

Industrial Bank of Korea

Social, Green, and Sustainability Bond Framework

November 2017

1. Introduction

Industrial Bank of Korea (“IBK”) is a bank headquartered in Seoul, South Korea. IBK intends to issue a series of Social, Green and Sustainability Bonds (“GSS Bonds”). IBK therefore create this Social, Green and Sustainability Bond Framework to support IBK’s GSS Bonds issuance and its overall corporate and social responsibility development.

IBK’s Social, Green and Sustainability Bond Framework is in alignment with the following widely accepted guidance from International Capital Market Association (ICMA)¹:

- Social Bond Principles (“SBP”) 2017
- Green Bond Principles (“GBP”) 2017
- Sustainability Bond Guidelines (“SBG”) 2017

2. IBK Overview

Industrial Bank of Korea was established in 1961 pursuant to the Industrial Bank of Korea Act by the Government of Korea to provide development finance and related banking services to small-and medium-sized enterprises in Korea. Under the IBK Act, IBK is treated as a special juridical entity and thus is not subject to certain laws regulating the banking activities of commercial banks

The Government, under the IBK Act, is generally responsible for the Bank’s operations and has the ability to exercise control over the Bank’s management, policies and operations. The Government also provides direct and indirect financial support for the Bank’s financing activities.

Under the IBK Act, IBK is the only financial institution in Korea that may borrow Korean government funds for the benefit of small-and medium-sized enterprises and issue Small and Medium Industry Finance Bonds (the SMIF Bonds).

IBK has a nationwide branch network with over 600 branches, through which the bank provides comprehensive SME banking services. IBK also has overseas branches and subsidiaries to support small- and medium-sized enterprises operating abroad.

Leader in SME and Sustainable Financing

¹ <https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/green-social-and-sustainability-bonds/>

IBK is a leader in SME financing, and it plans to maintain and strengthen their leadership in the segment. The number of SME customers passed the one million mark in December 2013 and reached 1.3 million in December 2016².

IBK continued to play a leading role in supporting the SMEs experiencing a shortage of funds. This included new loans worth KRW 8.4 trillion, or about 27% of the total KRW 30.5 trillion net increase in SME loans extended by all of Korea's financial institutions in 2016.

IBK's grand total of outstanding loans amounted to KRW 173.2 trillion in 2016. SME loans made up KRW 134.4 trillion, or 77.6% of the total. IBK's market share of SME loans stood at 22.6%, allowing it to retain the number one position in the industry.

In addition, IBK has introduced various such financing products and services as "Job Creation Plus Loan", "IBK Start-up 3 Plus Program", "IBK Job World for SMEs", and "IBK New Growth Vision" to support SMEs and start-up companies, "i-One Small Business Loan" to support self-employed businesspeople, and "IBK New Hope See Loan" to support low-income families.

Also, actively involved in the New Growth Policy Financing Centre together with 9 policy institutions, IBK has been participating in sustainable lending to climate and environmental friendly industries and corporations.

IBK sees SMEs as important future growth engines that will seize the initiative in the Fourth Industrial Revolution. As part of this strategy, IBK would like to create this Social, Green, and Sustainability Bond Framework, and intends to issue Social, Green or Sustainability Bonds to further strengthen IBK's proposition in supporting Korea's economic transformation.

3. IBK Social, Green and Sustainability Bond Framework

IBK's Social, Green and Sustainability Bond Framework follows the four key pillars of the SBP, GBP and SBG³: the use of proceeds, process for project selection and evaluation, management of proceeds, and reporting.

3.1 Use of Proceeds

The net proceeds of each Social, Green or Sustainability Bond issued by IBK will be allocated to direct lending to IBK's corporate customers and individual customers

² <http://eng.ibk.co.kr/lang/en/au/corporateBanking.jsp>

³ <https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/green-social-and-sustainability-bonds/>

This includes all lending products that IBK currently has, and future lending products it may have, excluding lending to Exclusions as defined in 3.1.3

- The net proceeds of IBK Social Bonds will be allocated to Social Eligible Categories as defined in 3.1.1,
- The net proceeds of IBK Green Bonds will be allocated to Green Eligible Categories as defined in 3.1.2
- The net proceeds of IBK Sustainability Bonds will be allocated to a combination of Green Eligible Categories and Social Eligible Categories

