

Building up Trust between generations

Social Responsibility Management Report 2017





ABOUT THIS REPORT

National Pension Service (NPS) publishes Social Responsibility Management Report to share its CSR activity, performance, and future plan with key stakeholders since 2012. This report is the sixth issue and focuses on issues that stakeholders concern and their opinion.

Reporting Principle

This report is prepared in accordance with G4 Guidelines, UN Global Compact, and ISO 26000. All requirements for Core Option of general standard disclosure is reported, and the report contains DMA (Disclosures on Management Approach) and more than one index for key issues derived from materiality test

Reporting Period and Boundary

The report highlights NPS's social responsibility activity and performance for 2016 (January 1 to December 31, 2016). As for important issues, this report includes data as recent as November 2017. The report also provides trends in time series utilizing data from the three most recent fiscal year for quantitative performance. For the reporting boundary, the report focuses on NPS's domestic business sites as well as its subsidiaries.

Third Party Assurance

For the validity of reporting process and reliability of data, the third party assurance was carried out. The result can be found in appendix.

Inquiry

If there are further questions or needs of additional information, please contact us. More detailed data is available at NPS website (<http://www.nps.or.kr>).

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“The NPS will regain public trust and promote social values to be reborn as a ‘National Pension Scheme Fully Trusted by the Public’,”

Guarantee income after retirement

The national pension scheme is a social security system, which was established in 1988 to ensure a stable income after retirement for Korean people. Over 30 years since its establishment, the national pension has grown into a world-class welfare system of 21.83 million subscribers and 4.15 million recipients. The NPS is a ‘comprehensive welfare service institution’ that provides support and pension benefits for subscribers, welfare services for the disabled, and basic pension services. The corporation will fulfill its role as a key organization in the social welfare of Korea, which has already entered into an aging society.

Pursue stable fund management

The NPS is the third-largest public pension fund in the world with reserves of KRW 558.3 trillion. Despite the adverse investment environments expected, including slowing growth at home and rising interest rates in the U.S, the NPS will continue the diversification of investments, such as expansion of overseas investment, to increase the ROI while advancing the risk management capabilities and strengthening the competitiveness in investment support to improve the stability of fund management. Also, the NPS will introduce Stewardship Code to live up to the expectations for its social responsibility and role, and conduct study on the exercise of shareholders’ rights based on the principles of socially responsible investment.

Serving as a comprehensive welfare service provider for the public, the NPS also strives to create bigger social values by emerging as a ‘Happy Community That Builds a Warm-hearted Society’ in return for people’s love and support.

The NPS will make efforts to create social values not only in corporation management but also in key businesses such as pension scheme, fund management, and welfare service provision. The NPS will strive to become a ‘national pension scheme fully trusted by the public’ by contributing to the happier life of Korean people with pension benefits and welfare services.

I look forward to your continuous support in the future.

Thank you.

December 2017.
Chairman & CEO of National Pension Service, Sung Joo Kim

김성주

NPS Overview


The NPS was established in September 1987 for the purpose of enhancing the welfare and creating a stable livelihood for its contributing members by providing pension benefits for old age, disability, and death. As of the end of 2016, we are providing pension service to 21.83 million insured and 4.15 million beneficiaries, and managing a fund of KRW 558.3 trillion.

As of December 2016


Name of organization	National Pension Service
Establishment	September 1987
Location	180, Giji-ro, Deokjin-gu, Jeonju-si, Jeollabuk-do, Korea
National Pension Fund	About KRW 558.3 trillion
Number of employees	5,668
Organization	Headquarters: 12 departments, 2 centers, NPS Fund Investment Office, Compliance Officer, National Pension Research Institute, IT Planning Regional offices: 7 regional headquarters, 107 branches Overseas: New York office, London office. Singapore office

Key Businesses of the NPS


The NPS is a 'Comprehensive Welfare Service Institution' covering all major social security areas: providing pension benefits to stabilize national life, managing the basic pension to support the livelihood of senior citizens, offering welfare services including preparation for old age, and support for the activities of the disabled.




- Manages and maintains the records of the insured
- Imposes pension premiums
- Issues certificates
- The 'Durunuri' social insurance subsidy program




- Provides retirement planning services
- Conducts disability registration reviews and supports for the activities of the disabled
- Avails the National Pension Silver Loan
- Conducts capacity assessment for beneficiaries of the 'national basic livelihood'




- Excutes national pension fund management policy
- Manages domestic and overseas equities, fixed incomes, and alternative assets
- Employs a transparent fund and accounting management system
- Proper disclosure of management performance



- Signs and executes social security agreements
- Manages the interests of non-Korean beneficiaries
- Provides advanced system instruction as per international cooperation agreements




- Pays pension benefits and provides lump-sum payments
- Provides a claim guide for possible beneficiaries
- Offers follow-up services for pension benefits



- Conducts research on the pension scheme and social security systems
- Conducts research on measures for efficient fund management
- Informs core trends of the scheme

The NPS puts trust, passion, sharing, responsibility, and fairness as core value under the vision 'Your trusted companion in the age of centenarians', and puts its effort to ensure security of everyone's later years.



Mission

Guarantee the livelihood of the people by providing sustainable pension benefits and welfare service

Vision

Your trusted companion in the age of centenarians

Core values

NPS 5 Values

values of

Trust

Passion

Sharing

Responsibility

Fairness

1987~1999

2000~2010

2011~2017

Establishment of management infrastructure along with system expansion

System innovation for the substantiality of management operation

Diversification of businesses to provide comprehensive welfare services

1986. 12. 31

Promulgated the Nation Pension Act

1987. 9. 18

Established the National Pension Corporation

1988. 1. 1

Implemented the national pension system
Limited to workplaces with 10 or more full-time employees

1992. 1. 1

Compulsory coverage included workplaces with five or more full-time employees

1993. 1. 1

Commenced Special Old-age Pension benefit payment

1994. 6. 29

Established the National Pension Research Institute

1995. 7. 1

Compulsory coverage was extended to farmers and fishermen in rural areas

2003. 7. 1

Gradually expanded compulsory coverage to corporations and workplaces with less than five full-time employees

2007. 7. 23

Renamed as the "National Pension Service"

2008. 1. 1

Launch of the Disability Assessment Center

2008. 4. 1

Launch of Retirement Planning Service

2009. 4. 1

Opening of the Center for International Affairs

2011. 1. 1

Consigned the Affairs in Relation to Collection of Contribution to the National Health Insurance Service (NHIS)

2011. 4. 1

Implemented a System for Assessment and Registration of the Disabled (Welfare of Disabled Persons Act)

2011. 10. 5

Commencement of Programs for Assisting the Disabled

2012. 12. 1

Implement a System for Assessing Work Abilities of Recipients of National Basic Livelihood Security Program

2014. 7. 1

Commencement of Support for Basic Pension Service Operations

2015. 12. 23

Implement Retirement Planning Service

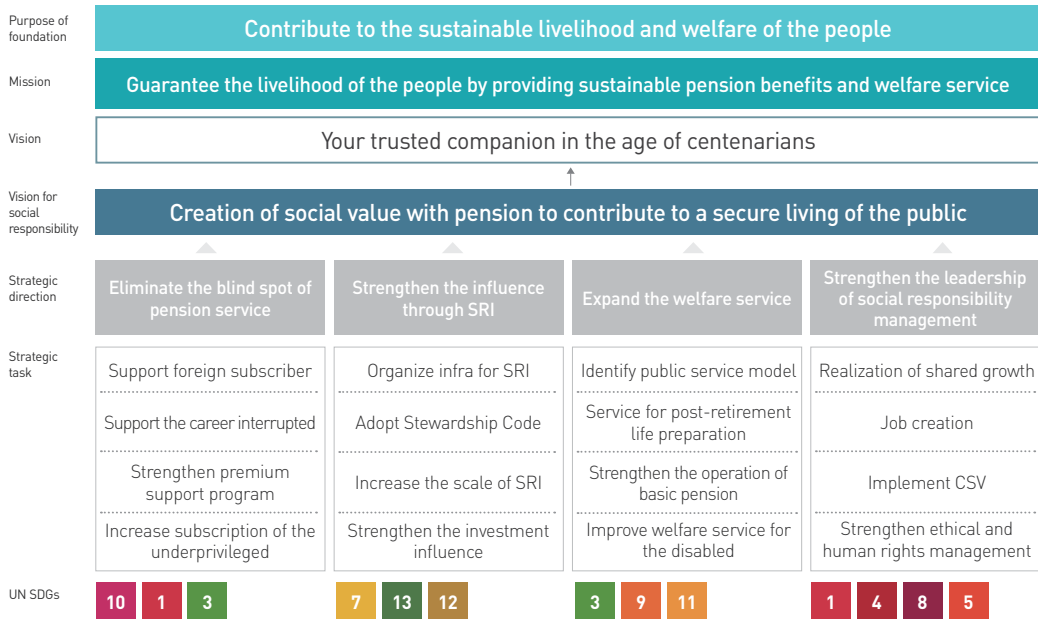
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NPSIM Relocation to Jeonju

Social Responsibility Management System

Social Responsibility Management Strategy

The NPS pursues its social responsibility management in line with the vision of becoming ‘Your trusted companion in the age of centenarians’. The NPS has established 4 implementation strategies under the CSR goal of becoming ‘a happy community that builds a warm-hearted society’. Strategic tasks were identified for each strategy, and key performance indicators and short and long-term goals were set to consolidate the CSR system of the corporation.



Organizational Structure for Social Responsibility Management

The NPS formed the Social Responsibility Management Committee as the top decision-making body in the area of social responsibility management in 2012 in order to systematically promote it. The committee is a scaled-up body drawn from the existing Ethical Management Committee. We listen to opinions on various aspects of social responsibility management through the Social Responsibility Management Advisory Council and the Stakeholder Advisory Board.

Performance of Social Responsibility Management and Mid-and Long-term Tasks

Under the 4 strategic directions, the NPS overseas 16 execution tasks, and reports yearly on the status of the Social Responsibility Management System for continued performance measurement and systematic management. Each department in charge is subject to monitoring of their track records with relevant KPIs, and review of performance and data through a third-party verifier. We check out our level of promoting social responsibility management and manage our weaknesses based on evaluations of public institutions on their management, integrity and anti-corruption, and external evaluations with acclaimed reliability including KoBEX.

NSM Index: NPS Social Responsibility Management Index

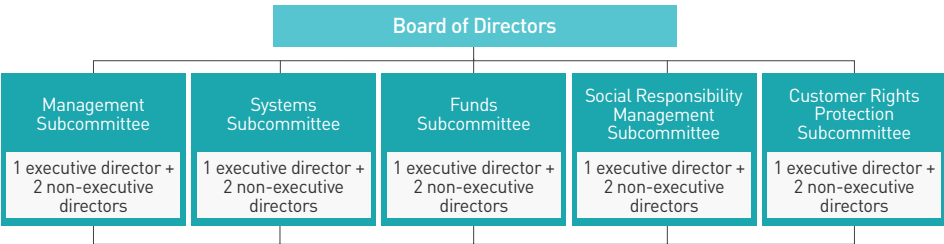
We formed the NSM Index for overseeing social responsibility management, consistently managing seven areas. Each indicator is based on major indicators including government evaluation and highly recognized evaluations internally and externally. Each of the data is reviewed in the report writing process and comparatively managed on an annual basis.

Field	Direction	Indicator	Unit	2014	2015	2016
Ethical management	Clean NPS trusted by the public	KoBEXSM	Point	90.1	94.9	93.8
				AAA	AAA	AAA
		Comprehensive integrity (Anti-Corruption & Civil Rights Commission)	Grade	3	3	3
		NPS Integrity Survey	Point	8.79	9.32	9.68
Local community	Contribution to self-sufficiency of customers and growth of local community	Social contribution mileage	Point	125,457	126,150	157,556
		Job creation in the private sector	Person	3,944	6,599	2,927
		Average voluntary service hour per employee	Hour	14.5	12.6	11.2
Shared growth	Continued shared growth with SMEs based on win-win cooperation	Evaluation of shared growth among public institutions	Grade	Average	Improved	Improved
		Purchase ratio from SMEs	%	81.7	82.5	85.4
		Satisfaction level of partners	Point	90.7	93	Not implemented
		Venture investment including SMEs	KRW 100 million	59,361	61,380	3,549
Environmental management	An exemplary institution that takes carbon reduction into actions in its daily life	Volume of greenhouse gas emissions	tCO2eq	7,833	4,008	12,165
		Target for reduction in greenhouse gas emissions	%	18	20	22
		Actual reduction in greenhouse gas emissions	%	18.8	28.7	29.5
		Volume of waste treated	Ton	673	311	283
		Water use	Ton	61,947	57,578	68,253
		Energy use	TOE	3,122	3,333	1,488
Businesses	Pension-based guarantee of the old age income for the public and intensification of welfare	Fund reserves	KRW trillion	469.8	512.3	558.3
		Number of subscriber of the National Pension	Ten thousand	2,142	2,157	2,183
		Number of Beneficiary of the National Pension	Ten thousand	382	403	415
		Recipient rate of national pension	%	34.8	36.4	37.4
		Recipient rate of basic pension	%	66.1	66.4	65.6
		SRI	KRW trillion	6	6.85	6.37
Corporate governance	Consolidation of independent and transparent corporate governance	Silver Loan	KRW 100 million	276	341	342
		Board of directors meeting held	Meeting	12	15	10
		Agenda submitted	Case	53	47	42
Employees	Increase in satisfaction level	Ratio of female director in board of directors	%	27.3	27.3	18.2
		Average training hour per employee	Hour	82.2	82.3	0
		Ratio of disabled employee	%	3.7	3.5	3.7

Governance

Board of Directors and Committees

The function of the NPS Board of Directors is to deliberate and decide on the key tasks on its agenda. The NPS utilizes the expertise of non-executive directors through expert committees, that is, the Management Subcommittee, Systems Subcommittee, Funds Subcommittee, Social Responsibility Management Subcommittee and Customer Rights Protection Subcommittee.



