
Communication On Progress for 2019

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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 35 new employees in 2019, all of whom had undergone a multi-dimensional evaluation at each stage of the hiring process in line with National Competency Standards (NCS). We increased the proportion of new employees with digital, technological background, including computer science, big data, 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.

Programs to Foster Digital Talent

KDB is making extensive efforts to recruit and train interdisciplinary talent who can lead the digitalization of finance. It is triggering a bankwide digitalization by providing special lectures and coding classes to its employees. The Bank is also running digital immersion courses in collaboration with colleges and other educational institutions. In addition, KDB offers a wide range of opportunities for employees to expand their knowledge both inside and outside their current job functions. It offers personalized career development programs and inhouse training courses for each job function and level of proficiency. In particular, the Bank enables its employees to learn anytime and anywhere by offering online courses at the KDB e-Campus or through other online training providers.

KDB also runs a range of overseas programs to develop global talent. KDB offers programs aimed at training regional specialists in countries where the Bank is planning to expand, and which have strong potential for growth, including Indonesia and Vietnam. Moreover, selected employees also receive on-the-job trainings at KDB offices in New York, London, and Singapore.

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 a competitive in-house recruitment process. In 2019, KDB recruited staff for positions in project finance (PF), regional development, shipping and aviation finance, M&A, private equity fund, VC, DCM, credit review, consulting, and portfolio management. The Bank also operates an open position system which emphasizes the importance of expertise, and imbues the Bank's organizational culture with added vitality. In 2019, KDB proceeded with in-house and external recruitment to hire qualified experts in four areas — PF, litigation, risk management, and industry & technology research — and thus continued its efforts to secure distinguished experts in each field.

3 Socially Responsible Financing

KDB maintains a keen interest in fostering future growth engines, pursuing balanced growth across regions, expanding public infrastructure, and improving the environment, and thereby provides socially responsible financial products and services.

Environmental and Social Risk Management

KDB recognizes that the finance industry has a critical role to play in promoting responsible stewardship and socially responsible development. Accordingly, we work in partnership with our clients to ensure that the projects we finance and advise on are developed in a manner that is socially responsible, and reflects sound environmental management practices. The environmental and social(E&S) performance of our clients is intrinsically linked to our own success and commitment to society.

KDB's approach to tackling E&S risks in projects and other transactions follows the Equator Principles (EP), the finance industry's gold standard for E&S risk management. Our due diligence processes ensure that E&S risks in large infrastructure and industrial projects are effectively identified, and appropriate measures are put in place to mitigate risk in a structured way. In 2019, our dedicated team undertook E&S due diligence on more than 40 projects and transactions. KDB provided multiple rounds of staff training and hosted many seminars in order to raise awareness of EP, and to ensure that EP are maintained consistently throughout the Bank.

As Korea's first and only bank to adopt the EP to date, KDB is expanding its outreach activities to help disseminate and advance E&S risk management practices. During the course of the year, we shared our experiences in E&S risk management with other Korean banks that have shown interest or have taken preliminary steps to become a signatory of the EP. At the 2019 Annual Meeting of the EP Association where the fourth version of the EP (EP4) was launched, KDB stepped up to take on the leadership role of EP4 transition coordinator.

Responsibility includes overseeing the issuance of supplementary guidance documents before the EP4 becomes effective in July 2020.

KDB will continue to improve the rigor of its internal procedures in order to manage the E&S risks of the projects it finances. The priority for 2020 will be the effective implementation of EP4 across the Bank's operations, which will in turn enable us to guide our clients in addressing emerging E&S risks.

KDB-KEPCO Climate Finance Forum 2019

KDB and Korea Electric Power Corporation (KEPCO) hosted the KDB-KEPCO Climate Finance Forum 2019 in October, with participation from climate change project staff from both organizations, as well as climate change experts from KPMG. This annual forum enables KEPCO and KDB, two of Korea's leaders in climate change projects, to come together to share information on overseas projects and look at opportunities for new projects. Forum 2019 focused on cooperation in overseas carbon emissions trading markets. KEPCO's project progress, KPMG's analysis on emissions right business model, and KDB's climate change project blueprints were also shared among the participants.

MOU for Joint Collaboration for GCF Projects

In December 2019, KDB signed an MOU with the Korea International Cooperation Agency (KOICA) and the Korea Environmental Industry & Technology Institute (KEITI) for the joint development of Green Climate Fund (GCF) projects. The MOU will actively pioneer global climate change markets by combining KOICA's know-how in official development assistance (ODA), KEITI's environmental expertise, and KDB's financial capabilities. It will also enhance mutual cooperation in helping Korean companies expand overseas. As the only domestic Accredited Entity of GCF, KDB is implementing the "EV Paradigm Shift Acceleration Project in Vietnam" in partnership with KOICA and KEITI. Through this MOU, the three organizations will continue to work together on GCF projects that will best support the development of emerging nations.

