

Second-Party Opinion

Green and Sustainability Bond Framework of the Republic of Korea

Evaluation Summary

Sustainalytics is of the opinion that the Green and Sustainability (“G&S”) Bond Framework of the Republic of Korea (“ROK”) is credible and impactful, and aligns with the Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainability Bond Guidelines (SBG) 2018. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds are aligned with those recognized by the GBP, SBP and SBG. Sustainalytics considers that the use of proceeds for (i) Green Buildings, (ii) Waste Management/Waste to Energy (iii) Water and Wastewater Management, (iv) Renewable Energy, (v) Clean Transportation, (vi) Energy Efficiency, (vii) Healthcare, (viii) Education, (ix) Affordable Basic Infrastructure, and (x) Venture Investment will lead to positive environmental and social impacts while advancing the UN Sustainable Development Goals.



PROJECT EVALUATION / SELECTION Korea Investment Corporation (“KIC”), the asset manager for the ROK bond issuances, has established a Sustainability Working Group, including Investment Strategy Team, Alternative Investment Strategy Team, Infrastructure Team, Private Equity Team and Real Estate Team, which selects potential Eligible Projects. The chosen projects go through an approval by the CIO before final evaluation by the Investment Committee and Investment Working Committee. Selected Eligible Projects will be reviewed by KIC on a quarterly basis based on established eligibility criteria. The process for evaluation and selection is aligned with market practice.



MANAGEMENT OF PROCEEDS KIC commits to track and monitor the use of proceeds including bond transaction details and allocation of proceeds, including (i) amount of proceeds, (ii) aggregate amount of proceeds, (iii) balance of unallocated proceeds and (iv) ex-ante environmental benefits of each eligible asset. Unallocated proceeds will be managed according to the KIC’s investment guidelines and might be temporarily invested in ESG funds or liquid money market instruments. The processes for management of proceeds are aligned with market practice.



REPORTING KIC commits to publish a “Green Bond and Sustainability Bond Report” annually, until full allocation of proceeds. The report will include (i) a summary of the issued G&S bonds and relevant details, (ii) allocation reporting, including amount of proceeds allocated, a description of major Eligible Assets financed, the remaining balance of unallocated proceeds and, where feasible, examples of Eligible Assets, and (iii) Impact reporting, which will be disclosed by KIC covering relevant environmental and social impact metrics based on each eligible category. Sustainalytics views the allocation reporting and impact reporting as aligned with market practice.

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Introduction

The Republic of Korea (“the ROK” or “the country”) has developed the ROK Green and Sustainability Bond Framework (“G&S Bond Framework” or “Framework”) under which it intends to issue Green Bonds and/or Green and Sustainability Bonds and use the proceeds to finance and/or refinance, in whole or in part, existing and future projects, thematically focused funds, trusts and SPVs as well as private equity for pureplay companies to support sustainable assets with the potential to generate both environmental and social benefits. The Framework defines eligibility criteria in six green and four social areas:

Green Eligible Categories

1. Green buildings
2. Waste management/ Waste to energy
3. Water and wastewater management
4. Renewable energy
5. Clean transportation
6. Energy Efficiency

Social Eligible Categories

1. Healthcare
2. Education
3. Affordable Basic Infrastructure
4. Venture Investment

The ROK engaged Sustainalytics to review the ROK G&S Bond Framework, dated June 2019, and provide a second-party opinion on the Framework’s environmental and social credentials and its alignment with the GBP, SBP and SBG.¹ This Framework has been published in a separate document.²

As part of this engagement, Sustainalytics held conversations with various members of the ROK’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Issuer’s sustainability bonds. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the ROK G&S Bond Framework and should be read in conjunction with that Framework.

¹ The Sustainability Bond Guidelines are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

² The Republic of Korea Green and Sustainability Bond Framework is available on the ROK ’s website at: <http://klc.kr/en/02/03/05.jsp>

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the ROK Green and Sustainability Bond Framework

Summary

Sustainalytics is of the opinion that the ROK G&S Bond Framework is credible and impactful, and aligns with the four core components of the GBP, SBP and SBG. Sustainalytics highlights the following elements of the ROK G&S Bond Framework:

