

# Building up Trust between generations

Social Responsibility Management Report 2015





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 Subscribers
  Beneficiaries
  Suppliers
  Community
  Employees

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## About this Report

**The Purpose of Publishing the Report** The NPS believes that socially responsible management of the pension scheme and the pension fund would aid social development by generating increased economic value and contributing to a happier life for the public. We hereby publish our fourth Social Responsibility Report (hereinafter 'report') in 2015 to disclose our activities and performance in social responsibility management and enable communication on these issues with an increased number of stakeholders.

**Reporting Guidelines** This report was written in accordance with G4 Core Guidelines of the GRI (Global Reporting Initiative) revised in 2013.

**Reporting Period** The NPS has published the report every year since 2012. This report covers our activities and performance in the area of socially responsible from January 1 to December 31, 2014. Some content up to September 2015 is included to provide additional timely information. For certain quantitative performance analysis, data compiled during the (from 2012 to 2014) has been used.

**Assurance of the Report** Third-party verification has been carried out to ensure the validity of the report writing process and of the data included for the benefit of our stakeholders. The detailed outcome of this verification is provided through the assurance statement on pages 58-59.

### Inquiries on the Report

This report is downloadable at the NPS website (<http://www.nps.or.kr>). If you have further questions or require additional information, please contact us at the following contact points.

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# Company Profile

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. The NPS is a corporate entity established in accordance with the National Pension Act, and classified as a quasigovernment organization for the fund management consigned by the government under the Act on the Management of Public Institutions. As of the end of 2014, we are providing pension service to 21.13 million insured and 3.59 million beneficiaries, and managing a fund of KRW 469.8 trillion.

(As of December 2014)



<b>Name of corporation</b>	National Pension Service
<b>Location</b>	180, Giji-ro, Deokjin-gu, Jeonju-si, Jeollabuk-do, Korea
<b>Number of employees</b>	4,992.5*
<b>Organization</b>	Headquarters: 12 departments, 1 center, NPS Fund Investment Office, Compliance Officer, National Pension Research Institute, IT Planning Headquarters Branches & Regional Centers: 107 branches, 50 counseling centers, Disability Assessment Center, International Cooperation Center, Incheon Airport Counseling Center, Ansan Foreigner Counseling Center Overseas: New York Office, London Office
<b>National Pension Fund</b>	KRW 469.8 trillion

\* If there is a part-time employee who works 4 hours a day, he or she is counted as 0.5 person. Thus, the total number of employees may not be an integer.

## Key Businesses of the NPS

The NPS supports the insured and offers pension benefit services as key manager of the national pension, which is categorized as a form of social insurance. We have systematically expanded our coverage since 2009 to the retirement design service to help prepare the elderly for their post-retirement life. We have also provided disability registration review and services since 2011 to support the activities of the disabled. Since 2014, the NPS has been a truly 'a comprehensive welfare service institution' encompassing all areas of social welfare and providing basic pension services to support the struggling elderly.



### Services for the insured

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



### Fund management

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



### Pension benefit services

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



### Welfare services

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



### International cooperation

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



### Research and study

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

## Major Achievements

- Awarded 'The Institutional Investor of the Year' by Asian Investor
- Selected as an 'Excellent Call Center' by the Korean Service Quality Index (KSQI) for 10 consecutive years
- Awarded by government commendation the Ministerial Award 'Korea's Beloved Company'
- Awarded the Gold Award in two categories at the League of American Communications Professionals (LACP)'s 'Vision Awards'

CEO Message



**We will become an even more stable partner through a stronger pension**

## I truly appreciate your deep interest and love for the NPS.

**A Stronger Pension** Faced with highly uncertain financial environments, the NPS has nonetheless achieved stable growth since its foundation in 1988. With 21.42 million insured contributors, 3.82 million beneficiaries, and a fund of KRW 500 trillion (as of September 2015), the NPS' presence as an unprecedented welfare service institution has been further solidified by the national pension fund's growth to the world's second largest in scale. Instead of focusing on earning short-term rates of return, we strive for stable fund management over the long term through investment diversification, expansion of overseas investment, innovation in investment processes, and acquisition of competent personnel for the management of the fund. As a result of our efforts, the NPS was selected as the 'Institutional Investor of the Year in 2014' by Asian Investor, a specialized news source on finance and investment that awards the most outstanding institutional investor based on fund management performance, process and infrastructure, etc.

**A Stable Partner** The Korean society is transforming into an aging society due to a steadily increasing number of the elderly; and yet, the retirement scheme for the public has not reached an epochal turning point. Faced with this anxious reality, the NPS has continued to be a stable and reliable partner that people could count on during their retirement age. While raising the value of pension services, including a seamless pension payment system and higher accuracy in the follow-up management of the beneficiaries, the NPS aims to discover the blind spots in welfare and proactively tap into programs that provide support to low-income households and the socially neglected, thus establishing a tight safety net of social insurance. In order to enhance social trust as an institution for pension management, we have established six strategic areas of social responsibility management and made all-out efforts to implement them, including strengthening the ethics of management, substantiating social responsibility investment, expanding green investment to counter climate change, creating jobs for the socially vulnerable; and operating an employment succession system for suppliers. These endeavors have been recognized for their contribution to the enhancement of our national competitiveness – in 2014, the NPS was awarded, by government commendation, the Ministry of Trade, Industry, and Energy's 'Korea's Beloved Company' Award.

Since its foundation, a short span of only 28 years, the NPS has achieved outstanding management milestones, driven by its excellent management of the national pension scheme and the national pension fund. With a challenging spirit and passion, we aim to continue to be a sincere partner for the future happiness of all the people who depend on us.

Thank you.

November 2015  
Acting Chairman & CEO of National Pension Service **Rhee, Won-hee**

# The Social Responsibility Management System

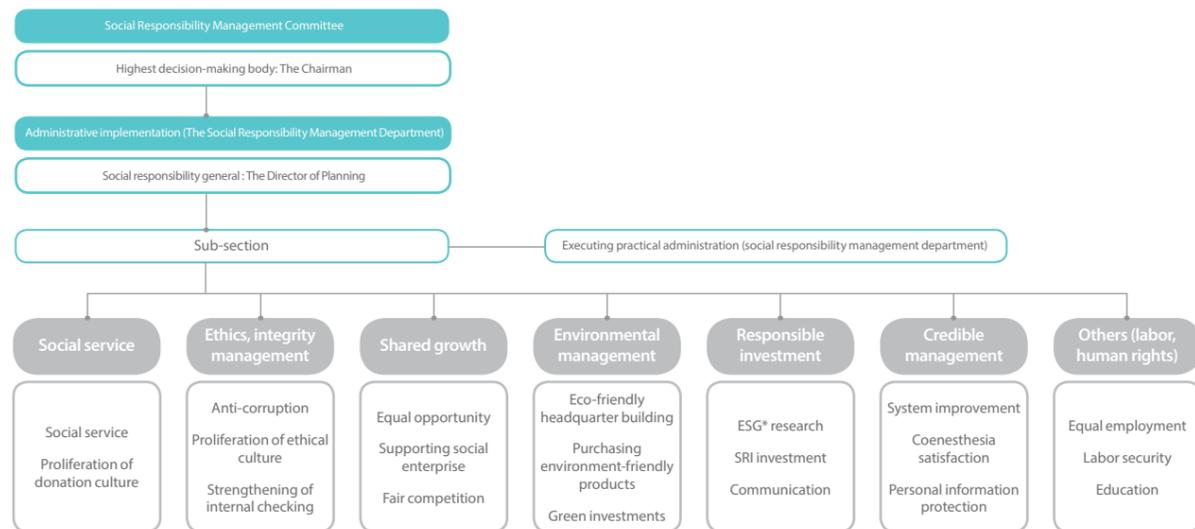
## Social Responsibility Management Strategies

The NPS is a comprehensive welfare service institution covering all three major social security areas: public aid, social insurance, and welfare services. Our socially responsible management is a core element for sustainable growth, and its purpose is to create 'a happy community and a warm-hearted society.' This goal is aligned with the NPS's vision of becoming a 'Nice Partner for a Successful Life.'



## Promotion System for Social Responsibility Management

The NPS has designated the Social Responsibility Management Committee as the top decision-making body in the area of socially responsible management in order to systematically implement the concept. The committee is a scaled-up body drawn from the existing Ethical Management Committee, able to encompass the area of social responsibilities. The Working-Level Committee for Social Responsibility Management develops (draft) action plans, while the Social Responsibility Management Department is tasked to ensure that the execution is handled by each functional subsection. We listen to opinions on various aspects of socially responsible management through the Social Responsibility Management Advisory Council and the Stakeholder Advisory Board, and try to reflect them in our corporate management philosophy.



\* ESG (Environment, Society, Governance): It refers to the corporate non-financial performance, as related to the environment, society, and governance.