3.1.1 Social Eligible Categories

IBK has two broad social objectives that are in line with the SBP and can be defined as follows:

- Employment generation through microfinance and financing targeted at Small and Medium Enterprises (SMEs)
- Socio-economic advancement and empowerment

Where possible, Use of Proceeds under Social Eligible Categories will give priority to support housing, education and other activities which have positive social benefits

Eligibility Categories	Eligibility Criteria
Small and Medium Enterprises (SMEs)	<ul style="list-style-type: none"> - As those defined by Enforcement Decree of The Framework Act on Small and Medium Enterprises in Appendix I - With employee number of less than 10
Job creating companies	<p>Those with employee number of more than 5, and meet one of the below 3 requirements:</p> <ul style="list-style-type: none"> - Increase employee number by at least 1 as compared to previous financial year end - Awarded job creation certificates from central government (Ministry of Employment and Labor) or local government agencies see Appendix II for more information - Selected for relevant awards related to job creation by industrial bodies, such as the Korean Ministry of Employment's Award for Excellence in Job Creation
Start-up companies	<ul style="list-style-type: none"> - Less than 7 years since establishment - All sector are included excluding those specified in 3.1.3 Exclusions
Financially alienated	<ul style="list-style-type: none"> - Low income individuals⁴

⁴ Low income individuals are determined by the Korean Ministry of Health and Welfare (MOHW) and Ministry of Education (MOE)'s classification, which is based on household income. IBK has also incorporated the FSC guidelines on low credit individuals into this definition, and determined the threshold for this Eligibility Criteria

community / Underserved population	<ul style="list-style-type: none"> - Single parent with dependent child(ren) aged below 18 - Family/individual with financially dependent(s) aged over 60
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3.1.2 Green Eligible Categories

IBK has various environmental objectives that are in line with the GBP and can be defined as follows:

Eligibility Categories	Definition	Eligibility Criteria (including but not limited to)
Low Carbon Transport	Transportation systems that have no or very little carbon emissions, and related equipment, technology and infrastructure	<ul style="list-style-type: none"> - Magnetic levitation (Advanced transit system) - Electric vehicle
Renewable Energy	Technology and related infrastructure supporting the production of renewable energy from natural environments such as sunlight, water, wind, geothermal, precipitation, and biological organisms.	<ul style="list-style-type: none"> - Solar Cell - Solar Energy Generation (including Building Integrated Photo Voltaic) - Biomass Energy (including marine, agriculture, forest) - Geothermal Power Generation - Ocean energy (ocean thermal energy, tidal power generation) - Wind Power - Solar Thermal Energy - Hybrid System
Energy Efficiency	Industry that enables energy savings and increases efficiency of energy use by effectively distributing, utilizing, and managing the energy generated through the application of IT technology and new materials	<ul style="list-style-type: none"> - Hydrogen Fuel Cell technology - Household Energy Management - Zero Energy Building / Environmental-friendly energy town - Thermal grids to recycle heat emissions (e.g. power plant hot water heat, LNG

to be either 1) an annual income of KRW35m or 2) an annual income of KRW45m or below, and a CB grade of 6-10. (This can be changed subject to Financial Services Commission's guideline)

		<p>cold heat) discarded in power plants and other industrial applications, to transform into useful energy for other industries (e.g. heat Pumps, heat exchangers)</p>
<p>Eco-efficient Farming (Sustainable Land Use)</p>	<p>Value-added farming methods that simultaneously pursue eco-friendliness and efficiency of production by minimizing the use of pesticides, fertilizers and, energy in the production process of agricultural products using IT and biological technologies</p>	<ul style="list-style-type: none"> - Smart Farm - Micro-irrigation - Agricultural microorganism - Vertical Farming
<p>Environment Improvement & Protection (Pollution Prevention and Control)</p>	<p>Technology and related services to create sustainable environment by restoring the environment, minimizing environmental pollution by eliminating, or significantly mitigating environmental pollutants such as water, air, and soil using biological, physical and chemical methods</p>	<ul style="list-style-type: none"> - Relaxation of Nitrogen Excretion(technology to reduce nitrogen oxides emissions from industrial sources) - Environmental-friendly refrigerant - Oil spill clean-up - Micro-air pollution management - CO₂ emission source management - Soil Remediation - Electronic/Electric Waste Recycle - Waste to energy - Membrane filtration waste water disposal (Sewage and waste water recycle, hydroecological restoration)