Composition of the Board of Directors

The NPS Board of Directors is composed of 11 members: the chairman, three executive directors, and seven non-executive directors, two of whom are female directors. Non-executive directors are appointed by the Minister of Health and Welfare based on recommendations made by the Executive Search Committee. Seeking to instill a check-and-balance corporate management culture, the Board of Directors consists of two non-executive directors representing business owners, two non-executive directors representing corporate employees, two non-executive directors representing the individually insured, and one government representative who is pension policy director of the Minister of Health and Welfare.

As of November 2017

Type	Name	Organization & Position	Remarks
Executive director	Sung Joo Kim	Chairman	Chairman of the Board
	Won Hee Rhee	Executive director of planning	Executive director
	Moo Yong Kim	Executive director of pension	Executive director
	In Sik Cho	Acting executive director of fund management	Executive director
Non-executive director	Young Bae Kim	Vice president of Korea Employers Federation	Business owner representative
	Seung Cheol Lee	Ex-vice president of the Federation of Korean Industries	Business owner representative
	Doo Hwan Choi	Ex-vice president, Federation of Korean Trade Unions	Employee representative
	Wook Dong Kim	Vice president, Korean Confederation of Trade Unions	Employee representative
	Jeong Hwa Kang	President, Consumers Union of Korea	Individually insured representative
	Jong Baek Park	Lawyer, Korean Bar Association	Individually insured representative
	Jae Hyuk Jang	Pension policy director of MOHW	Ex officio director

Participation of Non-Executive Directors in Expert Committees

The NPS has strengthened the role of non-executive directors by operating a number of expert committees that utilize their expertise and ensure their independency. As part of such efforts, non-executive directors are authorized to request audits and materials. In addition, newly appointed non-executive directors are offered an introduction of the NPS and job performance manuals that enhance their understanding of the corporation and support their reasonable decision-making. Furthermore, the Executive Information System (EIS), a business suggestion management system, is operated to leverage their expertise, and 84.4% of their suggestions were reflected in the corporate management policy, up 8.3%p from the previous year.

Board of Directors Functions

In order to make decision on important agenda, the Board of Directors meetings are held on a regular basis and on an ad-hoc basis upon the request of the Board of Directors or its chairman. The NPS discloses the attendance of executives for the meetings and the outcome of meeting agendas through website.

Operating Status of the Board of Director

Type		Unit	2014	2015	2016
Board of directors meetings held		Time	12	15	10
Agenda submitted		Case	53	46	42
Attendance rate	Executive directors	%	93.9	96.4	92.5
	Non-executive directors	%	91.7	97.1	84.3

Evaluation and Remuneration

Executive directors are evaluated based on the implementation performance against agreed objectives. Along with the Ministry of Strategy and Finance’s evaluation of the performance of public organizations, directors and employees of the NPS are evaluated on ethical management practices and efforts to make improvements in management, which are then reflected on the yearly comprehensive evaluations. The basic annual salary of executive directors is compliant with 80% of the head of a public corporation, as set by government guidelines. The records on the allowances paid to non-executive directors, as well as the annual salaries of executives in 2016 are disclosed through the NPS website.

Ethical Management

Reinforcement of the Ethical Management System

With the goal of ‘Realizing Clean NPS Trusted by the Public’, the NPS enacted the National Pension Service Charter (2000) and Code of Conduct for Employees (2003), which serve as the standards for ethical behavior. In order to preemptively respond to the Anti-Graft Law, which will be enforced in September, 2016, the NPS has specified types of illegal grafts and come up with a corresponding reporting and handling procedure. As such, the corporation strives to promote transparent and ethical management through the overhaul of code of conduct for employees.

◆ The Ethical Norms System

Ethics charter (declarative standard)	Code of Ethics (basic regulations for action)	Code of actions (a specific standard for actions)	
The National Pension Ethics Charter	Regulations for Practicing Social Responsibility Management	By class	By job type
Covers pledges on legal compliance, respect for character and customer satisfaction, etc.	Social responsibility management, social contribution, ethics & integrity, responsible investment, and basic regulations on environmental conservation	Regulations on the Management of Job Integrity Contract for Executives Integrity Pact (heads of departments ad above) Code of Actions for all employees	Code of Ethics for the National Pension Fund Integrity Pact Code of Ethics for Consultant on Successful Aging (CSA)

Organizations in Charge of Promoting Ethical Management

The NPS has promoted ethical management through the improvement of relevant organizations. First, the Social Responsibility Management Committee, headed by the NPS chairman, determines the directions and guidelines for ethical management. The Anti-Corruption Group was newly established by expanding and improving the existing task force in January, 2015, and the office of primary concern regarding ethics and human rights management was changed from the Office of General Affairs to the Office of Planning & Coordination in 2016. Moreover, the management of the Ethical Integrity Group in 107 branches was reinforced, and the Anti-Corruption & Integrity Promotion Group (working-level), Advisory Committee, and Integrity Ombudsman were activated.

Ethical Training

The NPS has provided all employees with ethical training programs tailored for each position and job. A total of 21,773 employees have participated in the training, 3.85 sessions per employee on average. In particular, the content of training was created according to the subjects which employees were much interested in and the Clean-up Academy has enabled employees to attend lectures online. As a result, the attendance at the Academy recorded 96.4%, up 8.4% from the previous year.

The Anti-Corruption & Civil Rights, Commission External Integrity

Grade 2

The Anti-Corruption & Civil Rights, Commission Anti-Corruption Policy Evaluation

Grade 1

The Institute for Industrial Policy Studies Sustainability Index

Grade AAA

Activities to Promote Ethical Management

In response to the enforcement of the Anti-Graft Law, the NPS raised the awareness of employees and established a response system. The NPS provided employees with online and offline training on the anti-graft law, and made them write a pledge to reject improper solicitation and graft. Also, the NPS improved the relevant regulations and created a proper infrastructure as part of the response system.

Internal Check System

The NPS has operated an efficient internal check system participated by internal and external experts. External experts, audit department, and compliance officers check overall process from business planning, implementation to post-management, while employees monitor through the internal reporting channel (helpline). A variety of IT systems are utilized for internal check activities, and systems and internal & external communications is improved to manage the results more systematically. Also, audit planning team was newly established to enhance performance.

Efficiency and Reliability of Internal Check System

The NPS has pursued the improvement of expertise from the perspectives of system, activity, and personnel. For system improvement, the NPS has introduced a dedicated audit team to meet the surging demand for inspection per employee due to the expansion of businesses including support for the disabled and basic pension. For activity improvement, agendas are forwarded to the BOD and committee before the meetings, explanations are actively provided in person, and global audit trends and techniques are acquired given the scale of fund and organization. For personnel improvement, the expertise of Ombudsman has been strengthened, and 4-stage training programs are provided to enhance the competence of new auditors. Also, standing auditors are authorized for independent personnel evaluation, and ethical regulations on audit activity were established to ensure an independent and ethical audit. These efforts have allowed the NPS to achieve Grade 1 at the Anti-Corruption Policy Evaluation by the Anti-Corruption & Civil Rights Commission.

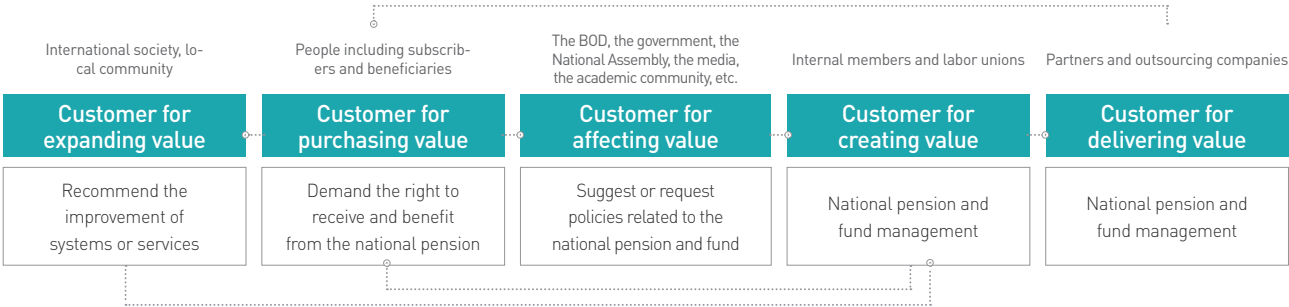
Activities to Promote Human Rights

The NPS joined the UN Global Compact in 2012 as part of its efforts to promote human rights. The NPS has pursued socially and environmentally responsible fund investment to ensure the human rights of all people, and improved the convenience of disability pension. Also, the NPS has increased the ratio of female employees and managers, and improved the conditions of employment by upgrading the status of temporary contract workers to indefinite-term contract workers and promoting social equity in recruitment. Besides, the NPS has expanded smart and flexible working systems to promote work-life balance.

Stakeholder Engagement

The NPS defines stakeholders considering the characteristics of its business. Based on value creation, stakeholders are categorized into customers who create values, customers who deliver values, customers who purchase values, customers who influence values, and customers who expand values. Also, the demands of stakeholders are met through various channels, from which the NPS identifies key issues related to its CSR management. Such diverse interests and requests of stakeholders will be continuously managed by a dedicated team so that they can lead to creating values needed to fulfill the social responsibility of the corporation.

◆ NPS Stakeholder



Stakeholder	Characteristic	Strategy	Effort for communication	Channel
Customer for creating value	<ul style="list-style-type: none">◆ Share pending issues of the organization rapidly◆ Require the maximization of interests of union members	Strengthen interactive communication	<ul style="list-style-type: none">◆ Communication Day (8 times)◆ Visit of employees' children to the headquarters (2 times)◆ Labor-management strategic conference (69 times)◆ Face-to-face talk between the CIO and employees◆ Labor-management council (4 times), meeting with representatives (21 times)	<ul style="list-style-type: none">◆ Intranet, on-site management◆ Labor-management council, Joint labor-management TF
Customer for delivering value	<ul style="list-style-type: none">◆ Improve working environment and resolve grievances◆ Upward leveling of welfare and wage conditions	Establish mutual cooperation	<ul style="list-style-type: none">◆ Working-level consultative group and meeting (9 times)◆ NPS Mutual Growth Day	<ul style="list-style-type: none">◆ Business meeting, council◆ Working-level consultative group on mutual growth
Customer for purchasing value	<ul style="list-style-type: none">◆ Anxiety over the sustainability of pension system◆ Pursue stable fund management and investment	Promote consensus and trust	<ul style="list-style-type: none">◆ National Pension Promotion Campaign◆ Distribute emoticons through mobile apps◆ Open data to the public (157 times)	<ul style="list-style-type: none">◆ Website, social media◆ Mass media, periodical publication
Customer for affecting value	<ul style="list-style-type: none">◆ Emphasize the implementation of leading policies◆ Require the reflection of opinions of various interest groups	Efforts to comply with national policies	<ul style="list-style-type: none">◆ BOD meeting (9 times, 35 agendas set)◆ Customized presentation (84 times)	<ul style="list-style-type: none">◆ The BOD meeting, policy briefing session◆ Conference, Innovation Consultative Group
Customer for expanding value	<ul style="list-style-type: none">◆ Learn and accept advanced systems◆ Reinvigorate local economy through investment	Efforts for exchange, co-operation, and mutual growth	<ul style="list-style-type: none">◆ Visit to industrial complexes of Asia-Pacific region◆ Congratulatory address at World Knowledge Forum, MOU with international institutions◆ Media interview (8 times)◆ Exchange with the traditional market in Jeonju	<ul style="list-style-type: none">◆ World Economic Forum◆ Media report, working-level consultative group

Stakeholder Opinion Gathering

We Are Listening to the Opinions of Our Stakeholders

The NPS communicates with diverse stakeholders by organizing the National Pension Fund Committee, the Social Responsibility Management Committee, National Pension Club (NPC), the Anti-Corruption & Integrity Promotion Group, the Round Table for Shared Growth and the Junior Board. The NPS also dynamically reflects stakeholder opinions in corporate management.

◆ National Pension Fund Committee

The National Pension Fund Committee is the highest decision making body for national pension fund management and operation. It is chaired by the Minister of Health & Welfare, and includes official members of government branches such as the Ministry of Strategy and Finance and the Ministry of Trade, Industry, and Energy, in addition to employers, laborers, individually insured representatives, as well as related experts.

◆ Expert Committees of the Board of Directors

The NPS runs five expert committees on management within the board of directors to facilitate the engagement of non-executive directors and strengthen their expertise and independence.

◆ National Pension Advisors

We have managed 230 national pension advisors in seven regional headquarters since 2004 to reflect the voices of the public in institutional improvement. Total of 303 suggestion has been proposed since 2004.

◆ Junior Board

The NPS formed the Junior Board, a consultative body to listen to young employees' ideas and opinions as would-be leaders of the NPS. In 2015, junior board where 52 employees participated, was formed and operated.

◆ Round Table for Shared Growth

The NPS listens to suppliers' complaints and suggestions by organizing the Shared Growth Meetings on a regular basis. In 2016, the NPS organized the Round Table to raise top management's understanding of shared growth among public institutions and form consensus throughout the NPS.