## Current Status of the Social Responsibility Management System

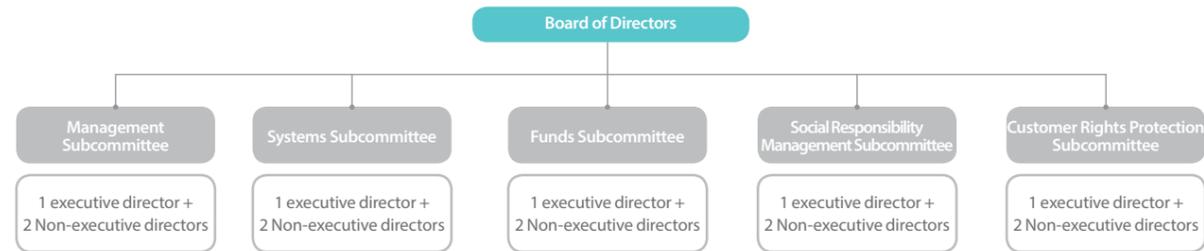
Under the six strategic directions, the NPS oversees 14 execution tasks, and reports yearly on the status of the Social Responsibility Management System for continued performance evaluation and systematic implementation. Each department in charge is subject to evaluation of their track records aligned with relevant KPIs (Key Performance Indicators), and review of performance and data through a third-party verifier in the process of writing a social responsibility report. We also review our level of social responsibility compared to other companies and institutions based on publicly reliable external evaluations, including evaluations of public institutions (such as management evaluations of public institutions, integrity and anti-corruption evaluations, competitiveness evaluations, and KoBEX SM evaluations). Upon review we reflect on our weaknesses and address them in our upgraded plans for the Social Responsibility Management System.

Strategic Directions	Key Tasks	Key Performance Indicators	2014 Achievements	2015 Goals
Ethical management	<ul style="list-style-type: none"> <li>Attaining a trustworthy and transparent NPS</li> </ul>	<ul style="list-style-type: none"> <li>Sustainability Index (KoBEX SM)</li> <li>Anti-corruption competitiveness assessments</li> </ul>	<ul style="list-style-type: none"> <li>Sustainability Index (KoBEX SM) AAA</li> <li>Achievement of 'zero' fraudulent activities</li> </ul>	<ul style="list-style-type: none"> <li>Maintaining an AAA Sustainability Index</li> <li>Spreading the NPS' performance in the area of social responsibility</li> </ul>
Social contribution	<ul style="list-style-type: none"> <li>Contributing to the customers' self-sufficiency and growth</li> </ul>	<ul style="list-style-type: none"> <li>Local community participation index</li> <li>Number of people with insurance premium subsidization</li> <li>Social contribution 'mileage'</li> </ul>	<ul style="list-style-type: none"> <li>Social contribution mileage totaling 125,457 points</li> </ul>	<ul style="list-style-type: none"> <li>Achieving social contribution mileage totaling 131,730 points</li> </ul>
Shared growth	<ul style="list-style-type: none"> <li>Continuing mutual growth with SMEs based on win-win cooperation</li> </ul>	<ul style="list-style-type: none"> <li>Supplier coensthetic satisfaction level</li> <li>Purchase records from SMEs</li> </ul>	<ul style="list-style-type: none"> <li>Supplier coensthetic satisfaction index of 90.8 points</li> <li>Purchases from SMEs totaling KRW 105.1 billion</li> </ul>	<ul style="list-style-type: none"> <li>Achieving a supplier coensthetic satisfaction index of 91 points</li> <li>Purchasing from SMEs in amounts totaling KRW 108.1 billion</li> <li>Achieving a 'Good' grade in the shared growth evaluation for public institutions public institution</li> </ul>
Environmental management	<ul style="list-style-type: none"> <li>Implementing carbon reduction policies to the standards of exemplary institutions</li> </ul>	<ul style="list-style-type: none"> <li>Continued management of specific items under the disclosure system of environmental information</li> </ul>	<ul style="list-style-type: none"> <li>Excellent grade certification for an eco-friendly HQ building</li> <li>Green product procurement ratio of 93.53%</li> </ul>	<ul style="list-style-type: none"> <li>Reducing 20% (1942.4 tCO<sub>2</sub>e) emission against NPS CO<sub>2</sub> emission standard (9711.9 tCO<sub>2</sub>e)</li> </ul>
Responsible investment	<ul style="list-style-type: none"> <li>Conducting strategic reviews for responsible investments</li> <li>Enhancing internal and external understanding</li> </ul>	<ul style="list-style-type: none"> <li>Advanced pension &amp; fund investment case studies and internal and external sharing</li> </ul>	<ul style="list-style-type: none"> <li>Socially Responsible Investment (SRI) totaling KRW 6.0007 trillion</li> </ul>	<ul style="list-style-type: none"> <li>Preparing responsible investments with consideration of ESG</li> </ul>
Enhancement of social trust	<ul style="list-style-type: none"> <li>Establishing social credibility and promoting sustainable management through contributions</li> </ul>	<ul style="list-style-type: none"> <li>Coensthetic satisfaction</li> <li>Number of (government-led) public satisfaction campaigns held</li> </ul>	<ul style="list-style-type: none"> <li>Coensthetic satisfaction index of 48.1 points</li> </ul>	<ul style="list-style-type: none"> <li>Achieving a coensthetic satisfaction index of 48.8 points</li> </ul>

# 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, three 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 a high-ranking (Grade 3) government official who is involved in national pension tasks at the Ministry of Health and Welfare.

(As of December 2014)

	Name	Duty period	Organization & position	remarks
Executive directors	Choi, Kwang	2013.5.24 ~ 2016.5.23	Chairman	Chairman of the board
	Rhee, Won-hee	2013.11.18 ~ 2015.11.17	Executive director of planning	Executive director
	Kim, Moo-yong	2014.11.17 ~ 2016.11.16	Executive director of operations	Executive director
	Hong, Wan-sun	2013.11.4 ~ 2015.11.3	Executive director of fund management	Executive director
Non-executive directors	Cho, Nam-kwon	2012.1.27 ~ 2015.8.24	Pension policy director of MOHW	Government representative
	Lee, Seung-cheol	2006.1.23 ~ 2016.1.22	Vice president of the Federation of Korean Industries	Business owner representative
	Kim, Young-bae	2005.7.6 ~ 2016.7.5	Vice president of Korea Employers Federation	Business owner representative
	Choi, Doo-hwan	2014.9.12 ~ 2016.9.11	Executive vice president, Federation of Korean Trade Unions	Employee representative
	Kim, Gyeong-ja	2013.10.16 ~ 2015.10.15	Vice president, Korean Confederation of Trade Unions	Employee representative
	Kang, Jeong-hwa	2014.9.12 ~ 2016.9.11	President, Consumers Union of Korea	Individually insured representative
	Park, Jong-baek	2014.9.12 ~ 2016.9.11	Lawyer, Korean Bar Association	Individually insured representative

## Participation of Non-Executive Directors in Expert Committees

The NPS runs expert committees that leverage the expertise of non-executive directors, and imposes the right to demand audits to reinforce their independence. New non-executive directors are provided with information necessary to execute their tasks, including an introduction of the NPS and a job performance manual, thus boosting their understanding of the corporation and their ability to make decisions in its interests. In order to fully utilize the expertise of non-executive directors, the NPS runs a business suggestion management system through the Executive Information System (EIS). As a consequence of this setup, 34 out of 47 business suggestions were reflected in new corporate management policy.

## Board of Directors Functions

The Board of Directors meetings are held on a regular basis in February and October, and on an ad-hoc basis upon the request of the Board of Directors or its chairman. In 2014, such meetings were held 12 times. The NPS discloses the attendance of executives at the Board of Directors meetings and the outcome of discussions on the meeting agendas, etc., through its website.

### • Operating Status of the Board of Directors

(Unit: number of times, number of cases, %)

Type	Board of directors meetings held	Agenda submitted	Attendance rate	
			Executive directors	Non-executive directors
2012	10	53	100	93.9
2013	10	56	100	100
2014	12	53	97.2	91.6