- Use of Proceeds:
 - The ROK will invest in projects, thematically focused funds and SPVs³ as well as private equity of pureplay companies globally. The eligible use of proceeds categories – (i) Green Buildings, (ii) Waste Management/Waste to Energy (iii) Water and Wastewater Management, (iv) Renewable Energy, (v) Clean Transportation, (vi) Energy Efficiency, (vii) Healthcare, (viii) Education, (ix) Affordable Basic Infrastructure, and (x) Employment Generation through Venture Investment are recognized as impactful by the GBP, SBP and SBG. Sustainalytics believes the ROK's use of proceeds will contribute to low-carbon solutions and sustainable resource management and provide social benefits.
 - The ROK includes non-project-based investment in companies which derive at least 90% of its annual turnover from the Eligible Categories. Although Sustainalytics recognizes that the GBP, SBP and SBG prefer project-based lending and financing, given the targeted definition of venture businesses (see below) and the turnover threshold for pureplay companies of 90% in eligible activities, Sustainalytics is confident that the companies financed will contribute to provide meaningful environmental and social solutions.
 - The ROK is intended to use the net bond proceeds to refinance projects with a maximum look-back period of three years. Sustainalytics views the ROK's look-back period as aligned with market preferences.
 - ROK confirmed to Sustainalytics that full allocation will be executed in 24-36 months by KIC.
 - Sustainalytics highlights that the ROK's green building criterion is based on recognized third-party certification standards, LEED Gold or above, BREEAM Excellent or above, G-SEED Green 2 or above, and Green Star under GRESB. Sustainalytics has conducted an assessment on the certifications and considers the certification standards to have a meaningful environmental benefit (see Appendix 1-2 for additional details on the certification schemes).
 - Sustainalytics positively views that ROK limits investment into waste to energy, biomass and geothermal for electricity production to those projects emitting below 100g CO₂/kWh and hydro power to those below 25MW. ROK also excludes biomass and waste-to-energy projects that use feedstock suitable for food production, that deplete carbon pools, or that are grown on land with current or prior high biodiversity. In addition, ROK confirmed to Sustainalytics that expenditures/projects and services including landfill and management of hazardous waste will not be financed from the G&S bond proceeds.
 - The ROK's social eligible investments are limited to countries on the DAC List of ODA Recipients⁴ and include the following further specifications:
 - Education and health institutions limited to investments that serve the needs of underserved population by providing free or affordable alternative access to low income population or other marginalized groups which would not otherwise have access. ROK is committed to ensure accessibility to low-income or marginalized groups through these investments. Sustainalytics encourages ROK to put in place processes to effectively measure the positive impact of the investments for low income and marginalized groups.

³ Eligible SPVs that are set up for the particular purpose of one or more eligible project and only hold assets that meet the eligibility criteria.

⁴ The DAC List of ODA Recipients shows all countries and territories eligible to receive official development assistance (ODA). These consist of all low and middle income countries based on gross national income (GNI) per capita as published by the World Bank, with the exception of G8 members, EU members, and countries with a firm date for entry into the EU. The list also includes all the Least Developed Countries (LDCs) as defined by the UN.

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- Development and provision of access to basic infrastructure to low-income households or populations in rural areas.
- Venture investment limited to business with fewer than 300 employees⁵ and no older than five years.

Sustainalytics believes that the ROK's intended social investments have a well-defined target population and that they can support vulnerable and disadvantaged groups.

- The ROK commits to provide minimum of 20% energy efficiency improvement through the design, construction, installation and operation of systems in buildings and energy-efficient infrastructures. Sustainalytics recognizes that by setting the minimum threshold for energy efficiency improvements, the ROK aligns with market practice.
- Project Evaluation and Selection:
 - Potential Eligible Projects will be presented by the KIC's established Sustainability Working Group, including Investment Strategy Team, Alternative Investment Strategy Team, Infrastructure Team, Private Equity Team and Real Estate Team, to the CIO for further approval. Final investment approval is given by the Investment Committee, chaired by CEO, and the Investment Working Committee, chaired by the CIO. KIC will review selected projects on a quarterly basis based on established eligibility criteria while MoEF will supervise the overall ROK G&S Bond issuance strategy.
 - The ROK's project evaluation and selection process is aligned with the best market practice.
- Management of Proceeds:
 - The ROK G&S Bond's proceeds will be tracked and monitored by KIC including information on the G&S bond transaction details and allocation of proceeds, including (i) amount of proceeds, (ii) balance of unallocated proceeds and (iii) ex-ante environmental benefits of each eligible asset. Pending the full allocation of proceeds, net proceeds will be managed according to the KIC's investment guidelines and might be temporarily invested in ESG funds or liquid money market instruments.
 - ROK communicated to Sustainalytics that it intends to fully allocate the G&S proceeds within 24-36 months, which is aligned with market practice.
 - Sustainalytics considers the ROK's management of proceeds process is aligned with the market practices.
- Reporting:
 - Aligned with market practice, the ROK has committed to report on an annual basis until full allocation of proceeds and as necessary thereafter in the event of material development, on the total amount allocated per eligible green and social category, as well as the total amount of unallocated proceeds. KIC's allocation reporting will include the amount of proceeds allocated, description of major Eligible Assets financed, the remaining balance of unallocated proceeds, and where feasible, examples of Eligible Assets.
 - In addition to allocation reporting, when feasible, KIC will report annually on the environmental benefits and the positive social impacts resulting from Eligible Assets funded. The ROK's potential environmental and social impact indicators cover all eligible categories, including CO₂ and GHG emissions avoided by renewable energy generation, clean transportation and energy efficiency improvements, energy savings per data traffic, renewable energy generated by each type of technology, and number of beneficiaries supported by healthcare, education and affordable basic infrastructure investments.
 - Sustainalytics views ROK's scope of reporting to be aligned with market practice.

Alignment with Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines 2018

Sustainalytics has determined that the ROK's green and sustainability bond proceeds align to the four core components of the GBP, SBP and SBG. Sustainalytics recognizes that the GBP, SBP and SBG prefer project-based lending and financing, and that there is, in general, less transparency with non-project-based lending.