3.1.3 Exclusions

- Activities and lending to industry which involves:
 - Luxury sectors: precious metals wholesale/brokerage, mineral of precious metals wholesale/brokerage, artworks & antiques wholesale/brokerage, golf course services

- Child labour
- Adult entertainment
- Weapon
- Alcohol
- Tobacco
- Fossil fuel
- Nuclear
- Large-scale hydro power projects with a generating capacity of >25MW
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3.2 Project Evaluation and Selection

The Asset Evaluation and Selection Process is a key process in ensuring that the assets financed by the IBK's Social, Green or Sustainability Bond(s) are allocated to projects and assets which meet the criteria in the IBK Social, Green and Sustainability Bond Framework.

Existing Eligible Use of Proceeds is from IBK's lending book and is identified and proposed by IBK's Business Units. Future Eligible Use of Proceeds will need to meet all lending criteria set by IBK during normally course of business.

Potential Eligible Lending will then be reviewed by Social, Green and Sustainability Bond Working Group (SGSBWG) which is made up of:

- Treasury Department
- Credit Management Group
- Corporate Banking Group
- Retail Banking Group
- Risk Management Group
- IT Group

Relevant Business Units assess the environmental and social impact of Eligible Use of Proceeds by screening customer information against Use of Proceeds set in Section 3.1, and make recommendation for inclusion as Eligible Use of Proceeds to the SGSBWG. The SGSBWG will review and approve all proposed Eligible Use of Proceeds to determine their compliance with the IBK Social, Green and Sustainability Bond Framework.

Annually, the SGSBWG will review the allocation of the proceeds to the Eligible Use of Proceeds and determine if any changes are necessary (for example, if lending has been prepaid, sold or otherwise become ineligible). The SGSBWG will decide any necessary update of the Eligible Use of Proceeds (such as replacement, deletion, or addition) to maintain the eligibility.

The SGSBWG will also facilitate reporting as mentioned in Section 3.4.

3.3 Management of Proceeds

IBK has internal systems in place to track the proceeds of its Social, Green and Sustainability Bond(s). IBK will establish a Social, Green and Sustainability Bond “allocation register” (the “Register”) to record the allocation of Social, Green and Sustainability Bond proceeds. The proceeds of each Social, Green and Sustainability Bond will be deposited in the general funding accounts and “earmarked” pending allocation.

The Register will contain, for each Social, Green or Sustainability Bond issued, information including:

- (1) Details of the Bond(s): ISIN, pricing date, maturity date, etc.
- (2) Details of Eligible Use of Proceeds: information including
 - List of Eligible Use of Proceeds and brief description
 - Amount of allocation made
 - Other necessary information so that the aggregate of issuance proceeds allocated to the Eligible Use of Proceeds is recorded at all times
 - IBK’s estimate of impact of the Eligible Use of Proceeds

Any balance of issuance proceeds not allocated to Eligible Use of Proceeds will be held in accordance with IBK’s normal sound and prudent liquidity management policy. The unallocated proceeds could be invested domestically and internationally in money market instruments with good credit rating and market liquidity until they are allocated to Eligible Use of Proceeds.

3.4 Reporting

IBK commits to a high level of reporting. During the tenor of the Social, Green or Sustainability Bond and as necessary thereafter in the event of new developments, it will publish a Social, Green or Sustainability Bond Progress Report within one year of issuance, to disclose the allocation of proceeds (Allocation Reporting) and the potential social and green impact (Impact Reporting). The Social, Green or Sustainability Bond Progress reporting will be made public of IBK’s Investor Relation website <http://eng.ibk.co.kr/lang/en/ir/newsletter.jsp>

Allocation reporting

- IBK’s Social, Green or Sustainability Bond Progress Report will contain at a minimum:
- Confirmation that the Use of Proceeds of each Social, Green or Sustainability Bond complies with the IBK Social, Green and Sustainability Bond Framework;

- A list of Eligible Use of Proceeds made by the net proceeds of the Social, Green or Sustainability Bond and its net amount;
- Information about Eligible Use of Proceeds, such as breakdown by:
 - a. Geography location
 - b. Sector
- The balance amount of unallocated net proceeds;

Impact reporting

Where feasible, the Social, Green or Sustainability Bond Progress Report will include qualitative environmental and social impact analysis, and (if reasonably practicable) quantitative social performance indicators, on Eligible Use of Proceeds. Social and Environmental Performance indicators may change from year to year.