## Evaluation and Compensation

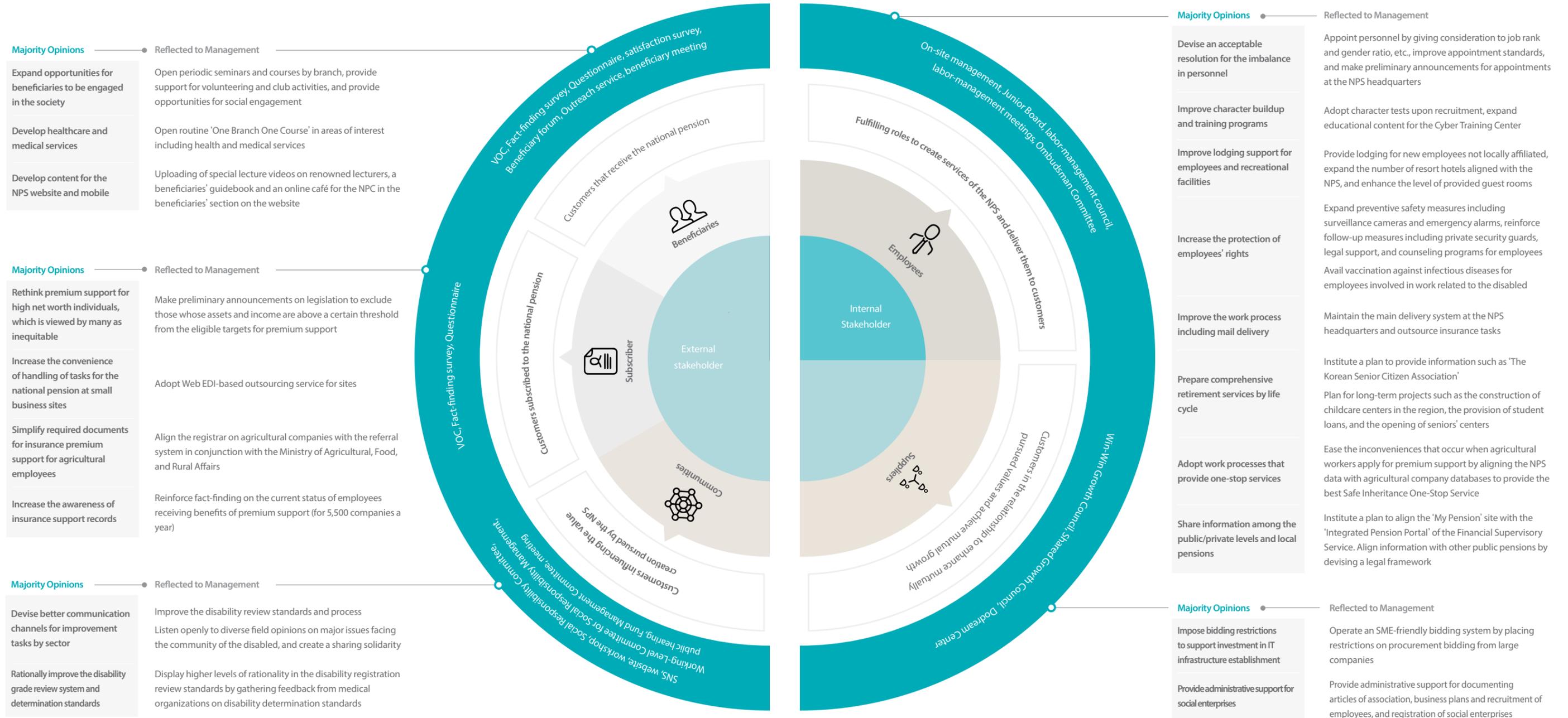
Executive directors are evaluated based on the implementation performance against agreed objectives. Along with the Ministry of Strategy and Finance's evaluation of the performance of public organizations, the president and employees of the NPS are evaluated on ethical management practices and efforts 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. We received a Grade C in the 2014 evaluation; meanwhile, the records on the allowances paid to non-executive directors, as well as the annual salaries of executives are disclosed through the NPS website.

## Fund Management Organizations

Fund Management Committee	The committee is the top decision-making body in the creation of fund management policies, and in deliberating and deciding on major issues pertaining to fund management. The chairman of the committee, which consists of 20 members, is the Minister of Health and Welfare. The committee's meetings are held more than four times a year to approve the Investment Policy Statement (IPS) as an investment policy guideline, the mid-and long-term asset allocation, and the yearly fund management plans.
Evaluation Committee for National Pension Fund Management	The committee consists of specialists in economics, management and finance, and includes accountants and lawyers. As a sub-committee of the Fund Management Committee, it secures expertise in fund management and assists the Fund Management Committee in deliberating and arriving at in-depth decisions on the set agendas.
Council of Experts on Investment Policy	The committee consists of specialists who review and deliberate on NPS investment policies among the matters to be decided by the Fund Management Committee. It advises on major investment policies on fund management including asset allocation, domestic and international alternative investment, foreign exchange hedge, and investment in resources.
Council of Experts on the Exercising of Voting Rights	The committee falls under the Fund Management Committee. It is tasked with making determinations on exercising voting rights on stocks held by the NPS and regularly reviewing proxy voting policies.
Council of Experts on Performance Evaluation and Compensation	The committee consists of multi-disciplinary specialists tasked to raise the performance of fund management by establishing fair performance evaluations in managing the national pension fund, as well as compensation policies to secure and maintain talented personnel.

# Stakeholder Engagement

We strive to listen to the opinions and demands of stakeholders through our various open channels. The NPS categorizes stakeholders into five groups: subscribers, beneficiaries, suppliers, communities, and employees. As part of the NPS's vision on social responsibilities, our relevant units in charge ensure that the interests and requests of each stakeholder group are aligned with value creation.



## Stakeholder Opinion Gathering

# We Are Listening to the Opinions of Our Stakeholders

The NPS communicates with a wide variety of stakeholders by convening the National Pension Fund Committee, Social Responsibility Committee, National Pension Club (NPC), and Shared Growth Meeting. Opinions gathered from such meetings are fully reflected in our corporate management philosophy.

## The 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.

According to the National Pension Act, utmost efforts must be exercised in managing the national pension for the benefit of subscribers. However, the legislation mentions that responsible investment is possible despite conflict of interest with subscribers. This raises the concern that the law may be contravened by the misunderstanding that responsible investment regarding the environment, social and corporate government should be made against the interests of subscribers. In implementing the legislation, raising the long-term yield must be considered when conducting socially responsible investment, but the long-term concept is subject to arbitrary interpretation.

[Member Yang, Jun-mo, Citizens United for a Better Society](#)

Due to this concern, the revised version (draft) of the Act presently includes the phrase "for the sake of increasing a stable long-term yield." If decision-making can prove problematic in the long-term, it should be finally decided by the Committee on Voting Rights Exercise. In this sense, responsible investment focuses on a discourse on whether to invest based on current tangible profits or to make long-term investments with higher returns, which could be ground to possibly conflicting elements.

[Chief Gwon, Jong-ho, Committee on Exercising Voting Rights](#)

The current National Pension Act stipulates that the principle of investment must be based on stability, profitability, and public good. Guidelines on a decision-making exercise must be made based on public good, and in this sense, responsible investment must be interpreted to take place within the scope of public good. Since profitability and public good might sometimes conflict with one another, management must strike a balance between the two. [Member Jeong, Eun-bo, Ministry of Strategy and Finance](#)

The balance must be accepted for government funds such as the National Pension Fund, as there is no verified data on the profitability side. In fact, many public funds in Europe invest based on ESG – whose positive effects, considered by many countries, include clean technologies along with new industries and environmental issues in the economic sense – so many countries pursue this in their policymaking. [Member Kim, Gwang-hi, Korea Federation of SMEs](#)



## The Social Responsibility Management Committee

The NPS launched the Social Responsibility Management Committee to more proactively respond to the demands of the socially responsible management style, both internally and externally, and to listen to opinions from internal and external experts on major activities on a yearly basis. The committee consists of the Chairman & CEO, executives, and the head of each department at the headquarters as advisors on socially responsible management. The meetings are held in the first and second half of the year.

Considering the importance of its institution-level communication, the NPS needs to publish a report whose focus is to communicate with the public. A higher interest in CSR among the public on the basis of the report will lead to a greater demand for stricter standards on socially responsible management, which is a proper pathway toward achieving the goals of this management style. To this end, it is a must to disclose an easily accessible report that is easy to read. Many reports are difficult to understand because they are basically documented from the perspective of the corporate side. Also, it is crucial that employees should also be regarded as customers. It would be a great obstacle if employees were to lack interest in the NPS' socially responsible management, since employees are very close to institutions and deal with all the related tasks. So in order to raise employee awareness in the area of socially responsible management, the NPS should continue its efforts to manage in this style. [Professor Kim, Chang-gwon, Jeonju University](#)

I hope that the report covers not only the existing performance paradigms, but also future ones, including welfare services and basic pension, as readers are keen to know what visions would be provided based on the present performances.

On the other hand, it is regrettable that materiality of employment is given least importance although the materiality test is overall systematic. The issues of employment must be tackled with a stronger commitment. [Planning Director Rhee, Won-hee](#)

The NPS' socially responsible management has been dramatically improved compared to the institution's initial years. For this year's report, an international perspective is needed to further advance our lead in the global pension industry. The Social Responsibility Management Report must well reflect the features of socially responsible management, unlike the NPS annals or the Management Evaluation Report. It is therefore critical to see what values are contained within the framework of the materiality test. Key words must be selected with an emphasis on materiality test keywords and the distinctiveness of the NPS. [Professor Lee, Ui-young, Gunsan University](#)

Instead of confining the pension scheme and fund management to the mere reporting of performance on projects, the Social Responsibility Management Report should address the generated social and environmental values. Communities are engaged in numerous social contribution activities, but the report must also include the types of efforts the NPS puts into balanced regional development following the relocation to the Innovative City of Jeonju. The engagement of internal stakeholders should be strengthened, while it is also important to highlight the efforts made for the benefit of the NPS's internal employees. [Director Park, Jeong-eun, Institute for Industrial Policy Studies](#)



**The National Pension Club**

The NPS first organized the Beneficiary Forum in October 2013. The Forum was further expanded in 2014 and is now in operation under the name of National Pension Club (NPC). Club meetings are held by branch for beneficiaries, who are supported to enjoy enriching post-retirement lives through periodic volunteering, club activities, and promotion of the national pension scheme.

