
Communication On Progress for 2018

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1 Support for the UNGC

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

2 Human Resource Management

KDB seeks to recruit forward-looking global talent driven by passion and determination, and also possessing the qualifications and sense of ethics needed to lead the development of the Korean financial industry.

Fair and Competency-driven Recruitment

KDB hires new employees every year in order to respond effectively to the ever-changing economic and business environments, and to strengthen its organizational competencies. We ensure equal opportunity and fairness in our recruitment process by adopting 'blind recruitment' practices. Recruitment is driven above all by job competencies, with an emphasis on a candidate's basic capabilities and organizational fit within the financial industry.

KDB hired 63 new employees in 2018, all of whom had undergone a multi-dimensional evaluation at each stage of the hiring process in line with National Competency Standards (NCS). We significantly increased the proportion of new employees with technological background, including big data, ICT, and biotech. These talented new recruits will take the lead in shaping the future of Korean industries in the era of the 4th Industrial Revolution.

Strengthening Job Competencies

We segment job functions at KDB into 172 categories with the aim of maximizing organizational competencies through enhancement of individual job competencies. We support employees in their individual development through a wide range of personalized Career Development Programs (CDPs) which are divided into exploration, development, and master phases. Employees in the exploration phase can improve their skills in their own job functions while also gaining experience within other areas. Subsequently, more support is given to employees to help them further develop their expertise as they move towards the master phase.

For specialized job positions requiring higher level of expertise, positions are filled through competitive in-house recruitment process. In 2018, we recruited staff for positions in project finance, regional development, shipping and aviation finance, credit review, risk management, and industry analysis & assessment. We also operate an open position system which emphasizes the importance of expertise, and imbues our organizational culture with added vitality. In 2018, we proceeded with in-house and external recruitment to hire qualified experts in three areas — retirement pension consulting, management strategy, and bancassurance & fund sales — and thus continued our efforts to secure experts in each area.

Programs for Development of Global Talent

KDB offers its employees a wide array of opportunities to develop their expertise and pursue knowledge in their own specific areas of interest. The Bank's career development roadmap consists of three-phase training courses for each of its 24 job functions, and a variety of in-house training courses are offered covering key areas including loans, deposits, and F/X transactions. In addition, we enable our employees to continue their education anytime and anywhere by providing online courses through the KDB e-Campus, in partnership with professional training institutions.

KDB also runs a range of overseas programs aimed at developing global talent. We offer training programs to nurture regional specialists in countries with strong growth potential such as Indonesia and Vietnam, where we are seeking future business opportunities. Moreover, employees are dispatched to overseas networks in New York, London, and Singapore for on-the-job training and are offered a variety of foreign language training courses before and after work.

3 Socially Responsible Financing

KDB maintains a keen interest in fostering future growth engines, pursuing the balanced growth of companies of various sizes and regions, expanding public infrastructure, and improving the environment, while providing socially responsible financial products and services.

Climate Change Project Development Seminar

KDB addressed the climate change issue by hosting the Climate Change Project Development Seminar (cohosted by KDB and KEPCO) in March 2018, and invited a number of climate change-related companies, including KEPCO and academic experts. At the Seminar, we shared information on KDB's roles as an Implementing Entity of Green Climate Fund (GCF). Following up on this seminar, we will build a system of seamless cooperation with both major climate change project participants and academic experts, and actively facilitate more KDB-GCF co-financing projects.

KDB Climate Finance Forum 2018

KDB hosted the KDB Climate Finance Forum in October 2018, and invited companies and organizations involved in climate change projects, including the Ministry of Economy and Finance, GCF, and Hanwha Energy. At the forum, we shared detailed information about the measures we have put in place to enhance accessibility to GCF funds, and our experience in and strategies for implementing climate change projects. There was a panel discussion with participation from KDB, KEPCO, and K-SURE to discuss how to expand the financial fundamentals for climate change projects in developing countries. This forum has helped us to build close ties with major climate change project stakeholders. Going forward, KDB plans to be more active in climate change projects including new and renewable energy sector.