⁵ ROK' criterion for venture financing aligns with the IFC definition of small and medium sized enterprises.

https://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/financial+institutions/priorities/ifcs+definitions+of++targeted+sectors

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While the Framework includes project-based lending, it also considers the inclusion of non-project-based lending activities to companies which derive at least 90% of its annual turnover from the Eligible Categories. Given ROK's established turnover threshold, Sustainalytics considers lending to the Eligible Projects will contribute to supporting activities that can foster economic growth and sustainable development in the long term. For detailed information please refer to Appendix B: Sustainability Bond/ Sustainability Bond Programme External Review Form.

Section 2: Sustainability Strategy of the Issuer

Contribution of Framework to Issuer's sustainability strategy and targets

Sustainalytics has a positive view of the ROK's framework and its alignment with the governments' sustainability efforts and strategies due to the following:

- In 2015, prior to the signing of the Paris Agreement, the ROK established its INDC (Intended Nationally Determined Contribution) and has committed to reduce 37% of the GHG emissions from BAU levels by 2030 across all economic sectors.⁶
- The ROK adopted the Framework Act on Resource Circulation in 2016 to transform South Korea into a "resource-circulating society" through promoting resource circulation and supporting recycling industries. In response to act, the government assigned mandatory recycling quotas and introduced waste disposal fees to be charged on reusable resources.⁷
- In 2018, the ROK ensured its commitment to enhance social sustainability by becoming the 17th member country of the Global Social Impact Investment Steering Group (GSG).⁸
- As a sovereign wealth fund of the ROK, KIC is mandated to manage entrusted assets outside of Korea. In 2018, KIC has adopted the KIC Stewardship Principles, which promote the inclusion of ESG factors in KIC investment decisions.
- KIC has implemented community service programs focusing on four areas: (i) Emergency Relief Support, (ii) Human Resource Development, (iii) Future Infrastructure Building, and (iv) Talent Sharing. To enhance these areas in overseas, KIC works with programmes to reach children, talented human resources and students in Asia, Africa, South America and other regions.⁹

Sustainalytics believes that by investing in eligible environmental and social assets the ROK is well positioned to issue green bonds and sustainability bonds that these bonds will contribute to national and global climate change mitigation and adaptation goals and strategies.

Well positioned to address common environmental and social risks associated with the projects

While the eligible categories are recognized as impactful by the GBP, GLP and SBG, Sustainalytics also recognizes that the eligible categories might have potential environmental and social risks such as workers' health and safety, environmental impacts related to renewable energy infrastructure, air, water, and soil pollution from construction activities, biodiversity loss from land use change as well as risk related to community relations. Moreover, social categories in general can include risks of increasing inequality if not targeted at the right target population. Sustainalytics highlights the following efforts taken by KIC to mitigate the named risks:

- KIC's Stewardship Principles focus on seven principles that speak to the integration of environmental, social, and governance (ESG) factors. According to the principles, material ESG factors are regularly identified by monitoring processes. KIC provided examples of ESG factors to Sustainalytics, including green building certification and third-party monitoring of health and safety management in large infrastructure projects. While Sustainalytics was not provided with a comprehensive overview of the ESG factors, the factors considered in the examples provides confidence that KIC is monitoring relevant ESG risks. KIC also confirmed that biodiversity and community consultation is taken into consideration when financing large infrastructure projects

⁶Intended Nationally Determined Contribution of South Korea:

<https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Republic%20of%20Korea%20First/INDC%20Submission%20by%20the%20Republic%20of%20Korea%20on%20June%202030.pdf>

⁷ Introduction of the Framework Act on Resource Circulation available at:

http://eng.me.go.kr/eng/web/board/read.do?sessionId=IKSiyekCh1aXI2QrFM0pe7NITlj77V6PkfumCOwWfWqONH4r9A1xW1tXur8tttLW.meweb1vhost_servlet_engine3?pagerOffset=0&maxPageItems=10&maxIndexPages=10&searchKey=&searchValue=&menuId=198&orgCd=&boardId=818070&boardMasterId=535&boardCategoryId=&decorator=

⁸ GSG Launches Korea's National Advisory Board on Impact Investing available at: <https://www.unescap.org/news/gsg-launches-korea-national-advisory-board-impact-investing>

⁹ KIC Social Contribution available at: <http://www.kic.kr/en/01/05/01.jsp>

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- In addition, as part of its stewardship principles, KIC commits to report annually on implementation of commitments that has been disclosed in the KIC Stewardship Principles, including summary of voting and engagement activities.
- Moreover, ROK's social eligible investments are limited to healthcare, education and basic infrastructure services in countries on the DAC List of ODA Recipients, indicating that the ROK's target population is well defined.
- ROK integrated an extensive exclusion list into its framework excluding amongst others investments in large hydro power plants, roads and airports, mitigating risk related to large scale infrastructure and carbon intensive infrastructure. ROK also confirmed to Sustainalytics that landfill and hazardous waste management will be excluded from being financed from the G&S bond proceeds.

Sustainalytics considers that ROK has well defined target population for its social investments and that the exclusion list and internal ESG factors considered help ROK to manage environmental and social risks associated with Eligible Projects.