I hope the NPS will extend support for job creation for the elderly and provide job information to beneficiaries to achieve the goal of 'work-to-welfare.' I expect to see the expansion of IT courses and related training facilities/equipment for beneficiaries. Since new and renewable energy has a significant impact on the national economy and shows a high-growth potential, a greater interest in this area would be necessary from the NPS for improved fund management. [Member Jang, Yeong-jin, Siheung Branch](#)

We will take a positive look at the possibility of expanding the list of IT courses conducted by each branch and the installation of more PCs. [Former Operational Director Kim, Min-su](#)

By volunteering to help the vulnerable in local communities, we derive a sense worthiness and meaning in life. However, due to the possibility of injuries and accidents occurring during the volunteer activities, protection measures such as insurance coverage are necessary. [Member Kim, Il-hwan, West-Incheon Branch](#)

I know that insurance coverage for accidents is in place for volunteer work. As we plan to increase the NPC workforce up to 13,000 as of 2015, volunteer work and other activities are

going to flourish. In this sense, preventive measures should be given proper consideration so as to avoid accidents and injuries. [CEO Choi, Kwang](#)

For the Chuncheon Branch, we provide discount benefits to contributors to the NPC for certain medical treatments through a MOU concluded with medical institutions. I think this privilege should be expanded to a national-wide level later on. [Member Kim, Jong-myung, Chuncheon Branch](#)

For the Yong-in Branch, we have managed an Internet cafe ('6090' cafe) for six years and continued to have meetings at the location. Currently, as a part of a talent donation program, we visit local nursing homes and give musical performances by playing the harmonica, accordion, saxophone etc. As voluntary participation in leisure activities increases with people's interest, continued support would be necessary. [Member Yoo, Young-ha, Yong-in Branch](#)



**The Shared Growth Meeting**

The NPS holds periodical meetings on the topic of shared growth with suppliers, aiming to gauge their difficulties and gather their suggestions. The meeting is meant to strengthen communication with suppliers by introducing a shared growth strategy and direction from the NPS and the government and by presenting best practices in this area.

**Ease of Bidding Requirements for SMEs**

Sophisticated expertise is critical in the establishment of an IT infrastructure, but the current company selection process is simply a bidding process, which triggers competition on dramatically low prices. We hope that 'bidding by invitation' will be adopted to prevent any negative effects SMEs might suffer from recklessly driven low bidding prices. Bidding requirements for SMEs must be eased to encourage specialized and competent SMEs to participate in the bidding process.

**Expansion of Sales Channels for SMEs**

In order for SMEs to compete against each other in a fair manner, it is essential to select industry types and product categories for SMEs and thus protect their business domains. Allowing SMEs to compete against large enterprises under the same rules and conditions does not create a fair competition. There is a lack of support for SME sales channels. For areas where competition against large enterprises cannot guarantee a fair outcome, the bidding must be pro-SMEs by restricting large enterprises from entering the bidding. The NPS has recently focused on shared growth and the changes needed have been obvious. We hope that the NPS can continue its commitment to shared growth.

**Payment for Subcontracting**

The issue of payment for subcontracting tops the agenda for subcontractors to the extent of impacting their survival chances. Despite the difficulties confronted by many subcontractors due to the bankruptcy of Company A in 2013, subcontractors have also received much help with payments from the NPS. Continuous support is important to make sure that proceeds are paid to subcontractors in a timely manner by monitoring the payment schemes and systems.

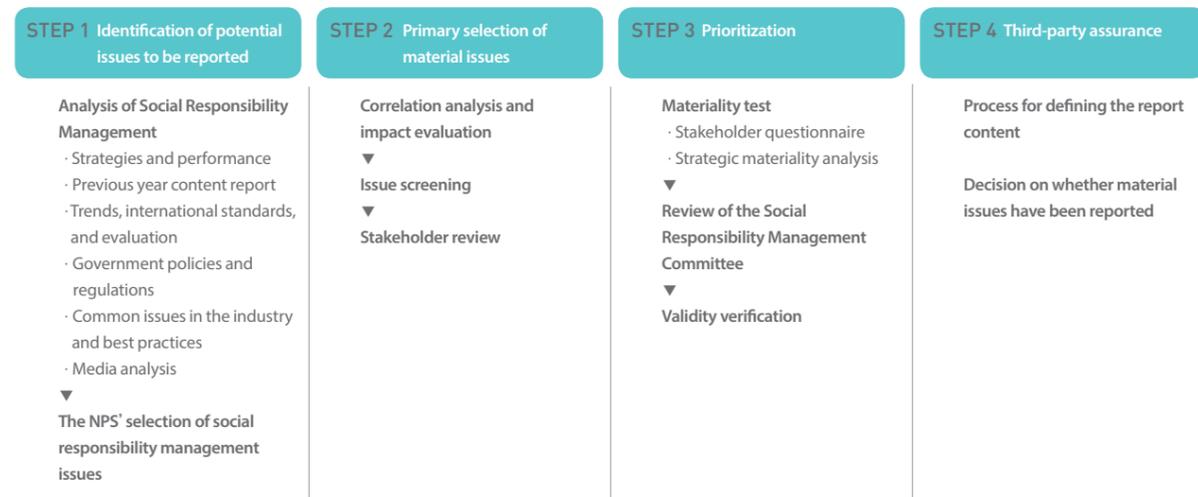
**Administrative Support for Social Enterprises**

The NPS Café 36.5 run by the NPS caters to the underprivileged, and since it has not been stabilized yet, there are challenges that cannot be addressed by social enterprises alone. The NPS' proactive support is essential for somewhat tricky administrative procedures, including those on certification of social enterprises. Continued improvement of the service must also be implemented through user satisfaction surveys and by joint consultation between the café and the NPS.

# Defining the Report Content

The NPS has decided on the content to be reported in the 2015 Social Responsibility Management Report, and has taken the following steps to identify Social Responsibility Management issues to be intensively addressed throughout the year.

## Material Assessment Process



### 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. In total, we identified a total of 236 potential issues for reporting.

Category	Methodology	Number of potential issues
Strategies and performance	Mid- and long-term management performance and goals, business operation plans, management evaluation results, KPI analysis on Social Responsibility Management	38
Reporting content of the previous year	Analysis of major reporting content on Social Responsibility Management from 2011 to 2013	26
Trends, international standards and evaluation	Analysis of major debatable points and issues on Social Responsibility Management (media, academic journals, research papers)	Over 80
	International standard and evaluation criteria analysis including GRI G4, DJSI, principles for the UNGC, and ISO 26000	
	Analysis of content/reports of seminars on Social Responsibility Management in finance at home and abroad	
Government policies and regulations	Analysis of government policies and evaluation standards	71
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	11
Media analysis	Identification of external awareness of the NPS' social responsibility management: 574 news articles from January 1, 2014 to July 31, 2015	10

### STEP 2 Primary selection of material issues

The identified potential reporting issues were primarily selected through correlation analysis and impact evaluation. The impact evaluation process was joined by an internal group of experts and by external specialists on the area of socially responsible management. We applied the size of the impact of social responsibilities by issue, and the probability of the occurrence of risks to the evaluation matrix. We omitted the issues lacking in correlation with and impact on the NPS, and the major material issues that were selected were categorized into seven aspects.

### STEP 3 Prioritization

The selected aspects were prioritized through the stakeholder questionnaire and the strategic materiality analysis. In the questionnaire for stakeholders, we ensured that all the stakeholder groups could participate: employees as value creating customers, subscribers and beneficiaries as value purchasing customers, related institutions and suppliers as value delivering customers, and the general public and communities as value influencing customers. In order to avoid the leniency errors and central tendencies, we designed the questions for stakeholders so as to select highly prioritized issues. A total of 4,773 stakeholders took part in the online survey carried out for 18 days from July 30 to August 18, 2015, and the strategic materiality was analyzed by internal working-level specialists on social responsibility. Analysis was performed on the pension scheme, fund management, anti-corruption, welfare service, communities, shared growth, and employment in terms of prioritization of material aspects and reflecting the stakeholder evaluation and strategic materiality.

For material aspects following the primary selection and prioritization, the content and the decision process were reviewed by the Social Responsibility Management Committee, participated by the CEO, top management, external specialists, and stakeholders. In this process, the opinions of external social responsibility specialists and stakeholders were reflected so that the employment that stood at the bottom of the prioritization could be ranked higher than the shared growth. The reporting aspects decided based on prioritization are subject to validity evaluation. Data for content is collected based on the outcome of the validity evaluation.

• Final prioritization of material aspects

(Unit: ranking)

Material aspects	Major stakeholders by aspect							
	Stakeholder evaluation	Strategic materiality	Final prioritization	Subscribers	Beneficiaries	Suppliers	Community	Employees
Pension scheme	1	1	1	●	●			
Fund management	2	2	2	●	●			
Anti-corruption	4	3	3			●		●
Welfare service	3	5	4		●		●	
Communities	5	4	5				●	
Employment	7	6	6					●
Shared growth	6	7	7			●		

### 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 AA1000AS and GRI G4, and whether or not the information related to selected material issues is well disclosed in the report. The third-party's assurance statement is available on pages 58-59.

# 01

Operation of a Substantial Pension Scheme

NPS is looking forward to providing equitable benefits to every generation.



“The baby boomer generation like myself has had no leeway with breadwinning and child-raising. It is fortunate that the national pension is available. I wish that beneficiary meetings and training to support a healthy elderly life could flourish.”

A beneficiary of the national pension, Lee, Soon-ok (61)

## WHY

Why is a pension scheme material?