◆ National Pension Club (NPC)

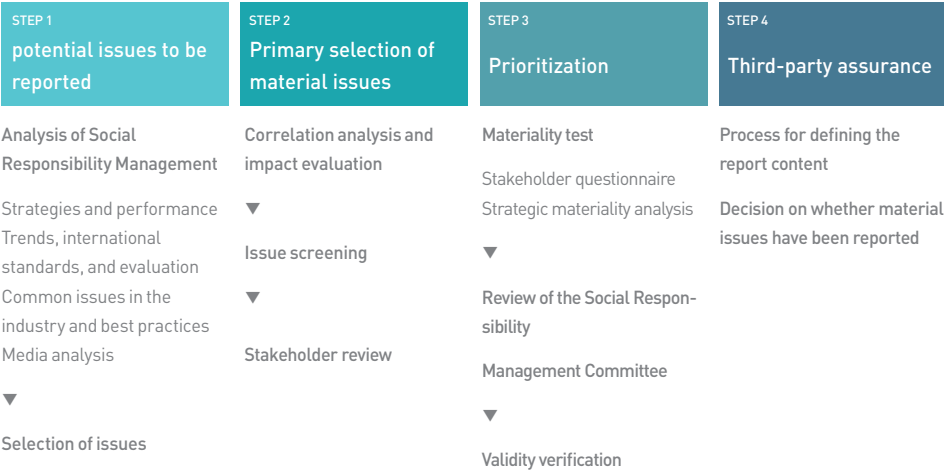
The NPS organized the National Pension Forum in October 2013 to enhance the quality of service for beneficiaries. It has been further expanded since 2014 into the National Pension Club (NPC) which is now up and running. NPC enables the beneficiaries to enjoy a variety of activities through activating voluntary and leisure activity.

◆ Anti-Corruption & Integrity Promotion Group

In order to improve integrity, the NPS' top management and external specialists discuss related topics and set directions. 18 people participated in the meeting held on 13, October 2016.

Defining the Report Contents

The NPS has decided on the content to be reported in the 2017 Social Responsibility Management Report, and has taken the following steps to identify Social Responsibility Management issues to be intensively addressed throughout the year.



STEP 1 Identification of potential issues to be reported

The NPS identified all the potential social responsibility management issues available for reporting through an extensive analysis process, which was conducted on six internal and external aspects of the NPS. We identified 264 potential issues in total for reporting.

Area	Methodology
Strategies and performance	Mid and long-term management performance and goals, business operation plans, management evaluation results, KPI analysis on Social Responsibility Management
Reporting content of the previous year	Analysis of major reporting content on Social Responsibility Management from 2013 to 2015
Trends, international standards and evaluation	Analysis of major debatable points and issues on Social Responsibility Management (media, academic journals, research papers)
	International standard and evaluation criteria analysis including GRI, DJSI, UNGC, and ISO 26000
	Analysis of Social Responsibility Management in finance at home and abroad
Government policies and regulations	Analysis of government policies and evaluation standards
Common issues in the industry and best practices	Identification of issues related to the NPS by analysis of the Social Responsibility Management Report in related public institutions and the financial sector
Media analysis	Identification of external awareness of the NPS' social responsibility management: news articles from January 1, 2016 to October 31, 2017

STEP 2 Primary selection of material issues

The identified potential reporting issues were primarily selected through correlation analysis and impact evaluation. We applied the size of the impact of social responsibilities by issue, and the probability of the occurrence of risks to the evaluation matrix. After that we categorized the selected material issues into 12 aspects.

STEP 3 Prioritization

The selected aspects were prioritized through stakeholder surveys and the analysis of strategic materiality. The online survey implemented for primary prioritization was participated by 409 internal stakeholders and 163 external stakeholders from 10 to 14, November 2017 (5 days). The strategic materiality of each aspect was analyzed by the internal working-level group of social responsibility management experts.

Material aspects	Stakeholder evaluation	Strategic materiality	Final prioritization	Stakeholder and topic				
				Beneficiaries	Subscribers	Local community	Partner	Employee
Pension scheme	1	1	1	●	●			●
Public benefit of fund management	2	2	2	●	●			●
Ethics and transparency	3	3	3			●	●	●
Welfare service	5	4	4	●		●		
Profitability of fund management	6	5	5	●	●			●
Information security	4	6	6	●	●			
Local community	10	7	7			●		
Employment	8	8	8				●	
Human rights	7	10	9			●		●
Shared growth	11	9	10				●	●
Environment	12	11	11			●		●
Governance	9	12	12					●

STEP 4 Third-party assurance

An independent professional verifier who has no commercial interest with the NPS reviews and decides whether or not the determination process for content to be reported well reflects the report publication procedures and conditions guided by and GRI G4, and whether or not the information related to selected material issues is well disclosed in the report.

1. Manage the Pension Scheme with Reliability



Context

The national pension is Korea’s most representative social insurance of old-age income security-type. While the entire society is faced with rapid aging, many people depend on the national pension only in their old age since they have not prepared enough for their post-retirement life. To gain the public trust in the pension scheme, the national pension needs to be managed in a more transparent and thorough manner.

Our Approach

NPS is strengthening the national pension scheme and eliminating the blind spot of pension service. NPS enables those in the blind spot to join the pension scheme, supports premiums to low-income group, and extending the period of subscription for career interrupted people.

UN SDGs

- 3

Ensure healthy lives and promote wellbeing
- 12

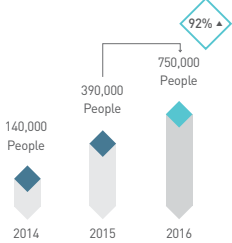
Sustainable consumption

Our Plan to 2022

- Prepare for the era of one pension for one person through the improvement of subscription process by 2022
- Advance the error-free pension payment system by 2022
- Provide notification on smart claims by 2022
- Review the measures to improve the scheme for the long-term sustainability by 2022

Efforts to Increase Subscribers

◆ Subscription of 750,000 daily workers



The number of the national pension subscribers has increased every year, and as of April 2016, approximately 70.2% of wage earners are contributing to the national pension. The number of contributors has exceeded 21.83 million as of the end of 2016, but there still exists a pension blind spot, which can be eliminated by systematically enabling the underprivileged, such as day laborers and part-timers, to subscribe the pension and supporting premiums to low-income groups.

Expand Those Who Report Their Income in Cooperation with Relevant Organizations

The NPS has improved the pension scheme for those who are unprepared for their post-retirement life, such as temporary or daily workers, and cooperated with the government and private organizations to allow the entire nation to receive the benefits of the public pension. To be specific, it has utilized the income data of day laborers possessed by the National Tax Service and Ministry of Employment and Labor to increase the number of subscribers, and the number of daily workers in subscription increased from 390,000 to 750,000 in cooperation with relevant organizations and agencies.

Protect Recipient Rights through the Expansion of Subscription Period

It is important for the unemployed to secure pension recipient rights to prevent poverty in their old age. Basically, those who receive job-seeking benefits can be exempted from paying premiums during the period of unemployment. However, for some who wish to continue their payment of premiums, the NPS has introduced the unemployment credit scheme, which supports 75% of their premium payment. Also, career interrupted women are now allowed to pay their premiums later for the period when they had no income to finish out the minimum subscription period of 10 years.

Increasing Subscription of the Underprivileged through Premium Support

Low-income workers working in small businesses and farmers & fishermen are hesitant to subscribe because of having to pay their premiums for now. The NPS induces their incorporation into the national pension by easing the premium payment burden through Durunuri premium support and simplifying application procedure of premium support.

Type	Target	Description	Performance in 2016
Durunuri premium support	Workers with income of less than KRW 1.4 million at small businesses employing less than 10 persons (KRW 1.25 million in 2012)	Support up to 60% of premiums of business owners and workers	New subscribers: 190,000
Farmers & fishermen pre-mium support	Farmers and fishermen with income of less than KRW 0.91 million (KRW 0.79 million in 2010)	Support up to KRW 40,950 of premium a month	New subscribers: 90,000

Encouragement of Voluntary Subscription with the Provision of Old Age Preparation Services

The elderly poverty rate of Korea is the highest among the OECD countries, and most people agree that such unprepared old age can result in many social problems. Nevertheless, the overall preparedness of Korean people for old age, especially in finance, is at low level. Against this backdrop, the NPS has operated integrated one-stop services that enable people to easily check their expected amount of pension benefits and systematically prepare for their old age. Also, the NPS has provided retirement planning services tailored for different age groups to increase the public awareness of old age preparation.

Establishment of a Pension Safety Net through Institutional Improvement

Despite multifaceted efforts for the subscription of the national pension, the underprivileged including part-time workers and minor employees under the age of 18 are excluded from subscription. The NPS improved the scheme continuously to secure the recipient rights for the underprivileged. As a consequence, part-time workers amounting to about 210,000 could gain the recipient rights, which contributed to the government's initiative to 'facilitate part-time jobs' and protected the working rights of minor employees.

Adoption of a Scientific Analysis Technique

A drop in the number of subscribers from 2017 is forecast due to the reduction in the economically active population. Therefore, target subscribers that are hidden must be dynamically found, using diverse methodologies. The NPS provides selectively tailored notices to befit characteristics of targets. To this end, the NPS has worked out indicators for subscription possibilities based on the big data analysis for the past two years, and determined targets by using the data mining* system.

Unit: Ten thousand people						
Year	2015	2016	2017	2018	2019	2020
18~59 years old	3,291	3,283	3,283	3,284	3,284	3,285
Size of subscriber	2,157	2,183	2,222	2,261	2,300	2,339
Those who report income	1,706	1,766	1,819	1,873	1,926	1,980
Blind spot**	560	523	508	493	479	464

*Data Mining: a process of determining variables (age, gender, income, etc.) significantly impacting the outcome (subscription / payment), and imposing the target achieving rate (possibilities in subscription / resumption in payment)
** Reflecting increment rate of 5 years from 2017

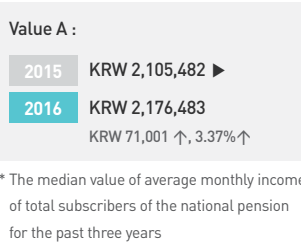
Management of the Insured

Enhanced Accuracy of Subscriber Eligibility Management

The NPS identifies eligible subscribers, manages the status of eligibility during the lifetime of subscribers, and imposes premiums based on threshold income before determining the amount of pension benefits for each subscriber. Since subscriber management is the most important job of the NPS, a whistleblowing system and 'National Pension Subscription and Reporting Center', an online and offline channel through which workers directly report to the NPS, are in active operation so that the insured are not disadvantaged by avoiding subscription or omitted in premium support by mistake. A total of 922 reports were made to contribute to the protection of workers' rights in 2016. In addition, by utilizing the public data, subscription of other public pensions is prevented and standards for eligibility are closely managed.

Intensification of Systematic Management of the Threshold Income for Premium Rating

The Value A* which becomes the threshold for calculating pension premiums and benefits is calculated based on the average value of the base monthly income of entire subscribers. The NPS conducts the regular determination and ex-post adequate management for the base monthly income of subscribers in businesses by acquiring the earned income statements from the National Tax Office. The NPS also checked out if the base monthly income of subscribers in businesses is appropriate.



Efficiency of Work Process

Accurate management of eligibility is the most important factor in preventing mistaken payment of benefits. The NPS has improved its work process to increase efficiency and strengthened verification of eligibility in cooperation with other organizations. Also, the standards for eligibility of spouses with no income have been improved to reduce mistaken payments, and the rate of on-time payment has increased by 0.38%p from the previous year to reach 99.32%.

Improvement of the Web EDI Utilization Rate and Facilitation of the Web EDI-based Outsourcing Service

The NPS has adopted business outsourcing services to increase convenience in the national pension affairs for small businesses. The web EDI service was introduced to deal with various tasks online, including common reports of four major public insurances and specific reports of the national pension, and the details can be found at the website: <https://edi.nps.or.kr>. The number of businesses using these services increased by around 40,000 to reach 70,000 in 2016, and the handling of EDI statements grew by 6.6% from the previous year to record 8.65 million cases.

* EDI(Electronic Data Interchange): An electronic civil service as substitutes for offline, fax, mailing and visits, allowing free usage as long as there is Internet connection and users have their public key certificate

Improvement of National Pension Services

Efficient Management of Subsidies for Pension Premiums

The ‘Durunuri’ subsidy program for small businesses has been in operation for 4 years. For the businesses and employees that have not been insured yet, the NPS intensified notification and conducted monitoring on the possibility of illegal receipt of pension benefits. As a result, illegal subsidies of KRW 60 million were clawed back and unpaid subsidies of KRW 250 million were paid, and arrears of KRW 9.8 billion were collected from 582 businesses. Also, high-net-worth individuals were excluded from the subsidy program to protect the rights of low-income groups.

The NPS reflects the needs of subscribers in establishing systems and improving services to increase convenience for the public. The NPS has expanded the services customized for Korean people by promoting pan government projects through opening, sharing, communicating and cooperating.

Subscriber-Oriented Pension Scheme

The NPS has continuously improved the scheme and services to promote the rights and convenience of subscribers. The introduction of daily accrual of arrears has lessened the burden of arrears payment, and businesses that suffer from worsening employment conditions can be exempted from paying arrears for up to 6 months upon their application. Also, customers are now allowed to pay premiums in advance or installment.

Improvement in scheme	Improvement
Adopting daily accrual of arrears	Daily accrual of arrears
	The burden of arrears payment is lessened
Expanding those who are exempted from payment of arrears	Exemption is additionally allowed at businesses in a special employment promotion support industry (shipbuilding), 1,400 applications a month
Improving advance payments	The balance of advance payment is included in the premiums bill of the following month if subscribers want.
	The previous method of advance payment is used if subscribers do not want.
Expanding retroactive	Retroactive installment payment is allowed only when the retroactive premium is more than the premium of the month, no. of application and installment payment has increased to 10
Expanding those who are eligible to pay premiums by credit card and the amount	Pension premiums, returned and follow-up premiums, unemployment credit premiums, clawback, including Durunuri clawback
	Payment amount limit of KRW 10 million
	Commission within 1%, to be paid by payers
Directly returning erroneously paid premiums to workers	Premiums erroneously paid are directly returned to workers when they cannot be returned to employers



Simplification of the Year-End Tax Adjustment of Pension Premiums

Premium payment history is now incorporated into the service of the National Tax Service, which simplifies the year-end tax adjustment thanks to the cooperation among the NPS, Ministry of Government Administration and Home Affairs, and NTS. The insured can now check the details of pension income deduction at the NTS website without having to submit documentary evidence.