Section 3: Impact of Use of Proceeds

All ten use of proceeds categories are recognized as impactful by GBP, SBP and SBG. Given that the ROK intends to use the majority of the proceeds to finance projects and companies internationally, Sustainalytics has focused on four eligible categories below where the impact is specifically relevant in a global context.

Importance of renewable energy and energy efficiency to mitigate climate change on a global scale

The ROK intends to use its part of bonds' proceeds to finance renewable energy projects such as wind, solar, hydro, geothermal, marine and biomass energy as well as energy efficiency projects mainly associated with energy-efficient infrastructures that promote energy savings across the globe. Since global energy demand continues to increase in accordance with rapidly growing population, especially in emerging economies,¹⁰ significant energy-related transformations are crucial in order to effectively mitigate climate change and thus, limit temperature increase to 1.5 degrees Celsius as indicated by the IPCC 2018 report.¹¹

According to the International Energy Association (IEA), in 2017, world electricity demand rose by 3.1% while innovations in energy efficiency slowed down substantially.¹² Increasing energy efficiency for industry, buildings and transport is regarded as a vital action by IEA Bridge Scenario that must be taken to mitigate GHG emissions, and could contribute to 48% of global GHG emissions reductions by 2030.¹³ In addition, the International Renewable Energy Agency (IRENA) estimates that the share of renewable energy sources needs to increase to a 65% share of global primary energy supply by 2050 in order to meet the Paris Agreement to keep the global temperature below 2°C,¹⁴ an increase of 15% against to 2016 levels.¹⁵ Although IRENA considers 7.9% annual increase of renewable energy in 2018 as "remarkable trend of the last five years",¹⁶ it also acknowledges that fossil fuel energy still meets 70% of the increased energy demand of 2.3% globally in 2018,¹⁷ indicating the necessity to foster renewable energy initiatives to reduce reliance on fossil fuels.

Given this context, Sustainalytics is of the opinion that the financing of renewable energy projects, as well as energy efficiency projects will play a constructive role in reducing GHG emissions globally and supporting global climate change mitigation targets.

¹⁰ OECD Green Growth Studies, Energy available at: <https://www.oecd.org/greengrowth/greening-energy/49157219.pdf>

¹¹ IPCC Global Warming of 1.5 °C, 2018: <https://www.ipcc.ch/sr15/>

¹² Global Energy & CO₂ Status Report 2017 available at: <https://www.iea.org/publications/freepublications/publication/GECO2017.pdf>

¹³ IEA, Meeting Climate Change Goals Through Energy Efficiency available at:

<https://www.iea.org/publications/freepublications/publication/MeetingClimateChangeGoalsEnergyEfficiencyInsightsBrief.pdf>

¹⁴ Paris Agreement's target available at: https://ec.europa.eu/clima/policies/international/negotiations/paris_en

¹⁵ IRENA, Renewable Energy: A Key Climate Solution available at: https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2017/Nov/IRENA_A_key_climate_solution_2017.pdf?la=en&hash=A9561C1518629886361D12EFA11A051E004C5C98

¹⁶ IRENA Renewable Energy Now Accounts for a Third of Global Power Capacity, April 2019: <https://www.irena.org/newsroom/pressreleases/2019/Apr/Renewable-Energy-Now-Accounts-for-a-Third-of-Global-Power-Capacity>

¹⁷ UN Climate Change Renewable Energy Accounts for Third of Global Power Capacity – IRENA, April 2019: <https://unfccc.int/news/renewable-energy-accounts-for-third-of-global-power-capacity-irena>

¹⁷ UN Climate Change Renewable Energy Accounts for Third of Global Power Capacity – IRENA, April 2019: <https://unfccc.int/news/renewable-energy-accounts-for-third-of-global-power-capacity-irena>

Importance of fostering clean transportation and electric vehicles to meet global climate targets

The ROK intends to use part of its bonds' proceeds to finance low-carbon public transportation projects including electric rail, electric urban metro, electric buses, non-motorized and multi-modal transportation as well as electric vehicles and charging infrastructures. According to the International Energy Agency (IEA), the transport sector contributes 23% of global energy-related CO₂ emissions.¹⁸ Furthermore, CO₂ emissions from transport is expected to increase by 60% in 2050.¹⁹ In order to uphold the Paris Climate Agreement, more than 75% of the Nationally Determined Contributions regarded transportation as a priority to mitigate climate change.²⁰ The International Transport Forum, administrated by OECD, classified eligible CO₂ mitigation measures of transport sector into four areas including electrification of railway lines and extensions of mass rapid transit lines, amongst others.²¹

Given the importance of decarbonizing transportation to mitigate climate change, Sustainalytics is of the opinion that the ROK's investments in low carbon public transportation and EVs can contribute to the reduction of GHG emissions from the sector and thus contribute to a low carbon economy on a global basis.