The NPS conducts various tasks to ensure the ‘happiness’ of the public throughout their long life journeys. The bottom line aim is a stable management of the pension scheme to guarantee a stable post-retirement life for everyone. The average life expectancy in Korea is 81.4 years, hinting at the fact that Korea is now an aging society. Korea has become a country where the elderly are impoverished, with an elderly poverty rate of 48.5% (as of 2012) and where fewer babies are being born at a birth rate of 1.19 (as of 2013). As a result, the elderly care burden rate per individual has been going up, leading to conflict between subscribers and beneficiaries. The national pension is a social insurance scheme that aims to guarantee a stable post-retirement life for current and future generations, so benefits must be given to all generations. Continuous efforts are thus required to discuss and implement solutions and improvements based on cross-generational equity so that no burden is tilted toward one generation.

## HOW

How is pension scheme managed?

The national pension is growing as a stable welfare scheme with 21.13 million subscribers and 3.59 million beneficiaries, having overcome its share of ups and downs. Nevertheless, there are blind spots in its coverage: cases of people neglected from national pension coverage, or even when covered, cases of people not properly paying their premiums. In light of these concerns, measures to address the blind spots are underway at the NPS to ensure that more people become eligible to receive pension benefits by fulfilling the minimum subscription period. Specifically, women whose careers have been interrupted are allowed to pay premiums later, and unemployment credits are given and premium support is offered to low-income earners. Meanwhile, financial imbalances in the national pension are aggravated despite a significant amount of funding being accumulated each year. The NPS provides accurate information on the national pension to ease public distrust and misunderstanding over the national pension. We will forge an adequate social consensus so that a proper balance can be struck between paying into and receiving national pension, considering the social environment and economic status of the country.

The Number of National Pension Subscribers Increased



From 20.74 million people in 2013 to 21.13 million people in 2014

Beneficiaries of National pension over 61 years old



3.16 million people aged over 61 to receive pension benefits

Provision of Basic Pension



Paying basic pension benefits prior to the implementation of a risk management system; seamless preparation and proactive registration/counseling





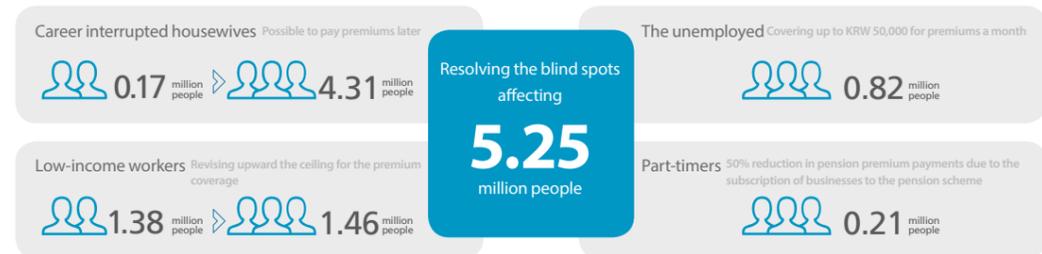
21.13 million subscribers

We will put ourselves in the shoes of the public through communication. We support insurance subscription and manage pension premiums in a equitable manner to ensure that more people can receive pension benefits.

Support for Insuring the Vulnerable

Identification of Eligible Beneficiaries Based on Cross-Institutional Collaboration and Information Sharing Employers of small businesses find it challenging to subscribe to the national pension, as they have to bear an additional burden of social insurance premiums despite the premium support given to their low-income employees. In this regard we cooperate with related institutions (The National Tax Service, Korea Workers' Compensations & Welfare Service, The Ministry of Employment and Labor, and The National Health Insurance Corporation) and share pertinent information with them. The NPS extends programs to scale up the underprivileged subscribers through the identification of eligible targets and support of premium payments. As a result, 562,000 employees at businesses of less than 10 employees have newly subscribed to the pension scheme. Moreover, we encourage the subscription among temporary daily workers with a low subscription rate, utilizing public data such as the income data on daily workers provided by the National Tax Service.

Support for Subscription Through Institutional Improvement We have expanded the opportunities for pension premium payments to more people in preparation for their post-retirement lives. In order to make it possible for women whose careers were interrupted due to childbirth or child-raising to pay premiums after their waiver period, we planed the expansion of the additional payment scheme, and adopted the unemployment credit\* scheme for the unemployed. Moreover, we are in the process of improving the pension scheme so that part-time workers who work over 60 hours per month at more than two businesses can subscribe to the national pension. As a result of revising upward the threshold income for premium support for low-income earners and extending the coverage period, low-income earners and workers in the agricultural/fishing professions can now enjoy better benefits.



\* Unemployment credits: This is a contribution scheme that involves giving credits to job search benefit recipients who wish to pay pension premiums – they pay 25% of the premium out-of-pocket, and the government pays the remaining 75% of the premium for that period, which is later added to the total subscription period.

Proactive Guidance on Subscription for Those Subject to Social Attention For those subject to social attention – including the baby boomer generation (born from 1955 to 1963) – who are struggling to prepare for a stable elderly life on their own, the right to pension is a must. The basic pension program aligned with the national pension subscription period was adopted in July 2014 to more equitably share the pension benefits. Despite this, controversy remained regarding the disadvantaged groups among the insured, leading to an increase of the voluntary subscriber withdrawals. Yet, basic pension benefits are not enough to guarantee a stable elderly life; we therefore extended intensive guidance on the pension subscription to the underprivileged requiring a proper preparation for their later lives. As a result, 603,000 people were newly subscribed. We also provide guidance to underprivileged people who are non-Koreans, North Korean defectors and single parents, so they may secure pension recipient rights.

Insurance Calculation and Support

Accurate Management of the Base Monthly Income Value A, serving as the basis for calculating pension premiums and pension benefits, is computed according to the base on base monthly income (average base monthly income of total subscribers). A higher average base monthly income means a higher Value A so the pension increases. Adequate management of the base monthly income is important to accurately calculate pension benefits. Based on the workers' income data from the National Tax Service, the base monthly income of the insured by businesses is determined and taken care of in an ex-post manner. After identifying the appropriateness of the insured, an amount of KRW 40.8 billion was imposed retrospectively. The tax payment data of the regional pensioners was acquired in advance to additionally impose an amount of KRW 16.4 billion. Based on the adequate management of the base monthly income, the average the base monthly income of the insured went up by KRW 68,000 while Value A increased 3.2%, providing additional benefits of KRW 32.3 billion a year.

Higher Reliability Through Proper Application of Premium Support Benefits We strived to enhance the adequacy of premium support benefits in order to raise the reliability of the premium support program and prevent loss of national treasury by blocking unfair receipt among insurance coverage applicants. To this end, we conducted monitoring to determine whether workers were aware of the premium support benefits, and established a database of unfair recipients to be reviewed, including high net worth individuals and those that stay abroad for long terms, using internal and external review of big data. We strengthened our review to determine whether premium subsidies are properly extended to workers in order to protect the workers' rights.

NPS Service Improvements

Outsourcing Services to Businesses We enhanced the convenience of handling tasks for the national pension, as well as the adequacy in qualification management for small businesses by adopting outsourcing services from professional agencies. The NPS signed a cooperation agreement with heads of outsourcing agencies (The Korean Institute of Certified Public Accountants, The Korean Association of Certified Public Tax Accountants, and The Korea Certified Public Labor Attorneys Association), providing outsourcing services using the Web-based EDI\* for the convenience of small businesses. These services cover such tasks as joint application for four major insurances (entry into a company, resignation, etc.) and proprietary reporting on the national pension (changes in the content, exceptions for payment, etc.). Further details are available on the EDI website of the NPS (https://edi.nps.or.kr).



\* EDI (Electronic Data Interchange): an electronic citizen service that replaces phone calls, faxing, mailing, or visits in person, and provides a public key certificate; it can be used free of charge without membership subscription.

Provision of Customer Convenience by Linking with Agricultural Businesses Registry We can now offer accurate counseling to premium support applicants in the agricultural professions who have registered their agricultural business is possible by linking with the registry\* held and management by the Ministry of Agricultural, Food, and Rural Affairs. The application process has been streamlined by the omission of documents to be submitted for

national treasury support The adequacy of national treasury support can now be checked out in real time. This service turned out to be convenience for those involved in agriculture, and contributed to the prevention of unfair receipt of premium support and loss of national treasury.

\* Registration of agricultural businesses: Registration of agricultural businesses: a system that registers farming information on workers in the agricultural professions, including details on who is doing what kind of farming and how much of it, which enables the integrated management of individual information for each unit of agricultural business.

**Operation of the National Pension Subscription and Reporting Center** There are still cases where workers are disadvantaged: employers avoiding to register their employees for the national pension; employees failing to get any benefits by not applying for pension, although they are eligible to get Durunuri\* premium support (and even with the Durunuri premium coverage, the total amount of premiums are deducted instead of including the subsidies in the employees' wages). Against this backdrop, the National Pension Subscription and Reporting Center functions to prevent the mistreatment of employees and restore their rights. Cases of possible omission from pension coverage can be reported through the NPS website ([www.nps.or.kr](http://www.nps.or.kr)) → Go to the Service → National Pension Subscription and Reporting Center. The NPS will then conduct a review within 14 days from the reporting date, and notify the results to the reporting employees. Employees may also visit a branch of the NPS instead of reporting through the NPS website, or may call the NPS Call Center (dial 1355 without an area code) for details.

