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# Communication On Progress for 2021

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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.

Kang, Seoghoon

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.

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.

In 2021, KDB re-organized its IT unit to more efficiently execute the bank-wide digital transition, enabling agile and on-demand response to project needs.

Under the three overarching themes of ‘automation’, ‘contactless interaction’ and ‘decision making derived from AI and data science’, the bank has set about digitizing its operations, starting with corporate banking.

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.

### **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.

### 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.

Since adopting the EPs in January 2017, KDB has reviewed a total of 163 credit transactions that fell within the scope of the Principles, including 49 in 2021 alone that were valued approximately at KRW 5.5 trillion. The Bank was designated Asia-Oceania Regional Representative in October 2021 by the EP Steering Committee in recognition for its EP-compliant credit review

capabilities and work toward promoting the EPs.

As one of the 42 Asia-Oceania regional signatories of the EPs, KDB seeks to establish ground as a standard setter in environmental and social review and conduct a range of activities toward enhancing the E&S review capabilities of Asia-Oceania region member institutions and promoting consistency in adoption of the Principles.

#### KDB's E&S risk management process

| Programs  | Details   |
|---|---|
| New Project-Related Transactions                      | Determine if the financial product supporting the project is subject to E&S due diligence (Project Finance, Project-Related Corporate Loans, etc.)  |
| E&S Risk Categorization                               | Categorize the project into Category A (high risk), Category B (medium risk), Category C (low risk)   |
| E&S Due Diligence (in conjunction with credit review) | Conduct compliance review against the EPs requirements, which are commensurate with project's risk category, as a part of the loan approval process |
| Financing Documentation                               | Incorporate covenants on client's E&S undertakings into financial documents   |
| Monitoring and Reporting                              | Conduct monitoring and review of client's documents to ensure continued compliance with the EPs requirements  |

#### 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 issuing its inaugural green bond in 2017, KDB has repeatedly issued green bonds in and outside Korea. In 2021 alone, the Bank successfully issued USD 700 million fixed-rate green bonds respectively in January and October, and Asia’s first SEC-registered SOFR-linked USD 300 million green bond in March. The bond was significant for KDB as it provided momentum to facilitate the use of alternative benchmark rates and also diversified its funding sources for ESG financing. The Bank’s effort to issue green bonds in more variety of currencies continued in 2021, including a CHF 200 million green bond in Switzerland, a leading ESG finance market, and a USD 100 million-equivalent green bond denominated in the IDR. As one of Korea’s anchor issuers, KDB was also the first in Korea to issue a derivative-linked structured green bond in a foreign currency, actively exploring different formats of ESG bonds and contributing to the growth of the market.

### **Strengthening the Social Responsibility of Policy Finance**

KDB has acted on its role as Korea’s policy finance institution by organizing and managing the Key Industry Stabilization Fund, initiating preemptive business improvements via financial restructuring and generation of jobs in the local economy, supporting the solid growth of the country’s SMEs, and pioneering green finance and deals related to the fourth industrial revolution. In sum, KDB has strived to establish client partnerships that contribute not just to business growth but the sustainable growth of the greater Korean economy. Despite macroeconomic uncertainties from the prolonged Covid19 pandemic

and signals of aggressive rate increases from both in and outside Korea, Korean companies started new businesses, made large-scale capital investments toward carbon neutrality and the fourth industrial revolution opportunities, and took actions to secure acquisition finance to transform their business. KDB made available timely and extensive liquidity to help companies improve their key capacity and speed up necessary restructuring.

As a policy finance institution, KDB works closely with the Korean government as well as other policy finance players on key economic and industry initiatives. The Bank has worked consistently to generate mutually beneficial economic relationships between the country's large companies and their SME and ME partners, contributing to creating more jobs and expanding the Bank's client base.

To drive future economic growth, the Bank actively discovered and invested in companies with high growth potential. As examples, KDB supplied early-stage liquidity to digital start-ups through its Data-backed Loan Program, and invested in a data center and a logistics facility of a promising non-manufacturing start-up, securing strategic assets for the Bank's long-term portfolio.

