

INDUSTRIAL BANK OF KOREA SOCIAL, GREEN AND SUSTAINABILITY BOND

SECOND-PARTY OPINION BY SUSTAINALYTICS

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1. INTRODUCTION

Industrial Bank of Korea (IBK) has developed a Social, Green and Sustainability Bond Framework under which it intends to issue a series of bonds and use the proceeds to provide direct lending to IBK's corporate and individual customers to support various lending products that create positive social and environmental impacts. IBK has engaged Sustainalytics to provide a second-party opinion on its framework and the framework's social and environmental credentials.

The net proceeds of each bond will be allocated to current and/or future lending products that promote sustainable economic development. The Framework defines the following Eligibility Criteria:

Social Bond Categories:

1. Small and Medium Enterprises (SMEs)
2. Job creating companies
3. Start-up companies
4. Financially alienated community / Underserved population

Green Bond Categories:

1. Low-carbon transport
2. Renewable energy
3. Energy efficiency
4. Eco-efficient farming (sustainable land use)
5. Environmental improvement and protection (pollution prevention and control)

The proceeds of IBK Sustainability Bonds will be allocated to a combination of Social and Green Eligible Categories.

Sustainalytics has reviewed the framework of the bond and provided a second-party opinion on the alignment of the Social Bond Categories with the Social Bond Principles (the "SBP")¹; the Green Bond Categories with the Green Bond Principles (the "GBP")²; and the Sustainability Bond Categories with the Sustainability Bond Guidelines (the "SBG")³ as administered by the International Capital Market Association (the "ICMA").

As part of this engagement, Sustainalytics held conversations with members of Industrial Bank of Korea's management team to understand the sustainability impact of their lending products, as well as lending product evaluation and selection, management of proceeds and reporting aspects of the IBK's framework. Sustainalytics also reviewed relevant public documents and non-public information. Following this

¹ ICMA's Social Bond Principles, June 2017:

<https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/SocialBondsBrochure-JUNE2017.pdf>

² ICMA's Green Bond Principles, June 2017:

<https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/GreenBondsBrochure-JUNE2017.pdf>

³ ICMA's Sustainability Bond Guidelines, June 2017:

<https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/SustainabilityBondGuidelines-JUNE2017.pdf>

engagement between IBK and Sustainalytics, some elements of the framework were clarified to ensure an alignment with the level of disclosure expected by the ICMA's SBP, GBP and SBG.

This document contains Sustainalytics' opinion of the Social, Green and Sustainability Bond Framework and should be read in conjunction with that framework.

2. SUSTAINALYTICS' OPINION

Section 1: Sustainalytics' Opinion on the Issuer's Framework

Summary

Overall, Sustainalytics is of the opinion that the IBK's Social, Green and Sustainability Bond Framework is transparent, will result in meaningful social and environmental impacts, and aligns with the SBP, GBP and SBG. Some specific elements of the Framework that Sustainalytics' views favourably include:

- The eligible social and green categories in IBK's Framework are outlined within the bank's public reporting as material issues. Furthermore, the Use of Proceeds stated in the Eligibility Criteria are recognized by the SBP 2017 and the GBP 2017 as project categories with clear social and environmental impacts. IBK addresses its social and environmental impact areas through customized financial products which also advance several SDG goals and targets.
- With regard to its selection process, IBK has a dedicated Social, Green and Sustainability Bond Working Group (SGSBWG) comprised of cross-departmental team members responsible for ensuring that lending products meet the Eligibility Criteria. In addition, Sustainalytics is of the opinion that IBK has adequate internal screening procedures to ensure that it does not lend to sensitive sectors and clients⁴. Sustainalytics considers due diligence of particular importance given IBK's involvement in a developing and emerging market, where potential risks associated with the projects are potentially greater, and encourages IBK to seek opportunities to strengthen its social and environmental risk identification procedures. Furthermore, though IBK is not a signatory to the Equator Principles, or other similar industry initiatives that promote responsible finance, Sustainalytics recognizes that IBK is unlikely to have exposure to risks often linked with lending to large-scale infrastructure projects.
- In order to track proceeds, IBK has developed internal systems and plans to establish a Social, Green and Sustainability Bond register to record the ongoing allocation of net proceeds from the bond. The Register will contain details of the Bonds and of eligible Use of Proceeds.