\* Durunuri Social Insurance: a program that offers partial cover of premiums for employment insurance and for the national pension to small businesses with less than 10 employees

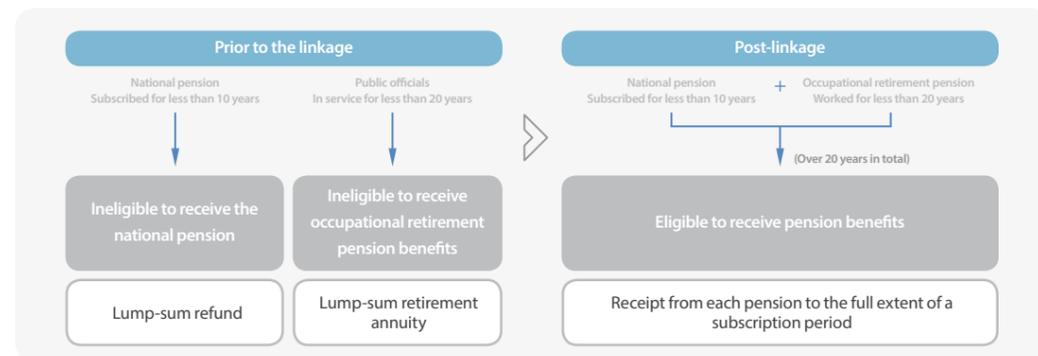
**Protection of the Public's Invaluable Personal Information** Korea has recently been exposed to large-scale cyber infringement incidents. The NPS holds and utilizes a massive amount of personal information, and therefore it needs to preemptively block the theft of this data. In the past, raw data was delivered by the NPS employees in the field to outsourced DM\* companies through a variety of notice letters, in a process that lacked in security and efficiency. As a fix to this problem, we adopted the DM security solution as a first for a public corporation: sending secured DM output files instead of raw data online (via a VPN network, making it impossible to identify the data even upon recovery or theft of the data); and strengthening the security functions of outsourced DM companies (usage of the NPS' exclusive PCs, authority registration/certification, automatic file deletion, and control of the access period). As a result, the frequency of on-site visits decreased and personal information can now be securely protected.

\* DM (Direct Mail): entering a list of customers in a database for promotion/product advertisement, printing it on envelopes or postcards, and sending them to customers' house

\*\* Raw data: initial data that is prepared for computer processing

**Improvement of the Pension System**

**Linkage with the Public Pension** When workers previously moved to another company without fulfilling the minimum pension subscription period for receiving national pension and occupational retirement pension\* benefits, they had to receive the benefits for each work term in a lump sum. We improved the scheme to guarantee a stable elderly life by linking the cross-pension subscription period for pensioners so they may get pension benefits.



\* Occupational Retirement Pension: Civil Servant Pension, Teachers' Pension, Military Pension, Special Post Office Pension, etc. (cases where the pension recipient's rights are guaranteed due to special occupations or qualifications).

As a result of improving restrictive regulations on the application deadline for the linkage and exclusion of calculating the old-age pension benefits, over 14,000 people can now receive public pension. For details, please visit the Public Pension Linkage System website (<http://www.ppsl.or.kr>).

**Expansion of the System to Allow for Delayed Pension Premium Payments** The option of delayed payment of premiums was made available to those who could not easily receive pension in their later lives as a result of being excluded from national pension subscription, including career interrupted women. In cases where workers quit their jobs and no longer had income, (although they used to subscribe to the national pension), if their spouses were already subscribed to the national pension or occupational retirement pension, they were excluded (ineligible for receipt) from subscription, and restricted from making delayed premium payments. However, under the revised scheme, if career interrupted women have previously paid premiums, they are allowed to pay premiums at a later time in the amount of the missed payments, regardless of their spouse's subscription to the national pension or occupational retirement pension. This change is expected to enable 3.9 million people, including career interrupted women, to be protected from the risks of disability or death.

**Improvement of Services for Non-Koreans** The number of non-Koreans residing in Korea amounts to 1.6 million people, among whom there are 230,000 eligible recipients for pension benefits. The NPS is committed to offering benefits of the national pension to these extranational residents in this era of globalization. Counseling centers exclusively designed for the non-Korean community and call centers for counseling in foreign languages are up and running. In particular, call centers for counseling in foreign languages enable non-Koreans to obtain counseling services anytime, anywhere. In order to reinforce the protection of recipient rights of the non-Korean workers, we provide a service that pays lump-sum benefits to non-Koreans at the airport, upon their departure from Korea. Under this service, 13,000 foreigners who have returned to their home countries were able to easily receive the pension benefits.

**Pension Services for All Beneficiaries**

**Finding of Hidden Pension Benefits** Some pension benefits are not claimed by the insured, even if they are eligible to receive them. To address this issue, we repeatedly inform the insured of the need to claim their benefits; however, there are blind spots in this process, especially when it comes to informing those whose whereabouts are unknown, or the socially vulnerable. The NPS is primarily involved in work focusing on the 'claim' rather than on 'informing,' but customized finding of unclaimed pension benefits has been expanded in cooperation with related countries. The number of countries where receipt of pension benefits is possible has gone up under social insurance agreements, and the promoted pension scheme has been able to protect the rights of employees dispatched abroad and of reverse immigrants. As a result, the accumulated claim rate stood at 99.8%, and the number of extranational beneficiaries has increased 9.9% compared to the previous year. For unclaimed benefits, please check our website ([www.nps.or.kr](http://www.nps.or.kr)) →Beneficiaries →Exclusive for Beneficiaries →Application for/Inquiry on My Pension Benefits).

**Protection of Beneficiaries' Personal Information** We established an e-mail address system which we manage securely and efficiently to achieve legal validity of e-mail delivery and offer a solution to personal information loss. For e-mail addresses, the symbol '#' is used in the place of '@', which primarily blocks hacking of the online registration system and enables us to check whether the right e-mail address holder received the delivered information. In order to secure the personal information of beneficiaries, we adopted a mechanism to send secure output files of letters of notice through the VPN network. Upon providing information to outside institutions, pension-related data is encrypted so that the information is only provided in the form of an identifier code that only includes the birth date of beneficiaries. The NPS was ranked first in the Ministry of Health and Welfare's evaluation of the level of management and protection of personal information.

**Provision of Customized Services to Beneficiaries** We strive to provide customized services to beneficiaries by use of a system that identifies the various welfare service demands of the beneficiaries. Based on counseling offered to benefit claimants, a total of 16,098 cases of needs were registered, and a further 12,350 cases of services in 16 fields, including NPS journal subscription and newsletter application, were recorded. In addition to benefit payment,

we provide welfare services to the socially vulnerable in order to fulfill our social responsibilities. Moreover, various events are held for beneficiaries, including celebration events for married couple pensioners aged 80 and above and old-age beneficiaries aged 100 and more, trips for healing one's body and mind, and trips to concerts/sport events.

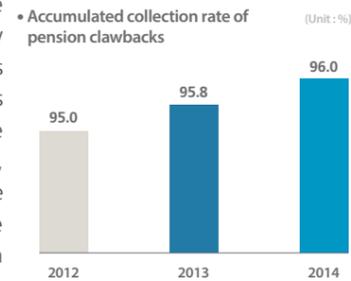
**Accurate Provision of Pension Benefits**

**Launch of the Recipient Review Department** With an increase in the number of beneficiaries, cases of unfair receipt of pension benefits are also on the rise. Preventing fraud and paying pension benefits are essential to our efforts to secure the public's trust and raise the quality of pension services. To this end, the Recipient Review Department functions as an exclusive unit for follow-up management tasks aimed at restoring beneficiary rights, preventing unfair receipt of benefits, and collecting clawbacks in a thorough, fair manner. As a result of its efforts, the amount of dependents' pension reached an additional KRW 2.84 billion for 12,947 pensioners. The clawback occurrence rate vis-a-vis the amount of pension benefits paid reached 0.06%, the highest level globally.

**Accuracy Through a Multifaceted Management System for Pension Benefits** Efforts to make accurate payments of pension benefits are essential, considering the increased complexities of the pension scheme. Due to the buildup of legal revisions as well as the increases in the pension benefits, the NPS paid up to KRW 13.1 trillion in benefits in 2014. Accordingly, transparency and reliability in the handling of tasks have been enhanced based on standardized counseling and registration procedures in order to assure principled payment of pension benefits throughout the whole life of beneficiaries, from initial registration to final payments. A five-step monitoring process prevents possible errors in payment, and enables the preemptive identification of changes in recipient rights, thus preventing pension clawbacks and the need for additional payments. As a result, the amount of clawbacks dropped 10.5%, and the adequate handling rate reached 99.96% in 2014, thus advancing our goals for securing accuracy in payment.

**Preventing Unfair Receipt of Pension Benefits** There has been a rising public concern over the unfair receipt of pension benefits resulting from an increase in the number of beneficiaries, despite the world-class standards in competence and equitability achieved by the NPS. In order to block unfair receipt of pension benefits, prevention must be strengthened prior to investigation. We have a process in place for the early discovery of illegal receipt of pension benefits, which has allowed us to enhance work efficiency by identifying changes in recipient rights through the use of official data gained from cross-institutional collaboration. We were also able to minimize blind spots through tighter on-site reviews and expansion of the high-risk target groups. In 2014 we opened a center to report on illegal receipts, and we continue to discourage such fraud by raising penalties against those who try to unfairly obtain benefits.