Sharing and Disclosing Pension Information to Increase Convenience for Subscribers

The NPS has disclosed high-quality data including information on pension income to the public, satisfying the people’s rights to know and contributing to the revitalization of private economy. By disclosing data and cooperating with local governments, the NPS has supported the job matching of the underprivileged. Also, the NPS has allowed subscribers to check the details of subsidies for pension premiums by introducing the government-led integrated notification services, such as ‘Civil Petition 24’. Furthermore, the NPS has disclosed pension information to private businesses to create new values. To be specific, Kredit Job is an application that provides employment information of SMEs, such as average annual salary and no. of employees, by utilizing the data of the NPS. Signing a MOU with Alba Heaven, the NPS has provided information on the subscription of businesses and strengthened the protection of workers’ rights.

Provision of Information on the Expected Pension Amount

Subscribers wish to know about the expected pension amount they are to receive in the future, but the expected pension amount has been based on the current value, arousing customer complaints that the amount is extremely low. The NPS, as such, provided the future value-based expected amount applying the income applied with the average value of the past five years and inflation rate. This helped the insured to predict the future value of the amount at the point of receipt, thus satisfying customer needs and contributing to their better understanding of the scheme.

Protection of Personal Information

With the growing issues of financial information leakage and cyber threats, a complete prevention of information leakage is required for the NPS, which has a massive amount of personal information. In order to maintain the highest level of information security as a public institution, the NPS has implemented three major strategies of improving information security management, cyber security, and personal information protection. First, the NPS has continuously enhanced the information management system through the improvement of relevant policies and systems, and obtained the ISO 27001 certification. Also, the NPS has identified and managed internal and external vulnerabilities with the enhancement of security system, resulting in getting 75.70 points at the

Intensification of Pension Income Guarantee for the Under-privileged

Information Security Management Evaluation, 3.48 points higher than the previous year. Second, the NPS has raised the awareness of cyber security by increasing the personnel of information security and conducting simulations to respond to cyberattacks. Third, the NPS has completed the database encryption for 14 customer information processing systems. These efforts have allowed the corporation to receive awards at four information security trainings and competitions, including 2016 Presidential Citation for simulations to respond to cyberattacks.

Pension Income Guarantee per Lifecycle Phase

The NPS has continuously improved the scheme and services for the rights and convenience of beneficiaries, particularly the underprivileged, such as minors, women, the disabled, and the elderly with low income, to expand the social safety net. The NPS has selected and implemented a number of tasks to improve the pension scheme and thus to provide welfare services per lifecycle phase. First, pension for the bereaved family is now granted to those aged up to 24 years to guarantee income until they can get a job, and pensions for the disabled and the bereaved have been improved to protect exemplary payers while being excluded from application. Also, remarried couples are allowed to choose the way to receive pension benefits by themselves, and the payment rate of linked old-age pension for the bereaved family has increased to 30%.

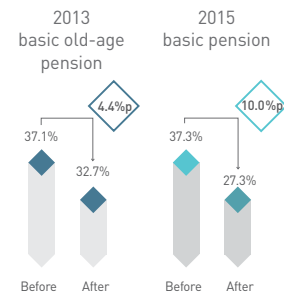
Rational Improvement of Scheme from the Perspective of the Public

The NPS has improved the pension scheme by reflecting the opinions of subscribers regarding delayed claims, reports, and payments. The date of payment for disability pension has changed from the date of claim to the date of full recovery, and report on the death of recipients has been simplified. Also, monthly accrual of arrears has been replaced with daily accrual of arrears to lessen the burden of payers. Meanwhile, the standard and procedure of disability review have been improved for the benefit of the disabled. Those who were not eligible for disability pension despite their loss of work ability are now granted benefits, and materials can be requested by proxy only with consent.

Stabilization of Basic Pension

The basic pension, an expanded version of the basic old-age pension, has paid monthly benefits to 70% of the lower-middle income class aged over 65 since July, 2014. The NPS has established a ‘safety net to prevent non-receipt of the basic pension’ to enable the elderly aged over 65 to receive more than one public pension (basic pension or national pension). The utilization of the public data, such as basic pension database, has resulted in the identification of 62,000 eligible recipients additionally. Furthermore, the NPS has introduced ‘pension benefit application history

◆ Decrease in poverty rate with basic pension



Accurate Payment of Pension Benefits

management system’, which regularly monitors the income and property of those who were not eligible for the basic pension upon application for 5 years and informs them of reapplication later.

With the growing number of pension recipients and amount of benefits, risks have also been increasing. To prevent such risks, the NPS has actively utilized the public data of the government and public institutions.

Utilization of Public Data to Prevent Illegal Receipt

A number of illegal receipts have been found due to delayed reports or processing of changes in recipient rights, such as death, divorce, or remarriage. To resolve this issue, the NPS has utilized the public data, such as court rulings and documents of diplomatic offices, to check all the fact, and applied the unified standards for welfare benefits including the basic pension to completely prevent the possibility of illegal receipt. Also, a task force was formed to examine the incomes of recipients, and the system to investigate the rights of recipients was improved to enhance the accuracy and efficiency of the post-management of recipients. As a result, the rate of clawback occurrence has remained at the global level of 0.066%.

Reinforcement of Verification of Payment Determination

The NPS provides abundant information to enable recipients to choose the best pension plan for themselves, and the number of withdrawn claims has decreased by 62% from the previous year to record 4.8 cases a month on average. Also, the monitoring system at the stage of payment determination has been improved to prevent any mistake among employees, and reverification of determined payments has been reinforced to raise the accuracy of benefit amounts. Accordingly, the accuracy of payment determination recorded 99.98% in 2016.

Efficient Collection of Indemnity and Clawback

With the growing number of recipients, the amounts of indemnity and clawback to be collected by the NPS have also increased. For efficient collection, the NPS has concluded an agreement on ‘Advance payment and post-settlement of indemnity’ with a private insurer to reduce legal costs and utilized the data on property of the Ministry of Land, Infrastructure, and Transport and the NTS. Also, the convenience of payers has been increased by letting them pay clawback by credit card. As a result, the rate of indemnity collection recorded 34.3%, higher than 27.6% of Korea Workers’ Compensation & Welfare Service, while that of clawback collection reached 96.0%, also higher than 65.3% of Government Employees Pension Service.

2. Increase the Public Benefit and Profitability of the Fund



Context

As of the end of December, 2016, the NPS has the world's third-largest fund worth KRW 558.3 trillion. The stable and effective management of the fund is directly related to the financial security of Korean people after retirement, and thus the profitability and public benefit of fund management need to be increased at the same time.

Our Approach

There exists a high level of distrust among people towards the sustainability of the national pension since it is in danger of being exhausted. Against this backdrop, the NPS has strengthened its expertise in fund management to increase profitability and diversified the portfolio of investments. Also, the NPS pursues the expansion of SRI and introduction of Stewardship Code.

UN SDGs

- 8** Sustainable economic growth and productive employment
- 17** Global partnership

Our Plan to 2022

- ◆ Expand policy research to increase the sustainability of the system by 2022
- ◆ Expand investment in overseas hedge funds by 2022
- ◆ Come up with measures to expand SRI due to the increase in overseas investment by 2022
- ◆ Reform the organization in the era of fund reserves worth KRW1,000 trillion by 2022

Status of National Pension Fund Management

◆ Composition of National Pension Fund

Total Net Asset Value of Fund

KRW **558.3** trillion

The principle of profitability is to maximize returns and thereby minimize financial pressure on subscribers, especially the next generation. And the principle of stability is to manage the fund within the risk tolerance level with the consideration of the volatility of returns on invested assets.

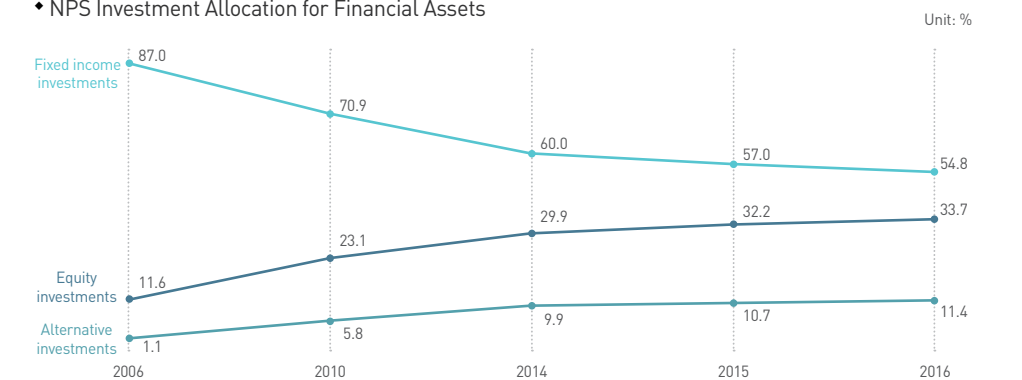
Creation of National Pension Fund

The National Pension Fund (NPF) was established to secure the financial resources necessary for the seamless operation of the National Pension Scheme. The gross revenue of the NPF comes from contributions as well as the income generated from the investment activities of the NPSIM. Out of this gross revenue, pension benefits and general and administrative costs are deducted. The rest of the money is reserved and managed as assets of the NPS. In 2016, the gross income of the NPF reached KRW 702.2 trillion, comprised of KRW 443.5 trillion in contributions and KRW 258.7 trillion in investment income. Out of the gross revenue, KRW 137.2 trillion was spent in paying pension benefits and the remaining funds worth KRW 558.3 trillion are subject to investment and management. NPS is placed as third rank following GPIF in Japan and GPFG in Norway

Asset Allocation Status

The NPS invests most of its reserve assets in financial instruments to ensure a higher return for the Fund. The invested assets are categorized into equities, fixed incomes and alternative investments by type, and the methods of management consist of direct investment and commissioned investment. The regions of investment are divided into domestic and overseas. In particular, the NPS has pursued a diversification of its investment portfolios and has closely examined asset growth trends based on the long-term actuarial projections of the National Pension Fund's financial status. Consequently, the share of bonds has shrunk from 87.0% of the Fund's total assets at the end of 2006 to 54.8% at the end of 2016, while the share of stocks and alternatives has increased from 12.7% to 45.1%.

◆ NPS Investment Allocation for Financial Assets



* Excluding short-term asset

Fund Management Performance

NPF has earned a cumulative investment return of KRW 258.7 trillion since 1988. This accounts for 46.3% of the total Asset under Management, and the annual cumulative rate of return stood at 5.86%. In fiscal 2016, the NPS has earned KRW 24.5 trillion in investment income and recorded 4.75% in the annual rate of return* (provisional figure). The performance of the financial sector in fiscal 2016 was better than the previous year, with 4.57% in return and KRW 21.7 trillion in investment income for fiscal 2015. The global equity portfolios returned 10.13% and the global alternatives portfolio also achieved a high return of 12.34%, contributing to raising the total rate of return for all assets. The global fixed income portfolio returned 4.01%, higher than the domestic fixed income portfolio at 1.83%. The entire alternatives portfolio posted 9.99% in return with domestic alternatives of 5.74%. For the mid-to-long term performance, the NPF has performed fairly stably with a five-year average return of 5.13% and the 1988-2016 cumulative money-weighted return of 5.86%, and this achievement has been rated excellent among public funds for 5 consecutive years, in the evaluation of Fund Management by the Ministry of Strategy and Finance under Article 82 of the National Finance Act.

• NPS Fund Management Performance

	Unit : KRW trillion, %		
	2016 Rate of return	2014~2016 Average rate of return	1988~2016 Cumulative investment income
Financial sector	4.76	4.85	238.85
Domestic equity	5.59	0.66	38.09
Global equity	10.63	8.56	23.35
Domestic fixed income	1.81	4.25	142.16
Global fixed income	4.05	4.65	9.60
Foreign and domestic alternative investment	9.91	11.33	24.55
Short-term asset	2.02	1.74	1.45
Welfare sector	-1.35	-1.70	0.61
Others sector	0.63	0.89	0.18
Total fund reserve	4.75	4.84	258.73

Long-Term Financial Projections

To ensure sustainable growth for the National Pension System while coping with economic and social changes in domestic and international environments, the NPS conducts financial projections every five years. Based on these assessments of the Fund’s finances, the NPS then sets optimized long-term operational strategies that can meet the requirements of a gradually aging society. The

NPS discloses information on the status and direction of investments concerning its Fund through NPS webpage.

Stability and Expertise of Fund Management

Fund Management System

The National Pension Fund (NPF) is managed and controlled by the Minister of Health and Welfare pursuant to the National Pension Act. The Minister of Health and Welfare serves as the chairperson of the National Pension Fund Management Committee where the critical decisions on fund management are discussed and approved. The actual fund managing activities are performed by the National Pension Service. The National Pension Service Investment Management (NPSIM) established to manage the NPF is responsible for tactical asset allocation as well as investment, market monitoring and portfolio management. Every year, the Minister of Health and Welfare establishes fund management plans that are assessed by the Fund Management Committee and the Cabinet Council and approved by the President of the Korean government, and the approved plan is reported to the National Assembly.

Decision-making Bodies for Fund Management

Held more than four times a year, the Fund Management Committee which is a supreme decision-making body for fund management policies. is responsible for assessing and deciding fund management guidelines and exercising voting rights, the midterm and annual fund management plan, the basic direction of investment policies, strategic asset allocation plans, the evaluation of and compensation for managing performance and the ratio of external management. With the goal of more expertise-based and efficient decisions, the Fund Management Committee has in place the ‘National Pension Fund Management Evaluation Committee’ as a sub-body. The members of the Evaluation Committee support the Fund Management Committee by providing technical and professional views. However, the Fund Management Committee has been criticized for its failure to take the lead in fund management despite its position at the center of the governance framework. Against this backdrop, the Committee, which is chaired by the Vice Minister of Health and Welfare and attended by 5 government officials and 14 independent experts, will be permanently operated and taking the lead in fund management with enhanced representativeness and authority. The Committee has three specialized councils: ‘Council of Experts on the Exercise of Voting Rights’, ‘Council of Experts on Investment Policy’, and ‘Council of Experts on Performance Evaluation and Compensation’, and will add ‘Council of Experts on Socially Responsible Investment’.



