
Communication On Progress for 2020

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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.

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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 114 new employees in 2020, 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 and big data to foster a pool of interdisciplinary talent essential for pursuing a bankwide digital transformation.

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 its overseas business operations, and which have strong potential for growth, including Indonesia and Vietnam.

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 2020, KDB recruited staff for positions in project finance (PF), regional development, shipping and aviation finance, M&A, private equity, 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 2020, KDB held both in-house and external recruitment to hire qualified experts in fund management and biopharmaceutical industry, and is continuing its efforts to secure distinguished specialists in more fields.

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. The process starts by categorizing projects based on the significance of their potential E&S risks and impacts. In the course of E&S due diligence, KDB reviews client's compliance with the EPs requirements, such as identifying potential E&S impacts and incorporating measures to avoid, minimize, mitigate, and/or compensate for the adverse impacts into project design. KDB ensures that financing documentation includes covenants linked to EPs compliance and reviews the client's E&S monitoring reports over the life of the loan.

With growing institutional capacity in E&S risk management, KDB is expanding its outreach activities to raise awareness of the financial industry's role in sustainable development. In 2020, KDB stepped up to take on several leadership roles at the Equator Principles Association, a group of more than 110 Equator Principles Financial Institutions (EPFIs) from 37 countries.

Specifically, during the period between the official release (November 2019) and launch (October 2020) of Equator Principles 4, KDB contributed in making a smooth transition process. Relevant work includes overseeing the development and update of the EPs guidance documents, and responding to requests of EPFIs to help maintain consistency and robustness of EPs application.

Year 2021 will be a critical juncture in KDB's sustainability practices, as it plans to strengthen governance around emerging E&S risks and opportunities. Specifically, the Bank will establish a new department dedicated to tackling sustainability challenges, taking on the primary role of mainstreaming sustainability into the institutional agenda and expanding the portfolio of green financial products and services. These actions aim to bring the concept of being a responsible bank closer to the heart of KDB's institutional culture and act as the driving force behind continued growth.

Issuance of USD-denominated Social Bond (Covid-19 Response Bonds)

Upon growing demand for financial support to economic sectors adversely affected by the Covid-19 crisis, in October 2020, KDB issued its inaugural Social Bond for USD 500 million with a tenor of 3 years (0.50% p.a.). Proceeds were used for providing financial support to eligible social projects falling under : (1) Loans to SMEs and Small Offices and/or Home Offices (SOHOs) in "regions severely damaged by the pandemic" within the special disaster zones as designated by the government or areas within a province or a city where the number of accumulated Covid-19 cases equal or exceed 1,000 and (2) Loans to SMEs and/or SOHOs in "the most adversely affected industries" such as wholesale and retail, transportation, tourism, and accommodation, among others.

Issuance of Foreign Currency-denominated Green Bonds

Since the issuance of the inaugural green bond in 2017, KDB has continued its commitment to help finance environmentally sustainable and socially responsible businesses through consequent offerings of green bonds. So far, KDB has issued four green bonds in the international market, raising a total of USD 1.9 billion, the proceeds of which were allocated (to be allocated) to projects related to renewable energy and/or clean transportation.

Strengthening the Social Responsibility of Policy Finance

KDB also managed a wide range of financial programs in 2020 to promote socially responsible financing and a balanced growth across the society.

(Expansion of the Mutual Growth Fund) The Mutual Growth Fund was launched in May 2011 to provide loans to SMEs and MEs at a preferential rate by mixing KDB's financial resources and deposits from large companies with whom KDB signed an agreement to promote mutual growth with SME partners. As of end of 2020, 19 funds were in operation, with total amount under management standing at KRW 11 trillion, which included a KRW 150 billion LG Chemical-KDB mutual growth fund and a KRW 175 billion Hyundai Motors-KDB mutual growth fund, both newly added in 2020.

(Special Loan Programs for Social Enterprises and Job Creation) Through managing special loans for social enterprises and job creation, KDB strengthened support for facilitating employment by SMEs and MEs and provided additional resources to social enterprises.

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

Against the backdrop of an unprecedented crisis in 2020, the government has placed a special emphasis on integrity, ethical management, and proactive administration in the public sector. In response, KDB made strenuous efforts to practice active administration, maintain transparency, manage risks, and prevent corruption. The Bank established detailed rules and guidelines on holding concurrent positions and overhauled internal regulations including the Code of Conduct and the Integrity Policy. This initiative also cultivated a culture of integrity by providing a diverse range of compliance education, integrity campaigns, idea contests and quizzes to the employees. As a result of such endeavors, the Bank won the second highest rating in the integrity evaluation by the government in 2020.

In addition, the Bank established a human rights management system to meet the new obligations imposed on public institutions starting from 2019, and by conducting a human rights impact analysis in 2020, the Bank identified and evaluated actual and potential risk that may arise from its businesses. In response to the government's effort to uproot gapjil (abuse of power by someone against a person in a weaker position), KDB made special effort to prevent potential harm by providing 1) relief procedures with widened measures for counseling, 2) preventive measures such as operation of internal and external reporting centers for power tripping and 3) expanding the existing social media channel for anonymous reporting ("KDB Help Line")

KDB also improved the capacity for anti-money laundering by adding more measures to verify customers regularly and harvest a culture of reporting suspicious transactions.

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 & securities account 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 and participate in the process of establishing integrity policies.
Clean Report Center / No Gift Campaign	Prohibits solicitation and acceptance of gifts exceeding specified amounts and establishes organizational culture of integrity.
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
Report Center for Power Tripping at Work	Builds a reporting system for unfair demands or treatment of fellow employees or people outside the Bank
Whistleblowing system	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

In response to the ever-strengthening standards for financial consumer protection, KDB continuously improved its consumer protection systems by establishing a process for each phase of the product life cycle - from development to sales and post sales stages. The Bank regularly examines all phases to discover any factors that may impinge on consumer rights in order to prevent mis-selling. The Financial Consumer Protection Council of the Bank facilitates the seamless communication between product development functions and sales forces by providing up-to-date information on consumer protection issues. Furthermore, KDB enacted rules and set up the Product Committee for thorough internal control of non-deposit products. Through such efforts, KDB has earned a “Proper” ratings in the “Evaluation of Consumer Protection Status” conducted by the Financial Supervisory Service.

KDB has set up a grievance alert system to nurture customer service mindset across the Bank and improve clients’ satisfaction. The Bank is also working to reduce the number of complaints by 1) conducting root cause analysis to figure out the cause of the most frequent complaints, 2) holding in-depth sessions regarding complaint handling, and 3) distributing a checklist to minimize complaint. KDB also conducts in-house customer satisfaction surveys to enhance employees’ awareness.

KDB has made utmost efforts to protect personal information of its customers. The Bank established detailed standards for handling personal information and checked regularly on the implementation status of such standards. KDB also managed the monitoring systems to protect its clients against various financial cyber-crimes such as voice phishing.

2020 Milestones and consumer protection outcomes

Milestones	Performance
Established a consumer protection system for each phase of the product life cycle	<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
Established a compliance system to respond to global financial regulations	<ul style="list-style-type: none"> • Conducted customer due diligence(CDD) on automatic exchanges of financial information among countries implementing FATCA and MCAA and reported results.
Conducted personal information protection promotion 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 • Obtained an "Excellent" rating in the "Evaluation of Personal Information Protection Status" conducted 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