Importance of promoting access to affordable and public healthcare

The ROK intends to use part of the bonds' proceeds to finance hospitals, clinics and health care centers for the provision of medical services that serve the needs of underserved population by providing free or affordable alternative access to low income population or other marginalized groups which would not otherwise have access in countries included in DAC List of ODA Recipients. According to United Nations International Labour Organization (ILO), almost half of the global population lack access to healthcare services, with the lack being highest in rural areas, accounting for 56% of global rural population and 83% of the rural population in Africa.²² As measured by the World Bank, coverage of essential services has the lowest index value in Sub-Saharan Africa and Southern Asia.²³

Based on the above, Sustainalytics positively views the ROK's investments into public healthcare services and believes that the ROK's investments can play a role towards fostering social development in healthcare services.

Importance of promoting learning opportunities to facilitate socioeconomic advancement and empowerment

The ROK intends to use its part of the bonds' proceeds to finance schools that serve the needs of underserved population by providing free or affordable alternative access to low-income population or other marginalized groups which would not otherwise have access and related facilities in DAC List of ODA Recipients. Education plays a significant role to empower societies by social and economic inclusion and has been recognized as one of the key elements of Education 2030 Agenda and Sustainable Development Goal 4: Quality Education. According to UNESCO, lack of funding for education, lack of classroom and expense of education are three of the ten most significant challenges in global education.²⁴ According to UNICEF, in 2018, 262 million children and youth accounted as out-of-school,²⁵ including 4 million children of primary school age, 61 million children of lower secondary school age and 138 million youth of upper secondary school age,²⁶ indicating the need for increased access to education.

Sustainalytics is of opinion that the ROK's financing of public education will increase the accessibility to education and contribute to enhance socioeconomic advancement and empowerment across the globe.

¹⁸ IEA Tracking Process: Transport available at: <https://www.iea.org/etp/tracking2017/transport/>

¹⁹ ITF, Transport CO₂ and the Paris Climate Agreement available at: <https://www.itf-oecd.org/sites/default/files/docs/transport-co2-paris-climate-agreement-ndcs.pdf>

²⁰ IEA Tracking Process: Transport available at: <https://www.iea.org/etp/tracking2017/transport/>

²¹ ITF, Transport CO₂ and the Paris Climate Agreement available at: <https://www.itf-oecd.org/sites/default/files/docs/transport-co2-paris-climate-agreement-ndcs.pdf>

²² ILO More Than Half of the Global Rural Population Excluded From Health Care available at: https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_362525/lang-en/index.htm

²³ World Bank's press release available at: <https://www.worldbank.org/en/news/press-release/2017/12/13/world-bank-who-half-world-lacks-access-to-essential-health-services-100-million-still-pushed-into-extreme-poverty-because-of-health-expenses>

²⁴ 10 Barriers to Education Around the World available at: <https://www.globalcitizen.org/en/content/10-barriers-to-education-around-the-world-2/>

²⁵ Out-of-School Children and Youth available at: <http://uis.unesco.org/en/topic/out-school-children-and-youth>

²⁶ New Education Data for SDG 4 and More available at: <http://uis.unesco.org/en/news/new-education-data-sdg-4-and-more>

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Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This sustainability bond advances the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Green Buildings	9. Industry, Innovation and Infrastructure 11. Sustainable Cities and Communities	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities 11.c Support least developed countries, including through financial and technical assistance, in building sustainable and resilient buildings utilizing local materials
Waste management/ waste to energy	11. Sustainable Cities and Communities 12. Responsible Consumption and Production	11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management 12.2 By 2030, achieve the sustainable management and efficient use of natural resources
Water and wastewater management	6. Clean Water and Sanitation	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally
Renewable energy	7. Affordable and Clean Energy	7.1 By 2030, ensure universal access to affordable, reliable and modern energy services 7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Clean Transportation	9. Industry, Innovation and Infrastructure 11. Sustainable Cities and Communities	9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all 11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
Energy Efficiency	7. Affordable and Clean Energy 9. Industry, Innovation and Infrastructure	7.3 By 2030, double the global rate of improvement in energy efficiency 9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Healthcare	3. Good Health and Well-Being	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all
Education	4. Quality Education	4.1 By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes

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		4.3 By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university.
Affordable Basic Infrastructure	6. Clean Water and Sanitation 9. Industry, Innovation and Infrastructure	6.2 By 2030, achieve access to adequate and equitable sanitation and hygiene for all and end open defecation, paying special attention to the needs of women and girls and those in vulnerable situations 9.A Facilitate sustainable and resilient infrastructure development in developing countries through enhanced financial, technological and technical support to African countries, least developed countries, landlocked developing countries and small island developing States.
Venture Investment	8. Decent work and economic growth	8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value

Conclusion

The Republic of Korea (ROK) has developed the ROK Green and Sustainability Bond Framework under which it intends to issue Green Bonds and/or Green and Sustainability Bonds and use the proceeds to finance and refinance projects, thematically focused funds, trusts and SPVs as well as private equity for pureplay companies to support sustainable assets with the potential to generate both environmental and social benefits in the following categories: (i) Green buildings, (ii) Waste management/ Waste to energy, (iii) Water and wastewater management, (iv) Renewable energy, (v) Clean transportation, (vi) Energy Efficiency, (vii) Healthcare, (viii) Education, (ix) Affordable Basic Infrastructure and (x) Venture Investment.