⁴ As per IBK's framework, industries which involve the following will be excluded: 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

- IBK commits to disclose its Social, Green or Sustainability Progress Report within one year of issuance in order to report on the allocation of proceeds and the potential social and green impact. The report will contain a list of eligible Use of Proceeds together with relevant information regarding the Use of Proceeds in terms of their location and sector and balance amount of unallocated net proceeds. Where feasible, the report will include qualitative and possibly quantitative environmental performance indicators. Sustainalytics encourages IBK where possible to report on quantitative KPIs relevant to project criteria categories.

Alignment with the Social Bond Principles, Green Bond Principles and Sustainability Bond Guidelines: Sustainalytics has determined that the Industrial Bank of Korea’s Social, Green and Sustainability Bond Framework aligns to the four pillars of the SBP, GBP and Sustainability Bond Guidelines 2017. For detailed information please refer to Appendix A: Green Bond/Green Bond Programme External Review Form.

Section 2: Sustainability Performance of the Issuer

Contribution of framework to issuer’s sustainability strategy

Sustainalytics has a positive view of Industrial Bank of Korea’s framework and its alignment with IBK’s long-term strategy. IBK has identified relevant material environmental and social impacts of its products and services and has developed various financial products customized to address such impacts. Sustainalytics is of the opinion that IBK’s Social, Green and Sustainability Bond will enable the company to offer financial products in line with its strategy and commitments.

In the company’s 2013 Sustainability Report,⁵ the Industrial Bank of Korea discloses its social and environmental material issues, which align with the objectives stated by its Social, Green and Sustainability Bond Framework. IBK’s Use of Proceeds align with four specific material categories for the company, which include:

Category	Material Issues
Customers	Development of social and environmental products
SMEs	Tailored financing for SMEs
	Support for SMEs
Environment	Coping with climate change
	Reduction of energy use amount
	Eco-friendly energy use
Communities	Support for financially alienated class
	Local economic activation
	Job creation
	Social contribution activity

⁵ Industrial Bank of Korea (IBK) 2013 Sustainability Report

With regard to its social impact, the company commits to support SMEs in becoming competitive with global companies beyond Korea by developing tailored financial support, fostering a win-win growth cooperation program between large corporations and SMEs, subsidizing SME workers' family treatment cost and scholarships, and through job creation for unemployed young people. Examples of IBK's loans focused on providing positive social impact include: loans targeting individuals with low income and low credit rating, loans for SMEs, loans to stimulate job growth for the underprivileged.

IBK has also developed various environmental financial products in order to promote a low-carbon economy. The company has provided loans for solar power facilities and other renewable energy companies, and loans offered for companies designated as green businesses, and companies offering green technology.

Issuer's ability to address common environmental and social risks associated with the projects

While Sustainalytics recognizes that the proceeds from the Social, Green and Sustainability Bond will be directed towards Eligible Categories that are recognized by market norms (SBP and GBP) to have positive impact, Sustainalytics is aware that some businesses and projects can lead to negative social and environmental impacts. Lending to SMEs in developing countries generally has a positive impact through its contribution to economic development; however, it may also expose IBK to the possibility of financing activities that may breach international norms.

IBK's Social, Green and Sustainability Bond Working Group (SGSBWG) will ensure that all projects are aligned with the Use of Proceeds eligibility criteria, and exclude projects identified in the Exclusionary Criteria. Potential industries related to high risks are identified through IBK's normal lending procedures; however, Sustainalytics encourages IBK to seek opportunities to strengthen its social and environmental risk identification procedures.

Additionally, though IBK is not a signatory to the Equator Principles, or other similar industry initiatives that promote responsible finance, Sustainalytics recognizes that IBK was established by the Korean Government to promote independent economic activities and provide development finance and related banking services to SMEs in the country. Thus, IBK is unlikely to have exposure to risks often linked with lending to large-scale infrastructure projects.

Section 3: Impact of Use of Proceeds

Social Impacts

The proceeds from the Social Bond will be used for lending in the following four categories:

1. Small and Medium Enterprises (SMEs)
2. Job creating companies
3. Start-up companies
4. Financially alienated community / Underserved population

SMEs and entrepreneurship are key to ensuring economic growth, innovation, job creation, and social integration. In Korea, SMEs reliance on bank loans for financing has steadily increased from 73.5% in 2005

to 83.8% in 2013, indicating the importance of bank financing to SMEs.⁶ However, according to OECD reports, SMEs represented 99.9% of enterprises and accounted for 86.8% of employment in Korea in 2013, but only 0.01% of small companies grew into medium-sized companies over 2011-14.⁷ Limited access to funds constitutes an important barrier for further development of small businesses. IBK's Social Bonds will be particularly impactful because IBK will support smaller SMEs, with fewer than ten employees, and start-up companies that have been established for fewer than seven years. IBK's Social Bonds would help improve access to finance for these enterprises, which constitute a vital part of Korea's economy.