Setting up the Mid-Term Asset Allocation Strategy

The National Pension Fund Management Committee for setting up the mid-term asset allocation strategy every fifth year and the annual fund management plan, which is for implementing the mid-term strategy. Presenting the intermediary goals for reaching the predefined mid-term target rate of return, this annual asset allocation plan defines the investment permissible range by asset class.

NPS is responsible for conducting investments consistent with the policies and guidance approved by the Fund Management Committee. It is also tasked to manage investment portfolios based on the characteristics of each asset class. In addition, the NPSIM sets up the Settlement of the Accounting Plan based on the conditions of financial market and general economy. The prepared plan is put under the deliberation and approval of the Investment Committee, an internal decision-making body of the NPSIM. Meanwhile, large projects, such as the investments in infrastructure and real estate in domestic and global markets are raised for consideration in the Alternative Investment Committee with independent experts participating to offer more objective viewpoints. This sub-committee reviews the projects in question in terms of validity and potential risk and makes a final call on whether to invest or not. In 2016 the National Pension Fund Management Committee has proposed the target rate of return of 5.0% for the next five years (from 2017 to 2021) based on the projections of the actual economic growth rate and inflation rate. For the asset portfolio, the Committee proposed that the target asset allocation would be of 20% or so for domestic equities, 25% or so for global equities, 40% or so for domestic fixed income, 5% or so for global fixed income and 10% and higher for alternatives.

♦ Plan for Mid-Term Asset Allocation Strategy (2017-2021)

Unit : KRW trillion, %				
End of 2016 (actual)		2017*		2021*
	Amount	Rate	Fund management plan	Mid-term asset allocation plan
Equity	188	33.7	34.6%	Within 45%
Domestic Equity	102	18.4	19.2%	Within 20%
Global Equity	86	15.4	15.4%	Within 25%
Fixed Income	306	54.9	53.5%	Within 45%
Domestic Fixed Income	283	50.7	49.5%	Within 40%
Global Fixed Income	23	4.2	4.0%	Within 5%
Alternative Investment	64	11.4	11.9%	Within 10%
Total (of Financial Sector)	558	100	100.0%	100%

* Based on the plans approved in the meeting of the Fund Management Committee in May 2016

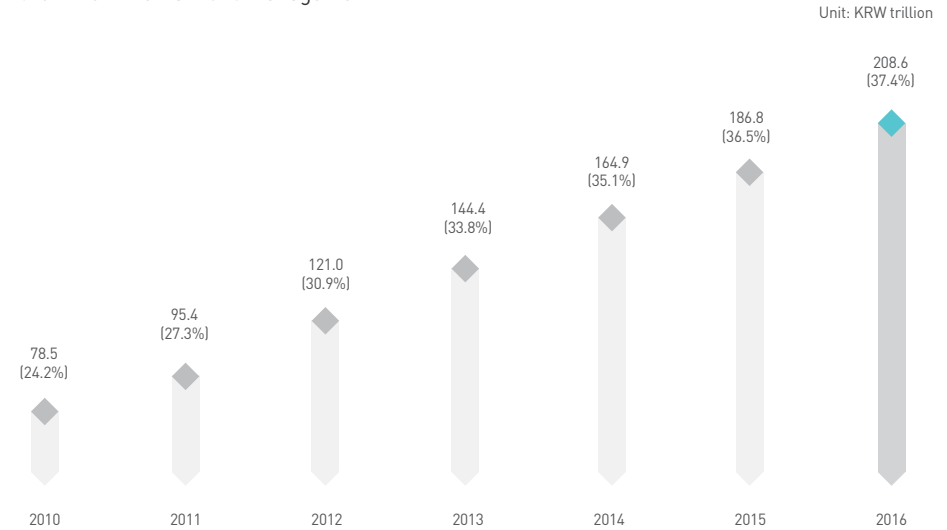
Professional Fund Management

NPS established the National Pension Service Investment Management (NPSIM) in November 1999 in order to adopt a more systematic and professional approach to managing the fund, which is an essential source of retirement income. NPSIM is staffed with specialists experienced in financial market analysis, investment of financial products and risk management, allowing the NPS to respond to the rapidly changing domestic and international investment environments while achieving a higher rate of return on a long-term basis.

External Fund Management

Some part of the NPF is entrusted to external investment managers with an aim to utilize their skills and expertise in diversifying risks and sources of return. Given the size of the funds, the NPS uses direct and indirect (or external) management, and the Fund Management Committee approves the target range of external management by asset. The external management portfolio of each asset class is further separated depending on investment styles grouped in terms of asset characters, market conditions and external managers' capabilities within the pre-defined target range. The NPSIM has in place the External Investment Manager Selection Committee of which the majority of members are independent experts who select quality external managers in a fair and objective manner. After selection, the external managers are under a periodic inspection and control of the NPS in terms of guidance compliance, business conditions and fund performance. As of December 31, 2016, the indirectly managed assets stood at KRW 208.6 trillion, up from KRW 21.8 trillion at the end of 2015. During the same period, the external management accounted for 37.4% of the financial sector, slightly increased by 0.9%p from the previous year.

♦ Growth of External Fund Management



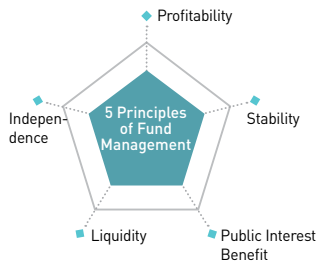
Public Benefit of Fund Management

Infrastructure for Socially Responsible Investment

The role of the NPS for socially responsible investment has been more emphasized with its bigger influence on domestic financial markets due to the increased size of the fund. In response to such demand, the NPS takes into account not just financial factors, but also non-financial factors, such as Environment, Society and Governance (ESG). The NPS has laid the foundation for investments that consider responsible investing factors, so-called ESG factors, through the amendment of the National Pension Act in January, 2015 and the Fund Management Guideline in April, 2016. Even before the amendment, the NPS initiated an investment in SRI funds in 2006, and has since increased its size. As of the end of 2016, the SRI funds held by the NPS amount to around KRW 6.3 trillion. In 2016, the NPS established the “ESG System”, which supports responsible investing by providing fund managing departments that integrate financial data and ESG research results based on ESG evaluation. This unique system supports making prudent decisions for responsible investment. More specifically, essential ESG related data, such as ESG scores for invested companies, ranking trends and Peer-based analysis are shared with managers in investment departments.

Principles of Fund Management

The management priority of the NPF is to maximize return on investment according to five over-arching principles: Principles of Profitability, Stability, Public Benefit, Liquidity, and Independence.



- Profitability: To pursue the maximum possible investment returns so as to relieve the burden of insured persons, especially those of future generations
- Stability: To operate funds within the permitted volatility of returns and loss limit of each investment asset
- Public Interest Benefit: To consider the impact on the national economy and financial markets
- Liquidity: To ensure funds availability so as to ensure the continued payment of pension benefits
- Independence: To protect the principles of fund management and independent governance from possible conflicts of interest

Procedure for Exercising the Voting Rights

The NPS exercises the voting rights of its owned shares in the interest of contributors and beneficiaries and in search of maximized shareholder values. In general, standards, procedures and practices with regard to the exercise of voting rights are consistent with the “Guideline on Exercise of National Pension Fund Voting Rights”, and in principle, the voting rights are exercised by the NPS. However, issues that are too complicated to be agreed or disagreed upon are referred to the ‘Council of Experts on the Exercise of Voting Rights’ for ruling. All of the shareholders’ voting rights held by the NPS are exercised in an objective and transparent manner, and the result is disclosed on the NPS website within 14 days of the shareholders’ meetings.

♦ Socially Responsible Investment (SRI) Fund for Domestic Equities

Unit : KRW 100 million	
2012	52,444
2013	61,739
2014	60,007
2015	68,521
2016	63,706

♦ Guideline on Exercise of Voting Rights

Principle	The voting rights of the equities owned by the NPS shall be exercised for the purpose of maximizing the assets of the NPS.
Duty of Care	The voting rights shall be exercised duly and in good faith to meet the best interest of formal and current contributors and beneficiaries.
Enhancement of Shareholder's Value	The voting rights shall be exercised to maximize shareholders' values.
SRI	ESG (environment, society and governance) factors shall be taken into account in exercising the voting rights to realize responsible investment and maintain stable returns in the long term.
Application	The voting rights of any shares owned under the name of the NPS are to be exercised, unless the NPS holds less than 1/100 of total issues by company and less than 5/1000 of domestic equities held by the NPS (or less than 5/1000 of global equities held by the NPS).

♦ Council of Experts on the Exercise of Voting Rights

- Composed of a maximum of nine independent members
- The members are selected among a pool of individuals recommended by the government (2), employees (2), individual subscribers (2), and research institutes (1) based on expertise and representativeness.

Status of Voting Rights Exercised

Out of the 796 shareholder meetings, the NPS exercised voting rights on the 3,010 submitted items of agenda in 2016. The result was 2,692 approvals (89.4%), 303 rejections (10.1%) and 15 indifferences/abstentions (0.5%). The reason for rejections included 201 mis-nomination of directors and auditors (66.3%), 58 changes in articles of incorporation (19.1%), 18 rejection of compensation limits raise (6.0%) and 26 other reasons, including excessive outside activities inhibiting the fulfillment of duties or the destruction of corporate values or the violation of shareholders’ interest (8.6%). NPS has launched “Talk with Company” program to encourage Korean companies that had issued stocks to develop reasonable dividend policies voluntarily and pay dividends to shareholders in line with the policies. NPSIM prepared the guideline according to “Plan on Encouraging Dividend Payment of NPF Domestic Equities” approved by the National Pension Management Committee in June, 2015. This “Talk with Company” program has been encouraging Korean equities issuers to develop fairer and more transparent dividend policies. As part of the program, the NPS plans to put the companies that fail to show improvement even after having joined “Talk with Company” on the “NPF Watch List” and release the list. At the same time, the NPS has proactively involved in the management of law-violating and unscrupulous companies to act as a responsible investor.

♦ Voting Rights Exercised by NPS

	Voting (Case)	Result (rate)		
		Agreed	Disagreed	Abstained
2016	3,010	89.4	10.1	0.5
2015	2,836	89.6	10.1	0.3
2014	2,775	90.8	9.0	0.2
2013	2,601	89.2	10.8	0.04
2012	2,565	82.8	17.0	0.2

* The high rejection rate in 2012 resulted from the rejection of revising corporate policies with regard to amended Commercial Act of Korea.

Advanced Management of Fund Management Risks

◆ Major Decision-Making Committees



- Risk Management Committee**
- Establishment of risk management policies and guidelines
 - Establishment and management of risk and loss limits
 - Establishment and operation of a risk management system
 - Assessment of risks involved in new fund management methods

- Investment Committee**
- Establishment of annual/monthly fund management plans
 - Periodic review of status of fund management by asset class
 - Appointment and control of counterparts
 - Exercising of voting rights and passing of resolutions with regard to shares held by the NPS

- Alternative Investment Committee**
- Decision-making on alternative investment opportunities
 - Adjusting requirements for making alternative investments

Risk Management System

The NPS monitors market, credit, liquidity, legal and operational risks. Also, the NPS annually defines risk tolerance levels for total assets and individual assets based on strategic asset allocation and active risk allocation, and keeps monitoring the compliance with risk tolerance rules. Through the systematic management of risks and risk tolerance levels, the NPS prevents exposure to excessive or additional risks against return. In addition, NPS operates various committees to facilitate transparent and prudent decision-making.

Risk Management Organization

NPSIM has several organizations for risk management and compliance. First, the Risk Management Center is the organization dedicated to managing risks that invested assets might carry. Second, the Risk Management Committee chaired by the NPS CEO and attended by independent experts is under operation to effectively manage any risks associated with fund management. In 2016, the existing risk management organization of the NPS was restructured to focus on risk control by asset, and an early warning system for credit risk management was newly established, which covers international listed companies using the Expected Default Frequency (EDF). Also, there is the Compliance Officer that is responsible for the independent internal control of fund management. In addition to internal control, the fund management of the NPS is under multiple inspections by independent auditors, the Board of Audit and Inspection, and the National Assembly.

Risk Management for Asset

The coverage of the country-based risk management system was expanded from a global fixed income and global equity portfolio to an alternative portfolio. With hedge funds added to the NPF portfolio, the NPS selected renowned global advisers to perform operational due diligence (ODD). It also established the entrusted fund management system that offers pre-investment checks for legal compliance. Furthermore, the coverage of this entrusted fund management system was expanded to add domestic equities and a global fixed income to the already-protected assets of domestic fixed income and global equities. Meanwhile, the Fund Management Committee decided to have a foreign exchange open position by phasing down the Fx hedge ratio from 50% in late 2017 to 0% in late 2018 for global fixed income as well as global equities and alternatives. The management of Fx exposure became integrated by first separating the decision-making units of Fx exposure and asset allocation. Furthermore, the MSCI index was adopted as a benchmark to prevent the concentration into one or two currencies, while strategically allocating the higher weights to currencies of G4 countries as part of the efforts to respond to the open Fx position of international assets. Aside from such currencies, the NPS also invests assets in different foreign currencies including Australian dollar, Switzerland Franc, and etc. in order to diversify foreign exchange risk.

Early Detection of and Preemptive Response to Risks

In a preemptive response to possible risk in the financial markets, the NPF generates its own composite index of combining Korean and international market indices together. This internally developed index for risk recognition and global networks centralized on the overseas offices are helping the NPS monitor market conditions. Meanwhile, the NPS also maintains the system of analyzing possible scenarios and sensitivity, and preparing the solutions for each different scenario. In reality, this system offered sizeable benefits to the NPS last year when Brexit, the US presidential election and other events critically impacted domestic and global financial markets. The NPS applied this system in advance and could respond to such negative events very effectively. Looking ahead, the NPS will continue to keep monitoring global financial conditions and consider short-to-long term impact on the portfolios for further stabilized and profitable fund management.