Sustainalytics considers the use of proceeds to be aligned with the GBP, SBP and SBG. While ROK includes non-projects based financing in its Framework to venture businesses and pureplay companies, Sustainalytics consider the investments as impactful given the turnover threshold for pureplay and targeted approach for venture businesses. Sustainalytics highlights that the Social Eligible Projects are all based in countries on the DAC List of ODA Recipients.

Sustainalytics considers ROK's project evaluation and selection process, management of proceeds and reporting to be aligned with market practice.

Given the above, Sustainalytics considers the ROK G&S Bond Framework to be credible and impactful.



Appendices

Appendix 1: Green Buildings Certifications Comparison

	BREEAM	LEED	G-SEED
Background	BREEAM (Building Research Establishment Environmental Assessment Method) was first published by the Building Research Establishment (BRE) in 1990. Based in the UK. Used for new, refurbished and extension of existing buildings.	Leadership in Energy and Environmental Design (LEED) is a US Certification System for residential and commercial buildings used worldwide. LEED was developed by the non-profit U.S. Green Building Council (USGBC) and covers the design, construction, maintenance and operation of buildings.	G-SEED (Green Standard for Energy and Environmental Design) is a green building certification used in Korea. First implemented in 2002, and later expanded in 2016, G-SEED is administered by the Korean Government under the authority of the Green Building Act (2006).
Certification levels	Pass Good Very Good Excellent Outstanding	Certified Silver Gold Platinum	Green 4 Green 3 Green 2 Green 1
Areas of Assessment: Environmental Project Management	Management (Man) addresses various aspects: project management, deployment, minimal environmental disturbance worksite and stakeholder engagement.	Integrative process, which requires, from the beginning of the design process, the identification and creation of synergies between the various project stakeholders regarding the construction choices and the technical systems.	
Areas of Assessment: Environmental Performance of the Building	Energy Land Use and Ecology Pollution Transport Materials Water Waste Health and Wellbeing Innovation	Energy and atmosphere Sustainable Sites Location and Transportation Materials and resources Water efficiency Indoor environmental quality Innovation in Design Regional Priority	Land Use & Transportation Energy & Environmental Pollution Materials & Resources Water Management Maintenance Ecology Indoor Environment Innovative Design
Requirements	Prerequisites depending on the levels of certification + Credits with associated points This number of points is then weighted by item ²⁷ and gives a BREEAM level of certification, which is based on the overall score obtained (expressed as a percentage). Majority of BREEAM issues are flexible, meaning that the client can choose which to comply with	Prerequisites (independent of level of certification) + Credits with associated points These points are then added together to obtain the LEED level of certification There are several different rating systems within LEED. Each rating system is designed to apply to a specific sector (e.g. New Construction, Major Renovation, Core and Shell	Prerequisites (independent of level of certification) + Credits with associated points Individual credits are achieved in a number of categories. Category scores are then weighted to achieve an overall grade.

²⁷ BREEAM weighting: Management 12%, Health and wellbeing 15%, Energy 19%, Transport 8%, Water 6%, Materials 12.5%, Waste 7.5%, Land Use and ecology 10%, Pollution 10% and Innovation 10%. One point scored in the Energy item is therefore worth twice as much in the overall score as one point scored in the Pollution item

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	<p>to build their BREEAM performance score.</p> <p>BREEAM has two stages/ audit reports: a 'BREEAM Design Stage' and a 'Post Construction Stage', with different assessment criteria.</p>	<p>Development, Schools-/Retail-/Healthcare New Construction and Major Renovations, Existing Buildings: Operation and Maintenance).</p>	
Performance display			
Accreditation	<p>BREEAM International Assessor BREEAM AP BREEAM In Use Assessor</p>	<p>LEED AP BD+C LEED AP O+M</p>	<p>Certification Bodies, appointed by the Ministry of Environment (MOE) and the Ministry of Land, Infrastructure and Transportation (MLIT) review and certifies projects.</p>
Qualitative considerations	<p>Used in more than 70 countries: Good adaptation to the local normative context. Predominant environmental focus. BREEAM certification is less strict (less minimum thresholds) than HQE and LEED certifications.</p>	<p>Widely recognised internationally, and strong assurance of overall quality.</p>	<p>Widely used in Korea and aligned with government standards. Strong overall qualifications. Little international recognition.</p>

Appendix 2: GRESB ESG rating topics and methodology

Global Real Estate Sustainability Benchmark (“GRESB”) is an industry-driven organization that assesses the environmental, social and governance (ESG) performance of real assets and infrastructure globally.

- ESG performance is assessed through a universal GRESB score assigned to all properties, infrastructure, and funds covered by GRESB.
- The GRESB score is based on a voluntary reporting assessment or survey. The content of the assessment is driven by what investors and the industry consider to be material issues in the ESG performance of real assets.
- The overall GRESB Score is assessed on two dimensions: Management & Policy and Implementation & Measurement. The combination of these two dimensions results in a final GRESB score.
- The sum of the scores for each question adds up to a maximum of 136.5 points, and the overall GRESB Score is then expressed as a percentage – from 0 to 100. The maximum score for each aspect is a weighted element of the overall GRESB Score. GRESB takes into account the unique characteristics of different property types, not only in benchmarking absolute scores, but also in the scoring of a selection of questions. A selection of indicators is scored based on each portfolio’s main property types – this holds specifically for the Performance Indicators and Building Certifications aspects.
- The two dimensions are assessed through seven different aspects (see table below).

