations at its overseas branches.

Consumer Protection

KDB continuously improves its systems through diverse efforts to promote mutual growth with its customers based on the core value of protecting the rights of the financial consumers. First, we review and regularly examine factors which may infringe on consumer rights throughout a business cycle by setting protection guidelines for each stage of product development, sale, and after-sale, thus preventing financial mis-selling of products. Moreover, departments in charge of product development and sale share with each other recent consumer protection issues and maintain close cooperation as part of the Financial Consumer Protection Council. Driven by such endeavors, KDB acquired 'Excellent' ratings in all categories of the Evaluation of Consumer Protection Status organized by the Financial Supervisory Service in 2017.

2017 Milestones and performance on consumer protection

Milestones	Performance						
Established system for consumer protection in each stage of financial products sales	<ul style="list-style-type: none"> Planning & Development Stage: Review of consumer rights infringement when developing and revising new products and services Sales Stage: Prevention of financial mis-selling by providing appropriate information on key product features and risks After-sales Stage: Improvement in consumer protection levels through on-site reviews of consumer protection status 						
Raised customer satisfaction by collecting customer opinions	<ul style="list-style-type: none"> Collection of diverse customer opinions through the Voice of Customer system Integration of customer service training with the results of customer service surveys Handling of complaints and follow-up checks 						
Disclosed information to expand the public's right to know	<ul style="list-style-type: none"> Proactive information disclosure Information disclosure status (number of cases) <table> <tr> <td>2015</td><td>76</td></tr> <tr> <td>2016</td><td>97</td></tr> <tr> <td>2017</td><td>66</td></tr> </table>	2015	76	2016	97	2017	66
2015	76						
2016	97						
2017	66						
Performed personal information protection activities	<ul style="list-style-type: none"> Routine review of the browsing and provision histories of personal information to a third party Campaign to delete critical personal information files stored on PCs Acquisition of an 'Excellent' rating (94.16 points) in the Determination of Personal Information Protection Level from the Ministry of the Interior and Safety 						
Conducted monitoring to prevent losses from electronic financial fraud	<ul style="list-style-type: none"> Reestablishment of the fraud detection system Continued improvement of the system to prevent and monitor electronic financial fraud 						

KDB also systematized the complaint handling system to foster a customer service mindset throughout the Bank and improve overall customer satisfaction. An SNS-based notification service was set up as part of the complaint handling procedure to promptly address customer inquiries. Training also takes place in conjunction with the analyses of frequent complaints and the distribution of checklists for the prevention of such issues.

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By doing so, KDB strives to reduce the volume of customer complaints. Furthermore, KDB seeks to upgrade service satisfaction levels by conducting in-house surveys on consumer satisfaction.

Another priority area is the protection of the personal information of customers. KDB has established specific standards at each stage of personal information handling and periodically checks the status of the personal information management. As a result, KDB earned an 'Excellent' rating in the Determination of Personal Information Protection Level from the Ministry of the Interior and Safety in 2017.

Going forward, KDB will devise stronger and more solid systems for the mutual development of the Bank and its customers based on consumer trust. To this end, KDB will strengthen its systems to protect the underprivileged at risk of being neglected in the financial market, including the elderly and the disabled.

Moreover, KDB intends to establish a constant feedback system based on customer opinions in order to share complaint handling cases with employees and pay closer attention to the voices of the customers. KDB will also seek solutions to facilitate autonomous settlement of complaints and disputes for a better customer experience.