KDB's green finance instruments such as KDB Carbon Spread Program and ESG Primary CBO(P-CBO) Program have backed corporate capital investments in green areas as well as their transition toward greening their portfolios. The Bank also organized a USD 1.2 billion KDB Green Ocean Fund to invest in building up the country's green marine infrastructure such as environmentally sustainable and smart marine logistics systems and high-efficiency ships in line with the government's Shipping Industry Leader Strategy.

KDB provided in 2021 a total of KRW 83.2 trillion, of which KRW 55.1 trillion, or 66% was allocated to SME and MEs. In particular, KDB supplied liquidity support through special relief programs such as Special Fund for Cheering Up Korea that are targeted at businesses hit by the Covid19 pandemic.



## 4 Ethical Management

KDB has in place effective internal control measures designed to prevent financial malpractices from taking place and to comply with a full range of legal and regulatory requirements including anti-money laundering rules. As a public organization, the Bank regularly monitors and improves its anti-corruption measures and implements a variety of compliance programs to promote business ethics across the Bank's day-to-day operations. KDB also conducts customized training sessions for its employees to reinforce a workplace culture based on integrity and transparency.

### Compliance

The Bank placed a particular emphasis on corruption prevention, ethical management, and proactive business administration in 2021 in light of the prolonged Covid19 pandemic. In promoting proactive business administration and in the process of providing various support mechanisms, KDB ensured that its practices reflect transparency and are carried out in a way that prevents corruption and minimizes potential risk factors.

For example, KDB institutionalized a system to implement the newly established Act on Prohibition of False Claims for Public Funds and Recovery of Illicit Profits, made it mandatory for the Bank's senior management to participate in anti-corruption sessions organized by the national Anti-Corruption and Civil Rights Commission and conducted customized compliance training for all levels of employees focusing on areas prone to corruption. The Bank also engaged its clients to participate in its compliance campaigns through various activities and events, promoting awareness and a culture of business ethics across the board. As a result of these efforts, KDB was given the second highest rating in the national review of public organizations' anti-corruption practices in 2021. The Bank also received the International Standards Organization's anti-bribery management systems certification(ISO 37001).

In follow-up to a systematic review of the impact of its business operations on human rights including their actual and potential human rights-related risks conducted in 2020, the Bank upgraded its human rights checklist in 2021 by incorporating the implications of issues like Covid19 and ESG management into KDB's business ethics, employees' right to work, and workplace safety. In addition, KDB carried out in-depth studies of the industry's business ethics and the relevant practices, actively applying this knowledge to improving the Bank's own internal grievance procedures.

In response to the government's effort to crackdown on organizational power abuses, KDB has established and is operating multiple reporting centers and strengthened the function of the KDB Help Line, its anonymous reporting outlet via a social platform Kakao Talk, expanding professional counseling services and preventive steps to stop workplace power tripping and facilitate effective remedial action.

Separately, KDB has significantly improved its institutional capacity for anti-money laundering(AML) in line with tightening regulations worldwide that demand thorough compliance by financial institutions. The Bank conducted in-depth analyses on its overseas entities from 2020 and 2021, producing a detailed checklist to bring the Bank's AML framework up to global standards. The Bank has since created a dedicated AML/Sanction Compliance team to proactively manage AML-related risks as the Bank expands its global business coverage.

### 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.                                   |
| ISO 37001 (Anti-bribery management systems) Accreditation           | Acquired ISO 37001 (Anti-bribery management systems) accreditation and implemented internal management systems.   |
| Executive Pledge of Ethics  | Mandates registered directors to maintain integrity in job performance  |
| Code of Conduct Pledge  | Mandatory pledge of compliance with the KDB Employee Code of Conduct and the Anti-Graft Act by new recruits   |
| 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   | Operation of whistleblower program  |
| 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                    |