SPECIAL ISSUE

Changes in the National Pension Fund Management in 2017

Introduction of Stewardship Code

The Stewardship Code was introduced after the financial crisis in 2008, which can be attributable to moral hazard among financial institutions, to direct the exercise of voting rights held by institutional investors. The Code was first adopted by the U.K government in 2010, followed by the Netherlands, Canada, Switzerland, and Japan. In Korea, the Committee on the Introduction of Stewardship Code was formed in March, 2015, led by the FSC. After a number of public hearing were held by the Committee, on December 19, 2016, Korea Corporate Governance Service announced “Principles on the Stewardship Responsibilities of Institutional Investors”, the final version of the Korean Stewardship Code. In June, 2017, the Service and the FSC published ‘1st edition of guidebook on the Korean Stewardship Code’ and ‘Statutory Interpretation of Stewardship Code’, respectively. According to the Code, the NPS serves as an institutional investor that manages the fund for the financial security of ‘Korean people’ after retirement. With the goal of ‘actively’ promoting the value of invested companies in the long-term, the NPS is responsible for examining ESG factors and conducting specific activities, including dialogue with the BOD and suggestion to shareholders. The NPS plans to introduce ‘Stewardship Code’*, based on which it will examine ESG factors and consider various ways of exercising the rights of shareholders against the companies with low ESG performance or that fail to comply with the Code, such as putting on the ‘NPS Watch List’, recommending non-executive directors, and filing a representative action.

Principle1	Disclose policy for responsibility	Principle5	Disclose voting policy and activity
Principle2	Manage conflicts of interest	Principle6	Disclose how custodian fulfills stewardship responsibilities
Principle3	Monitor investee companies	Principle7	Possess in-depth knowledge and competencies
Principle4	Fulfill responsible activity as a custodian		

* Stewardship Code: The dictionary definition of the word “steward” states one who administers another’s property, finances, or other affairs. As such, Stewardship Code sets out the principles of effective stewardship by institutional investors.

3. Expand Welfare Services Customized for People



Context

Korea is one of the fastest aging societies in the world; those aged over 65 account for more than 14% of the population this year. The extended life expectancy has resulted in more disabled and aged people who have an increasing demand for welfare services. In this regard, various supports, such as welfare services tailored to different life stages, are needed to enhance the quality of life.

Our Approach

With the growing issue of aging and elderly poverty, the role of NPS, guaranteeing income security for the aged, has become more important. With experience of managing the National Pension Fund, the NPS has emerged as a welfare service provider.

UN SDGs

- 3

Ensure healthy lives and promote wellbeing
- 9

Resilient infrastructure and sustainable industrialization

Our Plan to 2022

- ◆ Stabilize the old age preparation delivery system and provide general services by 2022
- ◆ Integrate the old age preparation information systems of relevant authorities and agencies by 2022
- ◆ Increase the expertise in disability review by standardizing the disability determination system and enhancing the cooperation with relevant organizations by 2022
- ◆ Advance the work capability assessment and system in a sustainable way by 2022

Promotion of Retirement Planning Services

System of Retirement Planning Services

The NPS established the Retirement Planning Support Team to provide the public with welfare services tailored to different life stages and supported the enactment of lower statues and development of content. After the enforcement of the Act, the NPS formed the Main Office of Retirement Planning Service Center and assigned tasks to Retirement Planning Division (Business Planning), Retirement Planning Operation Division (Business Operation), and Retirement Planning Development Division (Content & System Development). Also, the NPS built Retirement Planning Service Center in 109 regional offices to provide customized consulting services for free. All citizens in Korea can apply for online or visit consultation at the NPS website (<http://csa.nps.or.kr/main.do>).

Enhancement of Quality of Retirement Planning Services

According to the Article 46-3 of the National Pensions Act, the NPS has provided retirement planning services in the areas of finance, health, leisure, and interpersonal relation to guarantee the income security for old age of pension subscribers and beneficiaries. The NPS has offered one-on-one counselling to 79,146 people and training on how to prepare for old age to 418,628 by 2016. The services provide a comprehensive examination of the preparation for old age, not just limited to finance, and introduce counselees to relevant organizations, such as public health center, local government, and Korea Housing Finance Corporation, if necessary.

Old-age preparation service

Training on old age preparation

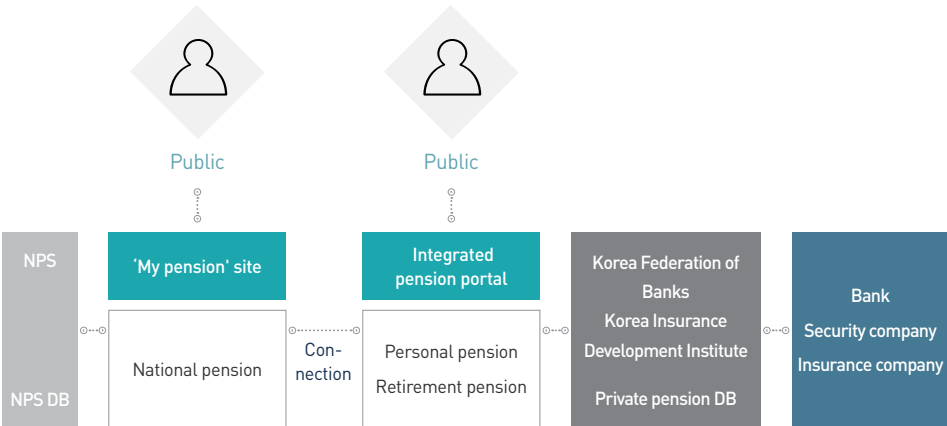


Retirement Planning Services through Cooperation

The NPS has introduced ‘public one-stop service at low cost and high efficiency’, allowing customers to use tailored welfare services by visiting the corporation, instead of inquiring at local governments or public institutions by themselves. After consultations, the services are provided by relevant organizations online or offline, helping customers prepare for their old age more effectively.

Also, the NPS suggested information connection with pension management agencies, such as the FSS, KHFC, and KCOMWEL, and has enabled customers to access the website “My Pension” and check the status of their pensions based on the integrated information of the national pension, personal pension, retirement pension, and reverse mortgage for systematic preparation for old age. As a result, the level of customer satisfaction with consultations in 2016 recorded 95.9 points, up 2.3 points from the previous year, and the NPS has been selected as ‘Best Korea Brand’ in the category of welfare services after retirement for 3 consecutive years.

◆ Composition of National Pension Fund



Enhancement of Welfare Services for the Disabled

The NPS has provided a variety of welfare services for the disabled based on its experience and expertise in disability pension review, including disability registration review, support for the activities of the disabled, capacity assessment for beneficiaries of the national basic livelihood, and connection of services for the disabled. The NPS has also improved the standards for disability pension review and the quality of services.

Center for Disability Review

The Center for Disability Review was established in January, 2008, utilizing trained personnel, including consultants and nurses, to conduct 1) disability pension and bereaved family’s pension review according to the National Pensions Act, 2) disability registration review according to the Welfare of Disabled Persons Act, and 3) capacity assessment for beneficiaries of the national basic livelihood according to the National Basic Living Security Act. Also, approximately 1,000 consultants and 350 reviewers (including nurses) have engaged in review activities to enhance performance.

Convenience of the Disabled at Disability Review

The NPS improved a procedure for a disability review through legal revisions so that the NPS could get necessary documents directly issued to it and review them. The objective was to ease the inconvenience of the disabled that are immobile having to visit two or three medical clinics or hospitals to receive a disability review. Since some customers give up the service due to complex procedures, such as submission of proxy and copy of identification, the procedures have been simplified to ask their signature on the written consent only, allowing 38,922 customers to use the service as of 2016. Also, by analyzing the cases of objection and administrative trial and appeal, the NPS has established the process to consider such cases from the initial review, through which the rate of application for objection and quotation of application for objection recorded the lowest at 3.9% and 14.5%, respectively.

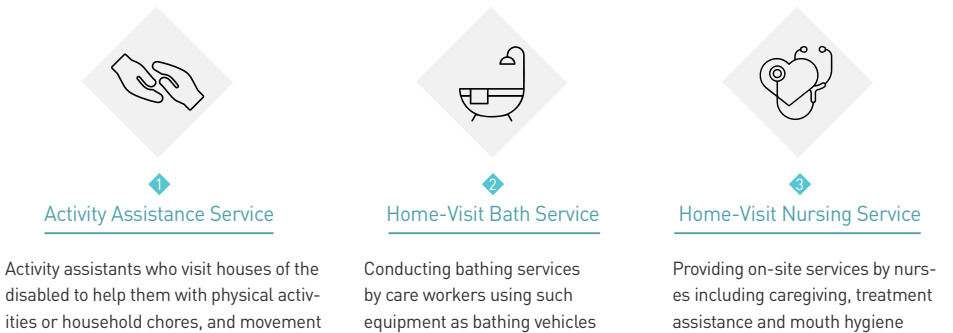


Rational Improvement of Standards for Disability Review

Although the rating of disability can be determined on the date of full recovery (date of surgery), some cases of delayed payment of pension are found on account of belated claims. Thus, the NPS has improved the system by retroactively granting the pension from the date of full recovery. Also, the NPS has secured the rationality of disability review by improving the standard of review regarding genetic disorder and recurrent cancer.

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Capacity Assessment for Beneficiaries of the National Basic Livelihood

The capacity assessment scheme for basic livelihood security recipients was adopted in order to seek for self-sufficiency and rehabilitation of the impoverished by providing adequate services based on objective assessment for work capabilities of such recipients. The NPS has eased the regional discrepancy in the work inability ratio by revising the assessment guideline and work manual, and contributed to the successful rehabilitation of recipients (from 33.6% in 2015 to 37.3% in 2016) by informing local governments of the results of assessment and making them continue the support for self-sufficiency and rehabilitation of the impoverished.

Enhancement of Services Customized for Beneficiaries

The NPS needs to provide more various services to enhance the convenience of beneficiaries and protect their pension rights apart from the registration of claims and payment of benefits.

Easy Inquiry of National Pension Benefits

Some people become entitled to receive pension benefits due to death, divorce, or departure, but fail to do so since they do not know about their entitlement or how to claim. In this regard, the NPS has introduced an inquiry system that allows anyone to easily check the status of their pension. Customers can call or visit the NPS, or check their subscription for inquiry, or access the NPS website 'Find and Get Your Pension' or the government portal 'Civil Petition 24' and 'Government 24'. Also, the NPS has revised the standard and program for selecting those who shall be informed about claims and regularly verified those who shall be informed about claims.

The NPS has also notified the least informed groups, such as North Korean refugees, divorced people, and bereaved families, about their claims for pension benefits. The NPS has engaged in the government 3.0 'Safe Inheritance' service, enabling the bereaved to easily check the details of their inheritance; utilized the marriage data of the Supreme Court to allow the divorced to apply for pension sharing; and sent individual notices to those entitled to special pension benefits in cooperation with the Ministry of Unification. Also, the NPS has helped foreigners understand the Korean pension system and claim pension benefits from the moment of their entry to departure.

- Exceeding the goal with 97.1% of claim rate by improving the system and process for the notification on claims for pension benefits and promoting the system in cooperation with other organizations
 - 23,912 people who are in vulnerable social group for information obtained pension subscription (refugees of North Korea, divorced people, family of the deceased)
 - The number of foreign recipients has increased by 20% from the previous year, with the claim rate of 99.1%
- * 44,000 people received KRW 203.3 billion in 2015, and 53,000 people received KRW 271.6 billion in 2016

Expansion of the National Pension Silver Loan

The National Pension Silver Loan allows recipients who are aged over 60 and facing difficulties to use loan service of commercial bank, to borrow urgent money for medical cost, funeral service expense, and monthly rent at low interest by utilizing the National Pension Fund. Therefore it is a loan business which provides a practical welfare. The NPS has raised the limit of loans from KRW 5 million to 7.5 million, and offered the term unredeemed (1 or 2 years) to reduce burden of repayment at early stage. In 2016, 6,747 people were granted emergency loan of KRW 34.2 billion.

4 Fulfill the Social Responsibility for Local Community



Context

Businesses that create values by utilizing social capital are required to contribute to resolving social issues apart from the generation of economic profit. Accordingly, Corporate Social Responsibility (CSR) has become one of the core values of many businesses.

Our Approach

The NPS has contributed to the sustainable living and welfare of the public by providing pension for the aged, disability, and death. Working for the common good, the NPS can exert its influence not just by creating economic profit but resolving social issues. The NPS has actively engaged in local community activities to create jobs in the private sector, make social contribution by utilizing core competencies, and promoting mutual growth.

UN SDGs

- 1

End poverty
- 4

Ensure inclusive and equitable quality education
- 8

Sustainable economic growth and productive employment

Our Plan to 2022

- Establish the NPS-type system to create jobs in the private sector by 2022
- Consolidate the infrastructure of social contribution activities and enhance the capacity of members

Efforts for Shared Growth with Local Community

The social contribution activities of the NPS have indirect and extensive influence through the relationship with the local community, partners, and the government. The NPS has revitalized traditional markets in the region where it was relocated to contribute to the regional economy, and operated the NPS Cafe 36.5 Cooperative by utilizing unused spaces in its office buildings.

NPS Cafe 36.5, Creating Jobs for the Underprivileged

The NPS established the NPS Cafe 36.5 Cooperative in 2011 to create jobs for the socially underprivileged including basic livelihood security recipients and married immigrant women, and spread the culture of donation. The NPS Cafe 36.5 is a cafe built on the image of 'a world as heart-warming as the human temperature (36.5 degrees) that sells coffee with a loving attitude 365 days a year'. It donates 50% of its revenues to those in need in community. In 2016, thanks to the consulting for more effective operation, the sales of the Cafe 36.5 have increased by 43% from the previous year to reach KRW 659 million.