Environmental Impacts

The proceeds from the Green Bond will be used for lending in the following five categories:

1. Low-carbon transport
2. Renewable energy
3. Energy efficiency
4. Eco-efficient farming (sustainable land use)
5. Environmental improvement and protection (pollution prevention and control)

The environmental categories defined in the IBK framework are recognized as having beneficial environmental impacts by the Green Bond Principles.

Advancement of UN Sustainable Development Goals

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. IBK's social, green and sustainability bonds will advance the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Small and Medium Enterprises (SMEs), Job creating companies, Start-up companies	8. Decent work and economic growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro, small and medium-sized enterprises, including through access to financial services
Financially alienated community / Underserved population	1.No poverty	1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance

⁶ OECD Economic Surveys, Korea, May 2016, <https://www.oecd.org/eco/surveys/Korea-2016-OECD-economic-survey-overview.pdf>

⁷ OECD, Korea Policy Brief, October 2016, https://www.oecd.org/industry/korea-promoting-innovative-entrepreneurship_EN.pdf

Low-carbon transport	9. Industry, Innovation and Infrastructure	9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and trans-border infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all
Renewable Energy	7.Affordable and clean energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Energy efficiency	7.Affordable and clean energy	7.3 By 2030, double the global rate of improvement in energy efficiency
Eco-efficient farming (sustainable land use)	2.Zero hunger	2.4 By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality
Environmental improvement & protection (pollution prevention and control)	3. Good health and well-being	3.9 By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination

Conclusion

Through its Social, Green and Sustainability Bond Framework, Industrial Bank of Korea aims to invest in projects that improve economic growth and advance the transition to a low-carbon economy, while also offering environments benefits more generally. IBK’s planned use of proceeds aligns with four material categories for the company. As such, Sustainalytics is of the opinion that IBK’s Social, Green and Sustainability Bonds will contribute to the areas in which IBK has the potential to create the greatest social and environmental impact, enable the company to achieve IBK’s long-term goals, and help advance six of the SDGs. Sustainalytics has noted above that IBK should seek to strengthen its social and environmental risk identification procedures; nonetheless, Sustainalytics is of the opinion that IBK has adequate internal screening procedures to ensure that it does not lend to sensitive sectors and clients.

Overall, Sustainalytics is of the opinion that IBK is well positioned to issue social, green and sustainability bonds, and that IBK’s Social, Green and Sustainability Bond Framework is robust, transparent, and in alignment with the four pillars of the SBP, GBP and SBG.

APPENDICES

ICMA External Review Form

Green Bond / Green Bond Programme External Review Form

Section 1. Basic Information

Issuer name: Industrial Bank of Korea (IBK)

Green Bond ISIN or Issuer Green Bond Framework Name, if applicable: Industrial Bank of Korea
Social, Green and Sustainability Bond

Review provider's name: Sustainalytics

Completion date of this form: November 23, 2017

Section 2. Review overview

SCOPE OF REVIEW

The review assessed the following elements and confirmed their alignment with the GBPs:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to Green Bond Framework and Second Opinion Document above.

Section 3. Detailed review

1. USE OF PROCEEDS

Overall comment on section (if applicable):
The net proceeds of each bond will be allocated to current and/or future lending products that promote sustainable economic development. The Framework defines the following Eligibility Criteria:

Social Eligible Categories: Small and Medium Enterprises (SMEs), Job creating companies, Start-up companies, and Financially alienated community / Underserved population

Green Eligible Categories: Low carbon transport, Renewable energy, Energy efficiency, Eco-efficient farming (sustainable land use), Environmental improvement & protection (pollution prevention and control).

Sustainability Eligibility Criteria: Proceeds of IBK will be allocated to a combination of Social and Green Eligible Categories.