**Efforts to Collect Pension Clawbacks** Pension clawbacks occur when one's right to pension benefits expires, is modified, or suspended upon passing away, divorce or remarriage, adoption or cancellation of adoption and failure to report the fact within 30 days of receiving pension benefits. The occurrence rate for clawbacks against pension benefits paid is relatively low, and the accumulated collection rate for completed clawbacks has been maintained at a rate exceeding 95%. The NPS prevents clawbacks that occur inevitably due to delayed reporting, and those who receive them fairly and purposely are subject to stringent disclosure. To this end, differentiated collection activities take place by unpaid type, and the status of pension clawbacks is transparently shared on our website. Some 41 types of official data from 19 institutions, including resident registration data from the Ministry of Government Administration and Home Affairs, are aligned to identify any changes in recipient rights. Investigation to identify recipient rights takes place with the aid of information on people who went missing, information provided by hospitals/medical clinics, and information needed to thoroughly investigate cases where death is concealed. As a result, the accumulated collection rate for pension clawbacks has reached 96.0%, up 0.2% from the previous year, which is the highest level among similar domestic institutions.



Special Report

# Support for Preparing for Post-Retirement Through the Basic Pension

## Adoption of the Basic Pension

The basic pension is a scheme adopted to stabilize the livelihood of the elderly who are not financially prepared to face their silver years. There are many senior citizens failing to receive adequate pension benefits because the history of the national pension is short, which means the subscription period has also been short. The "adoption of the basic pension scheme" as an election pledge was added to the presidential agenda in May 2013, and with the passing of the Basic Pension Bill by the National Assembly in May 2014, the basic pension scheme took effect in July 2014.

## Background of the Program

After the government announced its plan to align the basic pension with the national pension, negative reactions spread out among the public amid controversies related to the proposed measures for adopting the basic pension. People were arguing against a "guaranteed national pension with the basic pension already in place," calling the measures "a loss for national pension beneficiaries." This amplified distrust toward the national pension scheme, leading to a signature campaign against the national pension and the flyaway of 30,000 voluntarily insured persons. The government's bill on the basic pension was submitted to the National Assembly, but differences in opinion between the ruling and opposition parties delayed the passage of the bill, which ended up being ratified only two months before its implementation. This led to an absolute shortage in the program's preparation period, including the setup of the information system, preparation of the working manual, and recruitment of relevant personnel.

## The Roles and Efforts of the NPS

The NPS has focused on implementing the pension scheme seamlessly under a tight preparatory schedule, while laying advance groundwork for the adoption of the basic pension. We operated a crisis management system for the headquarters as well as the branches to ease distrust toward the national pension and to respond to the controversies over the basic pension. To recover the public trust, corporation-wide PR activities were undertaken. A task force for the basic pension came into operation, along with the setup of an information system and the creation of a working manual. We informed beneficiaries how to apply for the basic pension so that they would be guaranteed with a stable post-retirement income, and conducted various activities to ensure that no senior citizen would be left out of the basic pension scheme.

## Performance of Basic Pension

Despite the public misunderstandings of the basic pension in its infancy, the scheme is deemed to be greatly conducive to better life quality during the silver years, with more people receiving both basic and national pension benefits. As of April 2015, 4.41 million senior citizens received basic pension benefits; among them, 4.1 million (93.2%) beneficiaries receive the maximum amount (KRW 202,600). As of the end of last year, the number of beneficiaries of both benefits stood at 1.31 million (30%). According to the survey of the National Pension Research Institute, 95.2% of the respondents said that the basic pension was helpful to their livelihood.

**93.2%** Beneficiaries of basic pension

**30%** Beneficiaries of both basic and national pension

# 02

Stable Fund Management

NPS is managing the national fund in a stable way under 5 principles.



“As an insured, I would like to know whether my pension contributions are under safe and sound management, so that I can be well prepared for the uncertain future and life after retirement”

Subscriber, Han, Ji-hyeon (40)

## WHY

Why is fund management material?

In total fund reserve of KRW 469.8 trillion 45% of the amount, equivalent to KRW 212.4 trillion, has been generated from the fund investment return, which seems to take significant portion of total reserve. As the national pension fund shows gradual increase in the amount, stability of fund management seems to be ever more important with growing influence in the national economy. In addition, revenue generation through fund investment will play meaningful role in the stability of long-term budget operation of the fund, which will ease the financial burden for our future generation as well. There is also a growing attention and interest on execution of voting right, shareholder’s right and responsible investment for the fund.

## HOW

How is fund management managed?

The NPS pursue stable fund management with 5 key values in principle which are : profitability, stability, liquidity, public interest, and independence. Return on fund management in recent years has fallen short to the expectation and somewhat weaker than others, which have raise concern among fund stakeholders. However, considering the nature of pension fund as a long-term asset, average investment performance in a medium-long term at minimum of 5 years seems to be high enough, compared with the pension fund operation in the overseas. The average rate of investment return has reached to 6.21% level, since the inception of pension scheme in 1988. Such accomplishment was possible to be made thanks to the pursuit of stable management focusing on long-term investment with efficient diversification of portfolio in line with proper risk management. In order to better serve social responsibility and public interest with the fund as a public reserve, NPS currently manages KRW 6.0007 trillion of SRI fund (Socially Responsible Investment).

### Average Annual Earnings Rate

6.21%

A high level of earning rates among overseas major pension institutions and a stable outcome achieved in the long-term

\* Japan GPIF 1.61%, Canada CPPIB 5.22%, USA CalPERS 5.45%, Netherlands ABP 5.29%

### Overseas Investments

KRW 102.6 trillion

Reinforcing overseas Investments for generating stable profits

### Recruitment of experts on fund management

69 people

Expansion on the largest expertise on fund management ever





Fund reserves of  
KRW **469.8** trillion

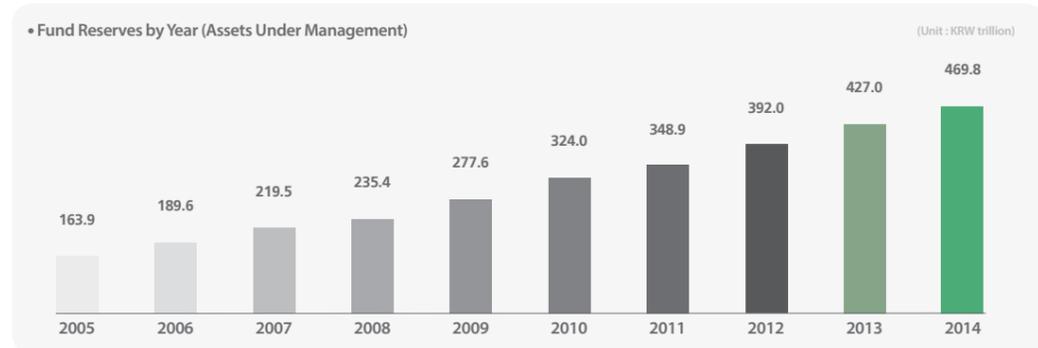
We will gain the public's trust through sustainable and sound fund management.  
We will strive to become a more beloved and reliable institution in the eyes of the public and stakeholders through equitable and transparent fund management processes.

**Management of the National Pension Fund**

**Establishment and Functions of the National Pension Fund** The National Pension Fund was established under the objectives of financing national pension projects in a seamless manner and creating enough reserves for pension benefits. The income source of the National Pension Fund is pension premiums and investment returns. The residual from the income, after deduction of expenses such as pension benefits for pensioners and operation expense for the management, becomes the source of investment. In accordance with the fund investment plan deliberated and approved by the National Pension Fund Management Committee, fund investment will be divided into three major sectors which are financial sectors, welfare sectors and others. Investment in financial sector breaks down to equities, fixed incomes, and alternatives in terms of asset type or to internal management and external management based on the management type.

In terms of investment destination, it can be broadly divided into domestic and foreign investment as well. The initial amount of fund reserves was KRW 530 billion, when pension fund was first launched in 1988, but having increased to staggering figure of KRW 580.3 trillion which becomes the source of spending for KRW 110.5 trillion on pension benefits and KRW 469.8 trillion investments in financial assets.

The amount of assets in terms of market value aggregates to KRW 470 trillion as of late 2014, up KRW 43 trillion from 427 KRW trillion, recorded at the end of 2013. The fund assets consist of the financial interests (99.9%), welfare interests (0.03%), and others (0.1%). In the financial area, domestic fixed income amounts to KRW 260.5 trillion, taking up 55.5% of the portfolio; domestic equities amount to KRW 83.9 trillion, that is, 17.9% of the



portfolio; while overseas equities make up 12.0%, alternative investments at home and abroad 9.9% and overseas fixed income 4.6% of the portfolio. Compared to 2013, the portion of domestic equities, domestic fixed income, and domestic alternatives dropped 1.8%p, 0.6%p, and 0.1%p, respectively, while overseas investments including overseas equities increased 2.6%p.