Korea's first green bond (in KRW)

Leveraging the experience gained in 2017 by issuing a foreign currency-denominated green bond, KDB issued Korea's first KRW-denominated green bond, worth KRW 300 billion with 3-year maturity at an annual coupon of

2.35%, in May 2018, targeting institutional investors interested in socially responsible investment (SRI). KDB allocated 5.3% of the net proceeds to solar power projects and 94.7% to double track railway projects. Except for one project still under construction (expected to be complete by December 2024), all funded projects are currently in operation. Once all the projects are operating, the total reduction in CO2 emissions is expected to be 201,515 tons per annum, of which, given KDB's participation, our contribution will be an annual 16,589 tons, or 528 tons per KRW 1 billion of proceeds (details in the table below). The issuance of a KRW-denominated green bond is expected to increase interest in SRI in the domestic market, and will promote green finance by attracting financial resources much-needed to counter climate change.

Environmental impacts

Sector	Energy Generation Capacity(MWh) or Line Length(Km)	Reduction of CO2 emissions ¹⁾ (tCO2/year)		
		By Project	Contribution of KDB green bonds	Per KRW 1 billion of the Bank's proceeds
Solar Power	200MWh	18,725	5,318	334
Double track railway	7.8Km	92,932	929	119
	12.8Km	20,928	2,553	19
	20.8Km	68,930	7,789	56
Total		201,515	16,589	528

1) Key methodologies for the measurement of CO2 emissions

- “Methodology for the Assessment of Project GHG Emissions and Emission Variations” (European Investment Bank, 2014)
- “Projected Costs of Generating Electricity” (International Energy Agency, 2015)
- “Large-scale Methodology: High speed passenger rail systems” (United Nations)

Sound environmental and social risk management

KDB, as the only Equator Principles Financial Institution (EPFI) in Korea, recognizes the importance of ensuring that the projects we finance are developed in a manner that is socially responsible and reflects sound environmental management practices. Adopted by the Bank in 2017, the Equator Principles (EPs) serve as a baseline and framework for determining, assessing, and managing environmental and social risk in project-related transactions. We are fully committed to implementing the EPs through our Environmental and Social (E&S) Review and Management Guideline that sets out the Bank's objectives, standards, and procedures for managing environmental and social risks in the projects. In 2018, our dedicated E&S team conducted internal environmental and social reviews on project finance and project-related corporate loan transactions that fell within the scope of the Equator Principles.

4 Ethical Management

Driven by a strict sense of ethics and a commitment to ensuring protection for our customers and other stakeholders, everyone at KDB puts ethical management at the center of its corporate culture.

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. Effective training on ethics for employees is provided to boost ethical awareness, and a culture of ethical management has taken root to cultivate a transparent and fair workplace.

In 2018, the Korean government set out stricter requirements for the public sector to restore integrity and comply with high ethical standards that meet the expectations of the general public. Against this backdrop, KDB stepped up the following efforts. Firstly, we further improved our infrastructure for anti-corruption and integrity. Our Code of Conduct was significantly improved through a BOD resolution, and the scope of the Executive Pledge of Ethics, which was previously taken only by the Chairman, Vice-Chairman, and Auditor, was expanded to include Executive Directors in order to increase the sense of responsibility and integrity of the top management.

Secondly, KDB expanded its anti-corruption and integrity programs to spread a culture of integrity. Each department undertook voluntary integrity implementation and participated in a bank-wide contest for integrity policy suggestion. Moreover, branches and employees with high ethical performance were awarded. Lastly, in accordance with strengthened anti-money laundering supervision standards, KDB has implemented relevant measures, such as more detailed 'know your customer (KYC)' due diligence and stricter rules on Suspicious Transaction Reporting (STR). We have also improved our abilities to counter cryptocurrency money laundering, and reviewed anti-money laundering systems at our overseas branches. Moreover, in response to the resumption of U.S. sanctions on Iran and strengthened sanctions on North Korea in 2018, we have thoroughly implemented the sanctions into our everyday business for full compliance.