♦ Virtuous cycle of employment, income, and donation of the underprivileged

Early stage (~'13)	Growth stage ('14~'15)	Maturity stage ('16~)
<div>-Support the operation of Café by leasing unused spaces in office buildings for free to the underprivileged</div> <div>-Improve the surrounding environment and contribute to the sales</div> <div>-2 branches (5 employees), below KRW 100 million of annual sales</div>	<div>-Support the establishment of the Cooperative for the independence and growth of the underprivileged</div> <div>-5 branches (13 employees), above KRW 200 million of annual sales</div> <div>-Certified as a prospective social enterprise</div> <div>-Donation from profit to reach KRW 9.2 million a year</div>	<div>-Members of the Cooperative make business decisions, such as operation and donation, cooperate with the NPS on equal terms</div> <div>-5 branches (14 employees), KRW 460 million of annual sales</div> <div>-Donation from profit to reach KRW 14.4 million a year</div>

Contribution to the Regional Economy by Facilitating Traditional Markets

The NPS contributes to facilitating traditional markets and developing the regional economy by spreading success experiences and know-how gained from Mangwon Market in Seoul to New Jungang Market in Jeonju. The NPS' shopping and delivery service called 'Don't Worry Kim Daeri' which began in Mangwon Market has been initiated in New Jungang Market in Jeonju, aiming to expand shopping delivery services to companies beyond citizens. The NPS strived for the program to focus on customized product development and promotion. Also, the NPS has engaged in procurement for social contribution activities of two government offices in Jeonju.

Creation of Jobs in the Private Sector

The 5-year plans of the new government have set the creation of jobs as one of the key tasks, and stated that creating jobs is the best welfare policy that facilitates economic growth. Accordingly, the NPS has strived to increase the number of jobs in the private sector and the quality of employment.

Creation of Jobs in Local Community Utilizing its Unique Business

The NPS has utilized the retirement planning services to provide information on finance and employment for the aged. In cooperation with relevant organizations in the local community, 5 branch-es in Jeollabuk-do have received 137 job applications and created 54 jobs for local residents.

Job Creation through Non-Core Operation Outsourcing

The NPS is expanding outsourcing in non-core operations which can create jobs in the private sector. Targets of outsourcing are the 1355 Call Center, IT outsourcing, resort management, pri-vate fund management, and financial management. In 2016, the NPS created 1,849 jobs through shared growth and cooperation with outsourcing companies.

♦ Job Creation through Shared Growth

Unit : Person				
Type	Field	Efforts	Regular employment	Irregular employment
System operation	1355 Call Center	Operate call centers to improve the services at customer contact points	368	-
Operation of orga-nization	IT outsourcing	Outsource the management of information on 20 million subscribers and beneficiaries	150	-
	Facility management	Building cleaning, security service, cafeteria, and nursery	28	392
	Resort management	Outsource the operation of Cheongpung Resort	81	27
Fund manage-ment	Private fund	Evaluate stability of employment in selecting outsourcing companies	716	-
	Financial manage-ment outsourcing	Manage the payment, investment, collection	87	-

Creation of Jobs through Investment Projects

The NPS has created jobs through the order placement, research study, and organization manage-ment in investment projects. The NPS has expanded alternative investments for the diversification of fund returns, and created 996 jobs in total through the outsourcing of research on fund system and policy, and construction of the new building of NPS Fund Investment Office.

Direction for the Creation of Jobs

The NPS has strived to create decent jobs as part of the efforts to fulfill its social responsibility as a comprehensive welfare service provider. The 'Job Creation Committee' will be led by the chairman of the BOD and consisted of executives of each department. Under the Committee, three working groups will be operated to deal with tasks in a prompt manner.

Social Contribution Utilizing Core Competence

Social contribution activities support the long-term growth of businesses by creating a positive image and gaining pubic favor. Under the theme of 'Love Plus For', the NPS has conducted various social contribution activities for the subscribers and beneficiaries, disabled, and local community.

Establishment of the Social Contribution Strategy System

The NPS contributes to a happy life for the public by establishing a system for social contribution strategies suited to its purpose of foundation and the nature of its business. The NPS is committed to implementing government policies as a public institution by providing comprehensive welfare services including old age preparation services and services for the disabled.

Slogan	A happy community and a warm-hearted society		
Strategy	Strengthening support for self-suf-ficiency per lifecycle and customer aligned with the business	Initiating social contribution activities by leveraging core competencies	Spreading the culture of sharing
Missions	<div>- Strengthening pension recipient rights</div> <div>- Supporting stable living of recipients</div> <div>- Raising commitment for self-sufficiency of the disabled</div>	<div>- Overseas social contribution activities</div> <div>- Community exchange activities</div>	<div>- Facilitating communication with members</div> <div>- Conducting activities for spreading the culture of sharing</div>

Love Plus for Subscribers

The NPS supports low-income subscribers who cannot acquire the pension recipient rights due to their failure to pay premiums. Pension premiums of about KRW 63 million were paid to 237 sub-scribers in 2015, and 21 of them acquired pension recipient rights. This means a lot to low-income groups who need stable income after retirement, and 2,167 have been supported and 540 of them granted pensions by 2016. Also, single parents who are socially and economically disadvantaged are provided with childcare services as well as pension premiums.

Love Plus for Beneficiaries

The NPS has promoted social contribution activities tailored for the socially disadvantaged, such as children and the elderly. The NPS sponsors 'Didim Siat Bankbook' for the sustainable living of underprivileged children who receive pension benefits for the bereaved, and granted KRW266 million to 740 of them in 2016. Since 2007, 'Heart-to-Heart Community Service' has been provided to help senior citizens who live alone or with severe disabilities lead a comfortable life with supply of goods, chitchatting, and clean-up, in alignment with the survey to identify those with recipient rights. Also, facilities heavily used by the elderly, such as senior citizen centers, have been im-proved with prevention of slipperiness and installment of safety bars.

Love Plus for the Disabled

“Happy Charity Fund” of KRW 120 million was established to support the rehabilitation costs of 51 children with disabilities. Also, the NPS has run ‘Eogge Dongmu (Shoulder-to-shoulder friendship) Volunteer Group’ where the disabled with talents take care of the more severely disabled, conducting volunteer activities, such as musical instrument performance, magic show, and chit-chatting, at community rehabilitation centers. Also, the NPS has organized empathy-based trips for the disabled since 2011, and a total of 76 trips have been participated by 3,314 by 2016.

Love Plus for Local Community

Based on the sisterhood relations with 38 rural villages, the NPS has continued its volunteer services to contribute to the regional economy. The services include various exchange, such as provision of helping hands, improvement of residential environment, and promotion of local specialty markets. Also, the NPS has encouraged each division to conduct volunteer activities on site to make local community healthier and happier. Besides, the NPS has helped employees from multicultural families visit their home countries, starting from Vietnam in 2013, and engaged in overseas volunteer work (improvement of school environment, cultural exchange, and educational service). As one of the world’s top three pension funds, the NPS has transferred the national pension scheme to Cambodia and Mongolia, and the know-how of pension management to Nepal in 2016.



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Social Responsibility Management Performance

Economy

Statement of Financial Position

Unit: KRW million			
FY	2014	2015	2016
Current assets	171,750	200,503	204,571
Non-current assets	745,486	803,524	843,404
Total assets	917,236	1,004,027	1,047,975
Current liabilities	84,758	95,120	98,281
Non-current liabilities	928,818	999,854	1,071,568
Total liabilities	1,013,576	1,094,974	1,169,849
Deficit	-95,224	-89,897	-92,232
Other components of earnings	-1,116	-1,050	-29,642
Total Equity	-96,340	-90,947	-121,874
Total Liabilities and Equity	917,236	1,004,027	1,047,975

Comprehensive Income Statement

Unit: KRW million			
FY	2014	2015	2016
Operating revenue	14,333,688	15,769,090	17,681,265
Operating expense	14,307,536	15,745,007	17,665,396
Operating income	26,152	24,083	15,869
Other expense	3,599	3,725	3,930
Other gains and losses	-22,457	-20,137	-19,615
Finance income	5,655	4,859	4,071
Finance expense	1,110	628	529
Profit (loss) before income tax	4,641	4,565	-4,134
Corporate tax	-	-	73
Net Profit (loss) for the term	4,641	4,565	-4,207
Other inclusive gains and losses (after tax)	2,893	66	-28,591
Total inclusive gains and losses	7,534	4,631	-32,798

Economic Value Distribution

Unit: KRW million			
Type	2014	2015	2016
Customer (pension payment)	13,779,943	15,184,010	17,068,159
Employees (wage, severance pay, benefits)	352,408	371,723	409,293
Government (taxes & dues)	25,762	28,609	31,195
Local community (social contribution)	818	877	772
Suppliers (Purchase from SMEs)	105,100	98,540	82,746

Society

Employee Status

The NPS's ideal employees are 'specialists in pension and welfare who create a happy future with passion and belief.' We do our utmost to create a corporate culture which allows employees to work with joy and passion based on this belief. To this end, we respect the diversity of our employees, and operate a talent recruitment process excluding such discriminating factors as gender, disability, and academic background. The number of regular employees at the NPS stood at 5,256 as of the end of 2016. By gender, men amounted to 2,622.5, that is, 49.9%; women numbered 2,633.5, taking up 50.1%. The portion of women managers in team leader positions and above took up 5.7%, up 1.17%p from the previous year. The employment rate of the disabled was 3.49%, which exceeds the 3.0% threshold set by the government.

As of December 2016					
Type	Unit	2014	2015	2016	
Total number of employees (including executives)	Person	5,157	5,230	5,688	
Total number of employees (excluding those are not in office for childcare leave, etc.)	Person	4,999.5	5,055.5	5,534.5	
Regular employees	Person	4,992.5	5,049.5	5,261	
Employees under indefinite term contracts	Person	7	6	273.5	
Non-regular employees	Person	440.5	170	157	
Indirect employment	Person	673	706	718	
Female employees	Person	2,185	2,218.50	2,633.50	
Male employees	Person	2,814.50	2,837	2,901	
Female managers	Person	145	172	199	
Female managers (based on performance evaluation)	Person	12	14	18	
Ratio of female employees (based on performance evaluation)	%	43.7	43.9	47.6	
Ratio of Female managers (based on performance evaluation)	%	3.96	4.53	5.7	
Disabled employees	Person	208	195	198	
Ratio of disabled employees	%	3.65	3.65	3.49	
Patriots and veterans	Person	414	421	424	
Ratio of patriots and veterans	%	8.9	8.4	8.3	
New regular employment	Total (based on performance evaluation)	Person	422	206	291
	employees	Female	259	96	180
	Disabled	Person	2	2.5	-
	non-metropolitan area	Person	243	80	113
	HQ relocating area	Person	44.5	26	47
	High school graduates*	Person	18	26	50.5
	Science & engineering majors	Person	163	84.5	0
Non-regular employment	Total	Person	1,396.5	1,105	934
	Interns	Person	435	130	157
	Counsellors, etc.	Person	625.5	607	306
	Exclusively in charge of consignment tasks	Person	336	368	471
Honorary retirees**		Person	59	49	27

* In 2015, the portion of recruiting job categories (review, social welfare, fund management, researcher, etc.) which is difficult for high school graduates to apply for went up, so the recruitment record for high school graduates is low.

**Since the post-retirement career of retirees is not tracked, so there is no data on employee turnovers.

Facilitation of Flexible Work Programs

The NPS expands the flexible work program to support women’s continued social activities and prevent the turnover of specialized personnel for fund management and IT, etc. resulting from the relocation of the headquarters to the local region. The NPS currently runs such programs as short-time work, customized work and flexible working time. In order to increase the utilization rate, NPS has adopted various flexible work programs, introducing smart work and intensive work which reduce the time for travel and cost and increase job efficiency, and easing application conditions and simplifying procedure.

		Unit: Person		
Type		2014	2015	2016
Part-time work system*	Recruited	43	22	38
	Converted	58	84	83
Flexible work system	Flex-time work	327	618	728
	Intensive work	-	24	35
* Standard of Part-time job: operating for more than a month with less than 30 hours of working hour per week				

Support for Childbirth and Childcare

		Unit: Person		
Type		2014	2015	2016
Childbirth leave prior and post to giving multiple births (120 days for multiple gestation)		2	1	3
Hours of maternal protection (reducing two working hours a day for the pregnant of less than 12 weeks and over 36 weeks)		47	121	100
Reduction of working hours during the period of raising children (daily working time is reduced by 4 hours during the period when employees raise their children aged under 9)		54	79	82
Infertility leave (one day each for infertility treatment and egg retrieval)		2	14	13
Childcare leave for women (maximum three years)		344	367	392
Childcare leave for men (maximum three years)		10	15	29
Maternity leave (90 days for single child and 120 days for multiple children)		134	139	129
Childbirth leave for one’s spouse (five paid days)		71	76	74
Infant childcare leave (once a month for childcare of infants less than three years old)		225	192	182
Fetus check-up leave (once a month during pregnancy)		142	148	133

Employee training hour and satisfaction level

		Unit: Person		
Type	Unit	2014	2015	2016
Number of participants	Person	63,603	62,392	83,620
Training budget per employee	KRW thousand	929	825	841
Training hout per employee	Hour	82.2	82.3	0
Satisfaction level	Point	4.52	4.64	0
Number of participants for ethical training	Person	0	0	21,773

Women’s Leadership Programs

Due to an increase in the number of female recruits in recent 3 years, the proportion of female employees has reached 47.6%, promoting gender equality in employment. Also, women’s leadership programs are in operation and a more women-friendly working environment has been created by promoting flexible working and organizational culture for work-life balance.