Use of proceeds categories as per GBP:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Renewable energy | <input checked="" type="checkbox"/> Energy efficiency |
| <input checked="" type="checkbox"/> Pollution prevention and control | <input checked="" type="checkbox"/> Sustainable management of living natural resources |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input checked="" type="checkbox"/> Clean transportation |
| <input type="checkbox"/> Sustainable water management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient products, production technologies and processes | <input type="checkbox"/> Other (please specify):
Social lending programmes targeting SMEs, job creating companies, start-up companies, underserved populations |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | |

If applicable please specify the environmental taxonomy, if other than GBPs:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):
In terms of its selection process, IBK has a dedicated Social, Green and Sustainability Bond Working Group (SGSBWG) comprised of cross-departmental team members responsible for ensuring lending

products meet the Eligibility Criteria. In addition, Sustainalytics is of the opinion that IBK has adequate internal screening procedures to ensure it does not lend to sensitive sectors and clients.

Evaluation and selection

- | | |
|--|--|
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (<i>please specify</i>): |

Information on Responsibilities and Accountability

- | | |
|---|---|
| <input type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input checked="" type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

In order to track its proceeds, IBK has developed internal systems and plans to establish a Social, Green and Sustainability Bond register to record the ongoing allocation of net proceeds from the bond. The Register will contain details of the Bonds and of 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.

Sustainalytics is of the opinion that this is in line with industry norms.

Tracking of proceeds:

- | |
|---|
| <input checked="" type="checkbox"/> Green Bond proceeds segregated or tracked by the issuer in a systematic manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (<i>please specify</i>): |

Additional disclosure:

- | | |
|---|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements | <input type="checkbox"/> Allocation to a portfolio of disbursements |

- Disclosure of portfolio balance of unallocated proceeds
- Other *(please specify)*:

4. REPORTING

Overall comment on section *(if applicable)*:

IBK commits to disclose its Social, Green or Sustainability Progress Report within one year of issuance in order to report on the allocation of proceeds and the potential social and green impact. The report will contain a list of eligible Use of Proceeds together with relevant information regarding the Use of Proceeds in terms of their location and sector and balance amount of unallocated net proceeds. Where feasible, the report will include qualitative and possibly quantitative environmental performance indicators. Sustainalytics encourages IBK where possible to report on quantitative KPIs relevant to project criteria categories.

Use of proceeds reporting:

- Project-by-project
- On a project portfolio basis
- Linkage to individual bond(s)
- Other *(please specify)*:

Information reported:

- Allocated amounts
- GB financed share of total investment
- Other *(please specify)*:

Frequency:

- Annual
- Semi-annual
- Other *(please specify): within one year of issuance*

Impact reporting:

- Project-by-project
- On a project portfolio basis
- Linkage to individual bond(s)
- Other *(please specify)*:

Frequency:

- Annual
- Semi-annual
- Other *(please specify): within one year of issuance*

Information reported *(expected or ex-post)*:

GHG Emissions / Savings

Energy Savings

Other ESG indicators (*please specify*):

number of beneficiaries, number of jobs created, amount of credit disbursed, amount of renewable energy generated

Means of Disclosure

Information published in financial report

Information published in sustainability report

Information published in ad hoc documents

Other (*please specify*): *IBK's Investor Relations website*

Reporting reviewed (*if yes, please specify which parts of the reporting are subject to external review*):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (*e.g. to review provider methodology or credentials, to issuer's documentation, etc.*)

<http://eng.ibk.co.kr/lang/en/ir/newsletter.jsp>

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

Consultancy (incl. 2nd opinion)

Certification

Verification / Audit

Rating

Other (*please specify*):

Review provider(s):

Date of publication:

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP

- (i) **Consultant Review:** An issuer can seek advice from consultants and/or institutions with recognized expertise in environmental sustainability or other aspects of the issuance of a Green Bond, such as the establishment/review of an issuer's Green Bond framework. "Second opinions" may fall into this category.
- (ii) **Verification:** An issuer can have its Green Bond, associated Green Bond framework, or underlying assets independently verified by qualified parties, such as auditors. In contrast to certification, verification may focus on alignment with internal standards or claims made by the issuer. Evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria.
- (iii) **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against an external green assessment standard. An assessment standard defines criteria, and alignment with such criteria is tested by qualified third parties / certifiers.
- (iv) **Rating:** An issuer can have its Green Bond or associated Green Bond framework rated by qualified third parties, such as specialised research providers or rating agencies. Green Bond ratings are separate from an issuer's ESG rating as they typically apply to individual securities or Green Bond frameworks / programmes.

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SUSTAINALYTICS

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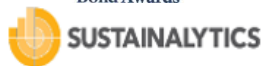
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