Major compliance management programs

Programs	Details
Voluntary integrity implementation & integrity policy suggestion contest	Encourages employee participation in establishing integrity policy and identifying areas vulnerable to corruption
Ethics awards for branches and employees	Provides incentives to branches and employees with high ethical standards
Securities report system	Requires employees engaging in loan business to report on their securities accounts and transaction details biannually
Financial investment product trade report system	Requires employees engaged in specific job functions defined in the Capital Markets Act to report on their buying and selling of financial investment products monthly or quarterly
Cryptocurrency possession report system	Requires employees engaging in cryptocurrency business to report their possession of cryptocurrency biannually
Report system for outside lecture requests	Requires employees to report outside lecture requests tied to their job functions or influences
Clean Report Center / No Gift Campaign	Prohibits solicitation and acceptance of gifts exceeding specified amounts
Gapjil ¹⁾ Report Center	Builds a report system for unfair demands or treatment to fellow employees or people outside the Bank
Solicitation report system	Requires 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	Ensures whistleblowers' anonymity and rewards them
Executive Pledge of Ethics	Mandates registered directors to maintain integrity in job performance
Code of Conduct Pledge	Mandates new hires to comply with the Code of Conduct
Ethics training	Provides trainings to new employees and employees engaged in job functions vulnerable to corruption
Compliance monitoring	Conducts monitoring on compliance reports, self-inspection reports from branches, and monthly compliance training results

1) Abuse of power by someone against a person in a weaker position

Consumer Protection

KDB continuously strives to improve its consumer protection systems based on its core value of protecting the rights of financial consumers, which is especially important given the recent trend in Korea towards strengthened protection for financial consumers.

KDB has established a consumer protection process for each phase of the life of a financial product from development to sales and post-sales. We regularly examine across all phases for any factor that may impinge on consumer rights in order to prevent improper or incomplete product sales. The product development and sales departments co-operate by sharing information on recent consumer protection issues through the Financial Consumer Protection Council. As a result of these efforts, KDB earned 'Excellent' ratings across all categories from the 'Evaluation of Consumer Protection Status' by the Financial Supervisory Service in 2018.

We have also systematized our complaint handling system to improve customer satisfaction. We have set up an SMS-based notification service as part of the complaint handling procedure in order to address complaints more promptly, while also striving to reduce the number of complaints by analyzing the cause of the most frequent complaints, providing training on handling complaints, and distributing a checklist for complaints prevention. Moreover, we conduct in-house customer satisfaction surveys to enhance employee awareness, thereby improving levels of consumer satisfaction.

KDB makes the utmost effort to protect the personal information of its customers. We have established detailed standards for the handling of personal information and regularly check on the implementation of these standards. As a result, KDB earned an 'Excellent' rating from the assessment of its personal information protection system by the Ministry of the Interior and Safety in 2018. We also operate electronic financial fraud prevention and monitoring systems to protect consumers from voice phishing.

2018 Milestones and performance for consumer protection

Milestones	Performance
Established a consumer protection system for each life phase of a financial product	<ul style="list-style-type: none"> • (Planning & Development Stage) Reviewed consumer right infringement when developing and revising products and services • (Sales Stage) Prevented incomplete sales by providing appropriate information on key product features and risks • (After-sales Stage) Improved consumer protection levels through on-site reviews of consumer protection status
Increased customer satisfaction by collecting their opinions	<ul style="list-style-type: none"> • Collected diverse customer opinions through the Voice of Customer(VOC) system • Received an 'Excellent' rating in the 'Public-service Customer Index (PSCI)' survey organized by the Ministry of Economy and Finance • Facilitated customer satisfaction(CS) training by taking into account the results of PSCI survey • Received & handled complaints, and then conducted follow-up checks
Disclosed information to ensure the public's right to know	<ul style="list-style-type: none"> • Provided up-to-date information and actively responded to information disclosure requests • Provided group training to employees in charge of information disclosure
Conducted personal information protection activities for customers	<ul style="list-style-type: none"> • Conducted regular reviews on browsing history and provision history to a third party • Ran a campaign to delete critical personal information files stored on PCs at work • Acquired an 'Excellent' rating from the assessment of its personal information protection system by the Ministry of the Interior and Safety
Conducted monitoring to prevent losses from electronic financial fraud	<ul style="list-style-type: none"> • Improved the electronic financial fraud prevention and monitoring system • Provided training on preventing voice phishing attacks