Training course	Description	Performance in 2016
Ewha Leadership	Select female employees with competencies and train them at Ewha Institute for Leadership Development Nurture female leaders who will take the lead in achieving the vision and improving the organization of the NPS	6 people
Leadership for those who are promoted	Provide those who are promoted to Grade 3 with leadership training programs for junior leaders Train them on conflict management, performance management, and leadership development	18 people
W - Mentoring	Provide mentoring services for female employees who returned from childcare leave Help them receive mentoring from and build a network with working mothers	18 people
Overseas study	Select those who have worked for the NPS for more than 2 years and meet the qualifications Nurture them as top talents of the NPS by supporting their obtainment of degrees through overseas study	4 people

Scope of Subscribing to the Labor Union and its Targets

The NPS operates the rational collective agreement and employment rules (appointment, disciplines, etc.) in compliance with the Labor Relations Act and other related acts and government regulations. The eligible ones are those prescribed by the provisions of the labor union as employees of the NPS. However, employees in Grade 2 and above, higher-ranks among Grade 3 employees, general manager positions in Grade 3 (including heads of centers), and employees in Grade 3 involved in personnel appointment, wage and welfare benefits, those involved in labor affairs, audit (those accessing audit information), secretaries and drivers shall be disqualified during the period of their service. As of December 2016, 4,435 employees (74.59%) out of 5,946 eligible employees are subscribed to the labor union.

◆ Ratio of Employees under Collective Agreement

Type	Unit	2014	2015	2016
Ratio of employees who are eligible for collective agreement	Person	5,230	5,340	5,824
Number of employees under collective agreement	Person	3,852	3,890	4,184
Ratio of employees under collective agreement	%	73.65	72.84	71.84

Efforts to Protect Employee Rights

The NPS runs the Grievance Committee consisting of one person each from the labor and the management to efficiently handle grievances about the working environment. Employees’ grievances are gathered through the Labor-Management Council meetings which are held four times a year. Employee grievances are handled at the NPS in accordance with the 'the Act on the Promotion of Workers' Participation and Cooperation' and the 'Regulations on the Management of the Labor-Management Council'. Also, the NPS runs an effective grievance counseling organization by coming up with grievance receipt channels - a channel for applying for the management information system, and the internal messenger & e-payment - and designing grievance counselors per department (branch). Grievances on sexual harassment are systematically managed by additionally running the Gender Equality-Based Grievance Review Committee. An employee healing program is in operation to protect the employees who were verbally abused, assaulted, or

sexually harassed while dealing with civil complaints. Besides, the affected employees are allowed to take sick leave for up to 3 days under the authority of the head of department.

Type	Unit	2014	2015	2016
Grievances of employees	Case	201	264	294
Ratio of resolved grievances	%	58.7	68.2	68.4

Support for the Growth of Small and Medium-sized Partner Companies

The NPS contributes to the capacity building and growth of small and medium-sized partner companies through performance sharing, which allows the partners to receive incentives and the corporation to raise its performance. To be specific, incentives are provided to 1355 Call Center for being selected as an excellent institution; to Cheong Pung Resort depending on its operating profit; and to IT outsourcing companies according to the level of service contracts. In 2016, 1355 Call Center was selected as an excellent institution for the evaluation of KSQI conducted by KMAC for 12 consecutive years. Cheong Pung Resort enjoyed 20.4% year-on-year increase in sales. In addition, the satisfaction with IT Help Desk increased by 0.19 points from the previous year to reach 98.06 points through the improvement of IT outsourcing evaluation index.

Promotion of Shared Growth by Leveraging Competencies

The NPS has created a good working environment for SMEs by advancing the ESG evaluation data, expanding investment in SMEs, and lowering the barriers to entry for small asset management companies. First, the NPS has introduced a system that provides new or small-scale AMCs with an opportunity for the fiduciary management of the NPF since 2012, to ease the barriers to entry to the fund investment market and support the overseas expansion of domestic AMCs. As of 2016, a total of 13 prospective AMCs are engaged in fund management, and 2 of them are promoted to regular AMCs based on their investment experience.

Efforts to Establish Fair Partnerships

The NPS strives to increase the liquidity of its partner companies by making stable payments, and also to ensure the transparency of payments by strengthening the monitoring of payments to subcontractors and activating the system to monitor online payments. In 2016, the NPS made advance payments regarding 19 applications, and the rate of using the monitoring system has increased by 14.3% from the previous year to record 37.7%. For the first time among public institutions, the NPS has restricted the number of private contracts with the same partners to 5 times a year to the maximum for each department to establish more transparent partnerships.

Type		Unit	2014	2015	2016
Purchase from SMEs	Total amount of purchasing SME products [A]	KRW 100 million	1,051	985	827
	Total budget for purchase [B]	KRW 100 million	1,287	1,195	969
	A / B (Recommended ratio is 50%)	%	81.66	82.46	85.36
Performance in financial support	Number of advance payment	Case	16(100%)	20(100%)	19(100%)
	Number of payment of subcontracting price	Case	37(100%)	16(100%)	50(100%)
	Total amount of support for overseas advancement (SME Cooperation Fund)	KRW 100 million	5,400	5,400	5,400
	Investment in SMEs (Investment in venture funds and small and mid-cap funds)	KRW 100 million	62,600	61,380	3,594

Environment

Efforts to Reduce GHG Emission

The NPS determined emission thresholds, and set and executes implementation goals for achieving the GHG reduction target (over 37% by 2030) each year in accordance with GHG and energy target management policies in the public sector. The NPS established a system for managing the GHG emission performance in 2011, inspecting and managing emission levels in all its branches and office buildings. The existing lighting was replaced with LED to reduce GHG emissions, exceeding the penetration target by 50%. The NPS also ensures that compact cars and eco-friendly cars could be procured preferentially upon procuring or renting vehicles for business purposes so that the annual procurement rate of such vehicles could surpass 50%. Various efforts are being made to reduce energy consumption at the NPS, including designating employees who promote activities to save energy at each office building and installing equipment that uses new and renewable energy at some buildings.

◆ GHG Emission

Type	Unit	2014	2015	2016
Emission standards	tCO ₂ eq	9,649	5,625*	12,165
Volume of emission	tCO ₂ eq	7,833	4,008	8,573
Volume of reduction	tCO ₂ eq	1,815	1,617	3,412
Rate of reduction	%	18.8	28.7	29.5

* For the 2015 data, the data on the headquarters' relocation to a local region (headquarters and Jamsil) and new buildings (Gongju, Jinan, Sacheon and Dongnae) are excluded from evaluation.

◆ Other Environment Data

Type	Unit	2014	2015	2016
Energy use	TOE	3,122	3,333	1,488
Water use	Ton	61,947	57,578	68,253
Volume of waste treated	Ton	673	311	283

Third Party's Assurance

To the Readers of NPS Social Responsibility Management Report 2017:

Responsibility and Independence	Korea Management Registrar Inc.(hereinafter “KMR”) has been requested by of National Pension Service(hereinafter “NPS”) to verify the contents of its Social Responsibility Management Report 2017(hereinafter “the Report”). NPS is responsible for the collection and presentation of information included in the Report. KMR’s responsibility is to carry out assurance engagement on specific data and information in the assurance scope stipulated below.
Verification Methodology	The verification has been conducted in accordance with Type 2, Moderate level using AA1000AS (2008) as an assurance standard. The assurer’s assurance team (hereinafter “the assurance team”) evaluated the adherence to Principles of inclusivity, materiality, responsiveness and the reliability of specified sustainability performance information. In addition, the assurance team checked whether the Report satisfied the ‘Core Option’ requirements of GRI G4 Guidelines. The data and information of outside of the organization among report boundaries such as suppliers, contractors is excluded from the verification scope. The assurance team has verified data management system and reporting process, and verified internal documents and data, and interviewed people in charge of preparing the Report.
Findings and Conclusion	<p>The assurance team could not find any inappropriate contents in the Report to the compliance with the principles stipulated below, nor could find any evidence the Report did not comply with ‘Core Option’ requirements of GRI G4.</p> <ul style="list-style-type: none">• Inklusivity: Inklusivity is the participation of stakeholders in developing and achieving an accountable and strategic response to sustainability. NPS is developing and maintaining stakeholder communication channels in various forms and levels in order to make a commitment to be responsible for the stakeholders. The assurance team could not find any critical stakeholder group left out during this procedure.• Materiality: Materiality is determining the relevance and significance of an issue to an organization and its stakeholders. A material issue is an issue that will influence the decisions, actions and performance of an organization or its stakeholders. NPS is determining the materiality of issues found out through stakeholder communication channels through its own materiality evaluation process, and the assurance team could not find any critical issues left out in this process.• Responsiveness: Responsiveness is an organization’s response to stakeholder issues that affect its social responsibility performance and is realized through decisions, actions, and performance, as well as communication with stakeholders. The assurance team could not find any evidence that NPS’s counter measures to critical stakeholder issues were inappropriately recorded in the Report.
Recommendation for improvement	<p>We hope the Report is actively used as a communication tool for stakeholders and we recommend the following for improvements.</p> <ul style="list-style-type: none">• Strategic CSR Implementation: When NPS establishes its strategy and pursues its core business, it needs to consider the influence of various stakeholders and the CSR perspective so that economic and social value can be maximized in the mid to long term.



E. J Hwang
Jan, 13th, 2018 CEO Eun Ju Hwang

GRI G4 Index (Core Option)

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Memberships & Principles

Membership

Korean Social Security Association	Korea Insurance Research Institute	Social Service Network
Korea Employers Federation	Korean Academy of Social Welfare	Pacic Pension Institute, PPI
Korean Association of Public Finance	Korean Association for Survey Research	Korea Development Institute
IPC (International Pensions Conference)	Korean Association of Social Welfare Policy	Korean Economic Association
Russell 20-20 (20-20 Investment Association)	Seoul Economist Club	Korean Labor Economic Association
Korea Institutional Finance Association	Korea Labor Institute	Korean Pension Association


UN Global Compact

With the recognition of social responsibility, the National Pension Service signed up the 'UN Global Compact', an international agreement on corporate social responsibility under a UN scheme, in October 2012. Now NPS is in compliance with the UNGC's ten principles in the four areas of human rights, labor, the environment and anti-corruption.

	Human Rights	Principle1	Businesses should support and respect the protection of internationally proclaimed human rights; and
		Principle2	Make sure that they are not complicit in human right abuses.
	Labour	Principle3	Businesses should uphold the freedom of association and the eective recognition of the right to collective bargaining;
		Principle4	The elimination of all forms of forced and compulsory labour;
		Principle5	The effective abolition of child labour; and
		Principle6	The elimination of discrimination in respect of employment and occupation.
	Environment	Principle7	Businesses should support a precautionary approach to environmental challenges;
		Principle8	Undertake initiatives to promote greater environmental responsibility;
		Principle9	Encourage the development and diusion of environmentally friendly technologies.
	Anti-Corruption	Principle10	Businesses should work against corruption in all its forms, including extortion and bribery


PRI

With obtaining membership of the UN PRI (Principles for Responsible Investment) in 2009, NPS is in line with six principles for responsible investment of the United Nations.

	Principle1	We will incorporate ESG issues into investment analysis and decision-making processes.
	Principle2	We will be active owners and incorporate ESG issues into our ownership policies and practices.
	Principle3	We will seek appropriate disclosure on ESG issues by the entities in which we invest.
	Principle4	We will promote acceptance and implementation of the Principles within the investment industry.
	Principle5	We will work together to enhance our effectiveness in implementing the Principles.
	Principle6	We will each report on our activities and progress toward implementing the Principles.

UN SDGs

The Sustainable Development Goals (SDGs) consist of 17 goals and 169 targets that the international society must achieve to resolve common human problems, environmental problems, and economic and social problems. Taking effect at the UN General Assembly on September 28, 2015 based on the agreement with leaders from 193 countries, the SDGs are expected to be achieved by the international society all together over 15 years from 2016 to 2030. NPS actively supports the SDGs and is strengthening its sustainability by establishing a foundation for mutual growth with society throughout its business activities.

 <div>End poverty</div> <p>By 2030, eradicate extreme poverty for all people everywhere, currently measured as people living on less than \$1.25 a day</p>	 <div>End hunger and achieve food security</div> <p>By 2030, end hunger and ensure access by all people to safe, nutritious and sufficient food all year round</p>	 <div>Ensure healthy lives and promote wellbeing</div> <p>By 2030, reduce the global maternal mortality ratio to less than 70 per 100,000 live births</p>
 <div>Ensure inclusive and equitable quality education</div> <p>By 2030, ensure that every children completes free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes</p>	 <div>Achieve gender equality</div> <p>End all forms of discrimination against all women and girls everywhere</p>	 <div>Management of water and sanitation</div> <p>By 2030, achieve universal and equitable access to safe and affordable drinking water for allv</p>
 <div>Ensure access to energy</div> <p>By 2030, ensure universal access to affordable, reliable and modern energy services</p>	 <div>Sustainable economic growth and productive employment</div> <p>Sustain per capita economic growth in accordance with national circumstances and, in particular, at least 7 per cent gross domestic product growth per annum in the least developed countries</p>	 <div>Resilient infrastructure and sustainable industrialization</div> <p>Develop quality, reliable, sustainable and resilient infrastructure to support economic development and human well-being, with a focus on affordable and equitable access for all</p>
 <div>Reduce inequality</div> <p>By 2030, progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average</p>	 <div>Sustainable cities and human settlements</div> <p>By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums</p>	 <div>Sustainable consumption</div> <p>Implement the 10-Year Framework of Programmes on Sustainable Consumption and Production Patterns, all countries taking action, taking into account the development and capabilities of developing countries</p>
 <div>Action to combat climate change and its impacts</div> <p>Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries</p>	 <div>Sustainable use of the oceans, seas and marine resources</div> <p>By 2025, significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution</p>	 <div>Protect terrestrial ecosystems</div> <p>By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services</p>
 <div>Peaceful and inclusive societies</div> <p>Significantly reduce all forms of violence and related death rates everywhere</p>	 <div>Global partnership</div> <p>Strengthen domestic resource mobilization, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection</p>	