Seven aspects of GRESB under the two dimensions of Management & Policy and Implementation & Measurement.

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Sustainability Aspect	Weight (% Overall Score)
Management	8.1%
Policy & Disclosure	9.5%
Risks & Opportunities	13.2%
Monitoring & EMS	8.8%
Stakeholder Engagement	23.8%
Performance Indicators	25.6%
Building Certifications	11%
New Construction & Major Renovations	Scored individually
Health & Well-being Module	Scored individually
Resilience Module	Scored individually

More information on the GRESB Real Estate Reference Guide, 2018, is available at:
<http://gresb-public.s3.amazonaws.com/2018/Assessments-and-Reference-Guides/2018-GRESBRE-Reference-Guide.pdf>

Appendix 3: Sustainability Bond / Sustainability Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	Republic of Korea
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable: <i>[specify as appropriate]</i>	Green and Sustainability Bond Framework of the Republic of Korea
Review provider's name:	Sustainalytics
Completion date of this form:	4 June 2019
Publication date of review publication: <i>[where appropriate, specify if it is an update and add reference to earlier relevant review]</i>	

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

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

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

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 Management of Proceeds

 Reporting

ROLE(S) OF REVIEW PROVIDER

 Consultancy (incl. 2nd opinion)

 Certification

 Verification

 Rating

 Other (*please specify*):

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

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

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

The ROK will invest in projects, thematically focused funds and SPVs that hold only assets that meet the eligibility criteria of the framework as well as private equity of pureplay companies globally. The eligible use of proceeds categories – (i) Green Buildings, (ii) Waste management/Waste to Energy (iii) Water and Wastewater Management, (iv) Renewable Energy, (v) Clean Transportation, (vi) Energy Efficiency, (vii) Healthcare, (viii) Education, (ix) Affordable Basic Infrastructure, and (x) Venture Investment are recognized as impactful by the GBP, SBP and SBG 2018. Sustainalytics believes the ROK's use of proceeds will contribute to foster low carbon solutions and sustainable resource management and provide social benefits.

The ROK includes non-project based investment in venture businesses and in companies which derive at least 90% of its annual turnover from the Eligible Categories. Although Sustainalytics recognizes that the GBP, SBP and SBG prefer project-based lending and financing, given the targeted definition of venture businesses (see below) and the turnover threshold for pureplay companies of 90% in eligible activities, Sustainalytics is confident that the companies financed will contribute to provide meaningful environmental and social solutions.

The ROK is intended to use the net bond proceeds to refinance projects with a maximum look-back period of three years. Sustainalytics views the ROK's look back period as aligned with market preferences.

Use of proceeds categories as per GBP:

 Renewable energy

 Energy efficiency

 Pollution prevention and control

 Environmentally sustainable management of living natural resources and land use

 Terrestrial and aquatic biodiversity conservation

 Clean transportation

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- | | |
|--|---|
| <input checked="" type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input checked="" type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (<i>please specify</i>): |

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

Use of proceeds categories as per SBP:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Affordable basic infrastructure | <input checked="" type="checkbox"/> Access to essential services |
| <input type="checkbox"/> Affordable housing | <input type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security | <input checked="" type="checkbox"/> Socioeconomic advancement and empowerment |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBPs | <input type="checkbox"/> Other (<i>please specify</i>): |

If applicable please specify the social taxonomy, if other than SBPs:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Potential Eligible Projects will be presented by the KIC's established Sustainability Working Group, including Investment Strategy Team, Alternative Investment Strategy Team, Infrastructure Team, Private Equity Team and Real Estate Team, to the CIO for further approval. Final investment approval is given by the Investment Committee, chaired by CEO, and the Investment Working Committee, chaired by the CIO. KIC will review selected projects on a quarterly basis based on established eligibility criteria while MoEF will supervise the overall ROK G&S Bond issuance strategy. The ROK's project evaluation and selection process is aligned with the best market practice.

Evaluation and selection

- | | |
|---|--|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" 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 checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
|--|--|

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- Other (please specify):

3. MANAGEMENT OF PROCEEDS

Overall comment on section *(if applicable)*:

The ROK G&S Bond's proceeds will be tracked and monitored by KIC including information on the G&S bond transaction details and allocation of proceeds, including - (i) amount of proceeds, (ii) aggregate amount of proceeds, (iii) balance of unallocated proceeds and (iv) ex-ante environmental benefits of each eligible asset. Pending the full allocation of proceeds, net proceeds will be managed according to the KIC's investment guidelines and might be temporarily invested in ESG funds or liquid money market instruments. ROK communicated to Sustainalytics that it intends to fully allocate the G&S proceeds within 24-36months, which is aligned with market practice. Sustainalytics considers the ROK's management of proceeds process is aligned with the market practices.

