



KDB Green Bond Framework

2017

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1. Introduction

While complying with the applicable laws and regulations of the jurisdictions, in which a project is being undertaken and laws implementing host country obligations under international laws, the Korea Development Bank (“KDB”) follows internationally recognized environmental and social standards. In December 2016, KDB became an accredited entity by Green Climate Fund (“GCF”)¹ to carry out the GCF-funded projects.

In response to the Korean government’s low carbon & green growth policy and the global agenda of climate changes, KDB as a policy bank of the Korean government has instituted means to promote green financing at the operational level by including the volume of green financing as one of the annual performance indicators. KDB’s green financing program consists largely of (a) providing funds for promoting green industries, (b) providing low-carbon project financing, (c) participating as a major player in the emissions trading markets, and (d) providing knowledge management and analysis of the green industry markets, all in developed and developing countries.

As KDB has expanded project finance transactions, KDB has developed an environmental and social (“E&S”) framework to apply to its business operations. KDB’s E&S framework adopts more integrated and strategic approaches and encompasses E&S safeguards process to manage E&S risk throughout the life cycle of a project. The objectives of the safeguards are to (i) avoid adverse impact of projects on the environment and affected people, where possible; (ii) minimize, mitigate, and/or compensate for adverse impact on the environment and affected people when avoidance is not possible; and (iii) ensure its stake- holders (i.e. borrowers, partners, employees, any counterparts) to manage E&S risks.

2. Use of Proceeds of Green Bonds

The proceeds of the Green Bond will be used for financing green projects that fall under KDB’s eligible criteria as indicated in a table below. The eligibility is aligned with the relevant laws of Korea² and the international standards such as the Green Bond Principles.

The allocation of the proceeds will include (i) existing projects financed during the two years preceding the issue date of the Green Bond, (ii) projects committed to prior to the issue date of the Green Bond but financed following the issue date of the Green Bond and (iii) projects committed to and financed after the issue date of the Green Bond.

❖ Eligible Criteria

Renewable Energy	Generation of energy from renewable sources; <ul style="list-style-type: none">• Solar, Wind, Water, Marine, Geothermal;• Bio energy converted from biological resources;• Energy from waste materials; and• Other energy resources excluding petroleum, coal, nuclear power, or natural gas
Low Carbon Emission Technology	CO2 Gas Capture & Storage

¹ GCF was established by 194 countries party to United Nations Framework Convention on Climate Changes in 2010 in order to mobilize funding and allocating its resources to low-emission and climate-resilient projects for the societies that are highly vulnerable to the effects of climate change in developing countries

² 1) THE FRAMEWORK ACT ON LOW CARBON, GREEN GROWTH and 2) THE ACT ON THE PROMOTION OF THE DEVELOPMENT, USE AND DIFFUSION OF NEW AND RENEWABLE ENERGY.

Enhanced Water Management	<ul style="list-style-type: none"> • Sustainable Infrastructure for clean and/or drinking water, • Technology for recovering hydro-ecological environments
Green Transportation System	Green cars, High-tech railroad, vessel and marine system
LED applications	Eco LED, LED smart module, LED lightings technology
New and Renewal Energy Hybrid Systems (“NRE-H Systems”)	<ul style="list-style-type: none"> • (Power generation and production of heat) Disposal/Independent power and heat generation systems : Solar energy, Fuel cells, Energy Storage Systems, Heat pump • (Enhanced industrial complex energy) NRE-H system for changing industrial complex to carbon-reducing and highly efficient energy structure • (Residence/Life) Urban zero energy building, NRE-H integrated solutions for energy independence and low carbon of rural area • (Transportation) Environment-friendly automobiles based on NRE-H (Electric car or fuel cell car), Infrastructure supplying electricity/hydrogen • ICT integrated platforms and Engineering Consulting supporting NRE-H systems

3. Process for Project Evaluation & Selection

An eligible project will be identified by KDB’s Project Finance Center if the project falls under KDB’s eligibility criteria.

The review starts with preliminary assessment of E&S risk and impact of the project by the Project Finance Center to assign a category³ of the proposed projects into A/B/C that reflects the magnitude of risk and impacts. Technical assessment of E&S issues is conducted by if necessary and as appropriate, external professional consultants upon the request of KDB’s Credit Review Department and the Project Finance Center, in regard to feasibility research, risks categorization, due diligence, and periodic monitoring.

For credit approval on the proposed project submitted by the Project Finance Center, KDB’s Credit Review Department reviews whole matters including the appropriateness of mitigation measures to deal with identified E&S impacts, based on the results of E&S due diligence. During the review process, the department works closely with the Industry & Technology Research Center to ensure the risk management measures reflect the nature and magnitude of environmental and social risks and impact. KDB’s Credit Committee meeting is held to approve the proposed project that is submitted and reviewed by the Project Finance Center and the Credit Review Department, respectively.

For monitoring approved projects, the Project Finance Center, KDB’s Credit Review Division and/or external experts, and, if necessary, the Industry & Technology Research Center, work together collaboratively.

Separately, the project evaluation shall be performed by Consulting Service Department, independently from the Project Finance Center to ensure the independence of the internal evaluating process. The department shall evaluate appropriateness, effectiveness, sustainability and E&S impacts of the selected projects. The result of the evaluation shall be reported to the senior management through Development Effectiveness Committee and the Project Finance Center, and will also be posted on a separate website upon receiving the agreement on disclosure from the borrower of the selected projects.

³ KDB’s categorization system is based on its experience as well as the analysis of IFC’s Performance Standards and the Environmental, Health, and Safety guidelines as technical reference with general and industry-specific examples of Good International Industry Practice.

4. Management of Proceeds

The proceeds of the Green Bond will be managed by KDB's Treasury Department following specific recommendations from KDB's Project Finance Center through its internal information system. The Treasury Department will earmark green projects that are financed and/or refinanced with the proceeds of the Green Bonds and the amount applied to the projects so that it is able to easily track down the information.

Pending/unallocated proceeds of the Green Bond will be invested in cash, cash equivalents and/or marketable securities, in accordance with KDB's cash management policies.

5. Reporting of Use of Proceeds of Green Bonds

KDB plans to provide an annual "Investor Newsletter" and its Annual Report with the information of allocation of the proceeds of the Green Bonds. Those newsletter and annual report shall be posted to KDB's internet website.

The Investor Newsletter will include following information:

- A list of allocated green projects that the green bond proceeds are applied with specific information of the projects, allocated amount, etc.
- The total outstanding of green bond transactions
- Remaining unallocated proceeds
- Estimated environmental impact of the green projects

6. Others

6.1 Assurance

KDB receives a second party opinion from an external party to confirm the validity of KDB Green Bond Framework. The second party opinion is being available on KDB's internet website.

6.2 Compliance

KDB will ensure that projects are in compliance with KDB environmental and social safeguard during the life of the projects and that any measures to avoid/minimize environmental and social risk may be incorporated into a legal agreement. If any matters arise from the projects, the borrowers of the projects shall take corrective actions in accordance with the relevant legal agreement.

6.3 International Participations

Equator Principles <http://www.equator-principles.com/index.php/members-and-reporting>

United Nations Global Compact

<https://www.unglobalcompact.org/what-is-gc/participants/5887-Korea-Development-Bank>

International Development Finance Club <https://www.idfc.org/Who-We-Are/members.aspx>

Green Climate Fund (elected as an accredited entity)

<http://www.greenclimate.fund/partners/accredited-entities/ae-directory>