Establishment of the KDB Sustainable Bond Framework

In June 2019, KDB established the KDB Sustainable Bond Framework in order to increase transparency in bond markets through a standardized framework for ESG bonds. A second party opinion from Sustainalytics confirmed the quality and rigor of the Framework. The Framework is in line with all international standards, including ICMA’s Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines, and specifies detailed criteria for eligible projects. The Framework consists of four core components — use of proceeds, processes for project evaluation and selection, management of proceeds, and reporting.

Issuance of EUR-denominated Green Bond

Following its USD-denominated green bond issued in 2017, KDB successfully priced a EUR-denominated green bond for EUR 500 million, with a 5-year maturity, in July 2019. The proceeds will be used for new & renewable energy projects, including photovoltaic and wind power generation. The bond won “Best Green Bond — Bank” at The Asset Triple A Sustainable Capital Markets Regional Awards 2019.

4 Ethical Management

KDB prioritizes ethical management with a particular focus on customer protection in a bid to spread fairness and transparency within the organization.

Compliance

KDB has built an effective internal control system to ensure that it abides by regulations, prevents any financial incident, and fulfills its anti-money laundering obligations. It continues to make improvements to its anti-corruption infrastructure, and runs a wide range of compliance programs to practice a bank-wide ethical management. Regular training is provided to employees in order to boost ethical awareness, and to build a fair and transparent workplace.

In 2019, the government emphasized the importance of ethical management for the public sector in order to fully establish public integrity, and to spread a culture of respect for human rights and mutual cooperation. KDB received integrity consulting from the Anti-Corruption & Civil Rights Commission, and overhauled its internal regulations, including the Code of Conduct. As a result of such endeavors, the government upgraded the Bank's integrity evaluation rating by one notch in 2019. In addition, we built a human rights management system to meet the new obligations imposed on public institutions starting from 2019, and made a joint labor-management declaration on human rights management. We also operate internal and external report centers for gapjil¹⁾ and conduct surveys with our partners and clients to prevent any damage or take corrective actions, in an active response to the government's commitment to eradicating gapjil.

KDB also made improvements to its anti-money laundering infrastructure. The Bank successfully integrated its anti-money laundering function to the Next Generation Information System, and also amended internal regulations and self-checklists on anti-money laundering for its overseas networks. Moreover, system improvements are being consistently made to prevent transactions which are in violation of international sanctions including those imposed by the US and UN.

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

Major compliance management programs

Programs	Details
Compliance monitoring	Conducts monitoring on compliance reports, self-inspection reports from branches, and monthly compliance training results
Preliminary compliance review	Conducts compliance reviews on internal regulations, T&C, product disclosures, BoD agenda items, etc.
Anti-money laundering	Conducts Suspicious Transaction Reporting (STR), monitors large cash transactions, and operates the know-your-customer (KYC) and know-your-employee (KYE) systems
Financial investment report system	Requires employees to report on their financial investments to prevent them from using undisclosed information
Cryptocurrency possession report system	Requires employees engaging in cryptocurrency business to report their possession of cryptocurrency biannually
Integrity idea contest and ethics awards for branches and employees	Encourages and incentivizes employees to identify areas vulnerable to corruption
Clean Report Center / No Gift Campaign	Prohibits solicitation and acceptance of gifts exceeding specified amounts
Solicitation report system	Requires employees to report on unlawful solicitation from fellow employees and people outside the Bank
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
<i>Gapjil</i> Report Center	Builds a report system for unfair demands or treatment to fellow employees or people outside the Bank
Whistleblowing system	Prevents financial incidents and ensures whistleblowers' anonymity
Report system for outside lecture requests	Requires employees to report outside lecture requests tied to their job functions or influences
Compliance self-check system	Checks the compliance status of all employees biannually
Ethical trainings	Provides training to new employees, promoted employees, high-level management, and employees engaged in job functions vulnerable to corruption

Consumer Protection

KDB continuously strives to improve its consumer protection systems in response to the ever-strengthening standards for financial consumer protection. KDB has established a consumer protection process for each phase of the product life cycle — from development to sales and post-sales stages. 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 communicate seamlessly by sharing up-to-date information on recent consumer protection issues through the Financial Consumer Protection Council. As a result of these efforts, KDB has earned “Excellent” ratings across all categories of the “Evaluation of Consumer Protection Status” conducted by the Financial Supervisory Service every year. We have also set up a coherent complaint handling system to address customer complaints more promptly. We are also working to reduce the number of complaints by analyzing the root cause of the most frequent complaints, providing in-depth training on complaints handling, and distributing a checklist for complaints prevention.

Moreover, we conduct in-house customer satisfaction surveys to enhance employee awareness, thereby further enhancing the levels of consumer satisfaction.

In addition, 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 make regular checks on the implementation status of these standards. We also operate electronic financial fraud prevention and monitoring systems to protect consumers from voice phishing.

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) Conducted preliminary reviews on possible consumer right infringements • (Sales Stage) Prevented incomplete sales by providing appropriate information on key product features and risks • (After-sales Stage) Enhanced 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 • Facilitated customer satisfaction(CS) training by analyzing the results of 'Publicservice Customer Index (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
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