Social impact indicators may include:

- Number of corporates financed by Eligible Use of Proceeds
- Number of jobs created
- Number and type of disadvantaged community helped
- Amount of credit distributed

Environmental performance indicators may include:

- kWh of power generated from renewable energy
- Tonnes of GHG avoided
- Energy saved per year (kWh/year)

Appendix I

Under the “Enforcement Decree of The Framework Act on Small and Medium Enterprises”,

A small and medium enterprises as defined in Article 2 (1) 1 of the Framework Act on Small and Medium Enterprises (hereinafter referred to as the "Act") shall be a business entity that meets all the standards set forth in the following subparagraphs: <Amended by Presidential Decree No. 25302, Apr. 14, 2014; Presidential Decree No. 26356, Jun. 30, 2015; Presidential Decree No. 27087, Apr. 5, 2016; Presidential Decree No. 27106, Apr. 26, 2016>

1. A business entity that meets all the standards set forth in the following items:

(a) The main type of business in which the business entity is engaged and its average sales or annual sales (hereinafter “average sales, etc.”) shall meet the standards set forth in attached Table 1;

(b) A corporation whose total assets are less than 500 billion won;

2. A business entity whose actual separation of its management and ownership does not fall under any of the following:

(a) A company that belongs to a conglomerate subject to restrictions on mutual investment, etc. under Article 14 (1) of the Monopoly Regulation and Fair Trade Act (hereafter “conglomerate subject to restrictions on mutual investment, etc.” in this subparagraph) or a company notified as a company incorporated as an affiliate into a conglomerate subject to restrictions on mutual investment, etc. pursuant to Article 14-3 of the same Act;

(b) A corporation whose total assets are at least 500 billion won (including a foreign corporation, with the exception of a non-profit corporation and the one falling under any of the subparagraphs in Article 3-2 (3)) which is the largest shareholder, directly or indirectly owning 30 percent or more of the total outstanding stocks, etc. The largest shareholder referred to in such cases means a corporation or an individual owning the largest share of the relevant company independently or jointly with any of the following, and Article 2 (2) of the Enforcement Decree of the Adjustment of International Taxes Act shall apply mutatis mutandis to the calculation of the ratio of indirectly owned outstanding stocks, etc.:

(i) If the shareholder is a corporation: Executive officers of the corporation;

(ii) If the shareholder is an individual who does not fall under (i): Relatives by blood of such individual;



(c) In the case of a corporation belonging to a related company, a corporation whose average sales, etc. calculated according to Article 7-4 does not satisfy the standards under Attached Table 1;

(d) A company which is excluded from the scope of a conglomerate under the control of the same person pursuant to Article 3-2 (2) 4 of the Enforcement Decree of the Monopoly Regulation and Fair Trade Act and no more belongs to a conglomerate subject to restrictions on mutual investment, etc., and for which three years have passed from the date it meets the requirements under Article 3 of the same Enforcement Decree.

Appendix 2

Job creation certificates from the Ministry of Employment and Labour use the following criteria:

- (a) Job creation growth: (1) # of new employees in the past three years, (2) new employment growth rate for the past 3 years
- (b) Quality of Employment: (1) Turnover ratio for the past 1 year, (2) a number of implementation of labor welfare systems or welfare facilities, (3) a number of work-life balance systems or policies, (4) average salary. Etc.
- (c) Management quality: (1) years of operation, (2) credit rating evaluation
- (d) Additional considerations: (1) contribution to job creation, (2) portion of employment in low class, (3) whether the company have participated in job creation fare or job creation-related businesses
- (e) Due diligence