Tracking of proceeds:

- Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other *(please specify)*:

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 |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other <i>(please specify)</i> : |

4. REPORTING

Overall comment on section (if applicable):

Aligned with market practice, the ROK has committed to report on an annual basis until full allocation of proceeds and as necessary thereafter in the event of material development, on the total amount allocated per eligible green and social category, as well as the total amount of unallocated proceeds. KIC's allocation reporting will include the amount of proceeds allocated, description of major Eligible Assets financed, the remaining balance of unallocated proceeds, and where feasible, examples of Eligible Assets. In addition to allocation reporting, when feasible, KIC will report annually on the environmental benefits and the positive social impacts resulting from Eligible Assets funded. The ROK's potential environmental and social impact indicators cover all eligible categories, including CO₂ and GHG emissions avoided by renewable energy generation, clean transportation and energy efficiency improvements, energy savings per data traffic, renewable energy generated by each type of technology, and number of beneficiaries supported by healthcare, education and affordable basic infrastructure investments. Sustainalytics views ROK's scope of reporting to be aligned with market practice.

Use of proceeds reporting:

- Project-by-project
- On a project portfolio basis

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- Linkage to individual bond(s) Other (*please specify*):

Information reported:

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

Frequency:

- Annual Semi-annual
- Other (please specify):

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):

Information reported (expected or ex-post):

- | | |
|---|---|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input checked="" type="checkbox"/> Energy Savings |
| <input type="checkbox"/> Decrease in water use | <input checked="" type="checkbox"/> Number of beneficiaries |
| <input type="checkbox"/> Target populations | <input checked="" type="checkbox"/> Other ESG indicators (please specify): |
| | <input type="checkbox"/> Amount of waste avoided, reused, recycled, or treated (tonnes) |
| | <input type="checkbox"/> Water treated (in tonnes) |
| | <input type="checkbox"/> Waste water treated (in tonnes) |
| | <input type="checkbox"/> Annual volume (or population equivalence) of sewage / wastewater treated, reused and avoided |
| | <input type="checkbox"/> Renewable energy generated by each type of technology (GWh) |
| | <input type="checkbox"/> Designed daily seat capacity |
| | <input type="checkbox"/> Number, type and rating of green building certifications obtained |
| | <input type="checkbox"/> Number of beneficiaries with access to improved sanitation facilities |
| | <input type="checkbox"/> Number of beneficiaries with access to clean (drinking) water / access to improved sanitation facilities |
| | <input type="checkbox"/> Number of beneficiaries with access to energy |
| | <input type="checkbox"/> Number of beneficiaries / remote regions with access to public transportation |
| | <input type="checkbox"/> Number of beneficiaries with improved access of mobile communication and connectivity |
| | <input type="checkbox"/> Number and type of facilities provided |
| | <input type="checkbox"/> Age range of beneficiaries |
| | <input type="checkbox"/> Number of SMEs supported |
| | <input type="checkbox"/> Number of jobs created or preserved |

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Means of Disclosure

- | | |
|---|---|
| <input type="checkbox"/> Information published in financial report | <input type="checkbox"/> Information published in sustainability report |
| <input checked="" type="checkbox"/> Information published in ad hoc documents | <input type="checkbox"/> Other (please specify): |
| <input type="checkbox"/> 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://klc.kr/en/02/03/05.jsp>

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

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

Review provider(s):

Date of publication:

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

- i. **Consultant Review:** An issuer can seek advice from consultants and/or institutions with recognized expertise in environmental and social sustainability or other aspects of the issuance of a Sustainability Bond, such as the establishment/review of an issuer's Sustainability Bond framework. "Second Party Opinions" may fall into this category.
- ii. **Verification:** An issuer can have its Sustainability Bond, associated Sustainability 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 and socially sustainable features of underlying assets may be termed verification and may reference external criteria.
- iii. **Certification:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against an external green and social 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 Sustainability Bond or associated Sustainability Bond framework rated by qualified third parties, such as specialised research providers or rating agencies. Sustainability Bond ratings are separate from an issuer's ESG rating as they typically apply to individual securities or Sustainability Bond frameworks / programmes.

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Sustainalytics

Sustainalytics is a leading independent ESG and corporate governance research, ratings and analytics firm that support investors around the world with the development and implementation of responsible investment strategies. With 13 offices globally, the firm partners with institutional investors who integrate ESG information and assessments into their investment processes. Spanning 30 countries, the world's leading issuers, from multinational corporations to financial institutions to governments, turn to Sustainalytics for second-party opinions on green and sustainable bond frameworks. Sustainalytics has been certified by the Climate Bonds Standard Board as a verifier organization, and supports various stakeholders in the development and verification of their frameworks. In 2015, Global Capital awarded Sustainalytics "Best SRI or Green Bond Research or Ratings Firm" and in 2018 and 2019, named Sustainalytics the "Most Impressive Second Party Opinion Provider. The firm was recognized as the "Largest External Reviewer" by the Climate Bonds Initiative as well as Environmental Finance in 2018, and in 2019 was named the "Largest Approved Verifier for Certified Climate Bonds" by the Climate Bonds Initiative. In addition, Sustainalytics received a Special Mention Sustainable Finance Award in 2018 from The Research Institute for Environmental Finance Japan and the Minister of the Environment Award in the Japan Green Contributor category of the Japan Green Bond Awards in 2019.

For more information, visit www.sustainalytics.com

Or contact us info@sustainalytics.com