• Asset Allocation (Unit: KRW 100 million, %, %p)

Type	2013 (A)		2014 (B)		Variation (A-B)	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
<b>Total Assets</b>	4,269,545	100	4,698,229	100	428,684	-
<b>Financial Assets</b>	4,264,473	99.9	4,692,534	99.9	428,060	0.0
<b>Equities</b>	1,283,243	30.1	1,405,409	29.9	122,166	-0.1
(Domestic)	839,381	19.7	839,296	17.9	-85	-1.8
(Overseas)	443,862	10.4	566,113	12	122,251	1.7
<b>Fixed income<sup>1)</sup></b>	2,578,003	60.4	2,820,574	60	242,571	-0.3
(Domestic)	2,393,441	56.1	2,605,382	55.5	211,941	-0.6
(Overseas)	184,562	4.3	215,192	4.6	30,630	0.3
<b>Alternative Investment</b>	403,227	9.4	466,550	9.9	63,323	0.5
(Domestic)	205,407	4.8	221,915	4.7	16,509	-0.1
(Overseas)	197,820	4.6	244,635	5.2	46,814	0.6
<b>Welfare<sup>2)</sup></b>	1,249	0.03	1,264	0.03	15	0.0
<b>Others<sup>3)</sup></b>	3,823	0.1	4,431	0.1	608	0.0

Note1) Including the short-term fund (KRW 1,574.16 billion)  
 2) Welfare: Welfare Town (Cheong Pung Resort), lease of facilities for welfare/the elderly support for credit repair and the emergencies, emergency fund for the elderly (National Pension Silver Loan)  
 3) Others: Operation of the NPS Building, deposit fund.

**Share of the Fund Scale to the National Economy** Financial investments of the National Pension Fund amounts to KRW 469.8 trillion as of late 2014, taking up 32.9% of Korea's GDP. Domestic equity investments of the fund stand at 6.3% as of late 2014, along with domestic bond investments of 13.8%.



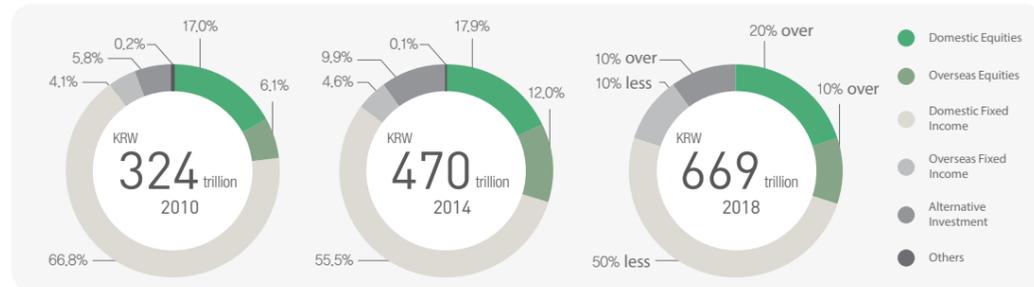
\* Nominal GDP is reflected as of the end of 2014. The percentage against the GDP is compared with the total amount in the financial sector.

**Stable Fund Management** We strive to maximize the management of income under five fund management principles: profitability, stability, public good, liquidity, and independence in management. As of 2014, KRW 212.4 trillion, that is, 45% of KRW 469.8 trillion has been raised as accumulated fund management earnings since 1988. For certain years, return of the fund management was relatively low, but the annualized average rate of return of the National Pension Fund stood at 6.21% since the scheme started, achieving stable performance over the long haul.



**Investment Diversification and Securing of Competitiveness in Overseas Investments**

**Investment Diversification to Secure a Stable Profit Base** In an economy defined by continued low growth and low interest rates, we have expanded investment in global high-yield assets in order to generate stable profits, and we have initiated the development and adoption of new management strategies to help achieve higher profitability. The portions of domestic and overseas equities, alternative investments, and overseas investments have increased from the past, when our investment strategy was mostly oriented toward fixed domestic income. The portion of investment in equities stood at 23.1% in 2010 and increased to 29.9% as of 2014; alternative investments increased from 5.8% to 9.9%; and overseas investments went up from 12.5% to 21.8%. By identifying asset groups and products not previously invested and the conditions attached in order to enhance mid-and long-term management income despite low growth and low interest rates, we plan to continuously diversify investment targets and strategies at home and abroad.



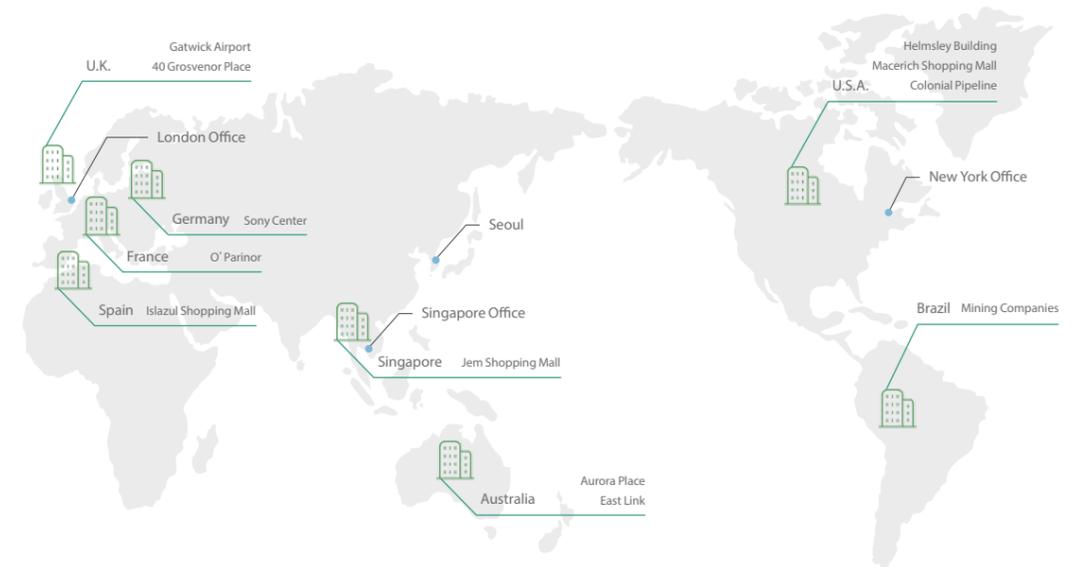
**Expansion of Overseas Investments** A need has emerged for the national pension to step outside the domestic capital market, whose scale is smaller than the fund's, and to minimize the market shock resulting from asset liquidity. We plan to raise the stability of our portfolios through globally diversified investment and expand new investment targets to include assets structured for various types of incomes and risks. Since the beginning of the national pension's overseas investments (KRW 100 billion) in 2001, the amount of the fund's overseas investments has continued to rise, reaching KRW 102.6 trillion as of 2014 (21.8%). The portion of overseas investments is expected to steadily increase up to 2019 (to exceed 25%), and its value is expected to reach about KRW 200 trillion. There are Global Equity Division and Global Alternative Division under the Fund Management Office for global investment. Following the opening of New York Office in 2011, London and Singapore office was launched in 2012 and 2015 respectively. For the National Pension Fund, a planning office dedicated to the creation of a master plan for overseas investments was formed mostly from mostly private specialists, in line with our plans to expand overseas investments. We have clarified our strategies for overseas investments and execution tasks for the next five years, based on which we plan to devise and execute detailed plans.

(Unit: KRW trillion, (%))

Type	2010	2011	2012	2013	2014
<b>Total Fund</b>	324	348.9	392	427	469.8
<b>Overseas Investment</b>	40.6 (12.5)	45.9 (13.2)	64.1 (16.3)	82.6 (19.4)	102.6 (21.8)
<b>Overseas Investment</b>					
Overseas Equities	19.9	19.7	31.3	44.4	56.6
Overseas Fixed Income	13.3	14.6	18.1	18.4	21.5
Overseas Alternative	7.4	11.6	14.7	19.8	24.5

**Expansion of Overseas Equities** As of late 2014, the amount of investment for overseas equities for the national pension stood at KRW 56,611.3 billion based on current market value, up KRW 12,225.1 billion compared to 2013. In terms of the percentage by region, it stands at 53.5% in the North America and 24.2% in Europe. As for the MSCI AC World Index ex Korea, there was a drop of 3.3%p for the North America and an increase of 0.8%p for Europe. In the overseas equities investments, the yield reached 8.94% due to continued economic recovery in the U.S. and reforms in the emerging Asian markets. With shrinkage of active consignment management due to spreading concerns over the ending of quantitative easing in the U.S., the return has fallen 0.02%p below the benchmark.

**Increasing Earning Rates of Overseas Fixed income** The amount of overseas fixed income investments reached KRW 21,519.2 billion in 2014, up KRW 3.063 trillion compared to 2013. The directly managed fixed income went up KRW 1,723.6 billion, and consignment management increased KRW 1,339.4 billion year on year, so the portion compared to the total financial assets stood at 4.6%, which is similar with the level for 2013. As for the percentage held by type of overseas fixed income, government fixed income and corporate fixed income turned out to be as high as 48.29% and 33.52%, respectively, while government-related fixed income and securitized fixed income were as low as 17.7% and 0.49%, respectively. The return of overseas fixed income in 2014 reached 9.23%, significantly up 0.39% from 2013. Directly managed fixed income exceeded the target by 0.36%p via-vis the benchmark thanks to the effective management of EM fixed incomes of China, etc., as well as the use of currency-specific differentiation strategies. The portion of consignment management soared 0.91% to 9.03% compared to 2013. The excess return of overseas fixed income vis-à-vis the benchmark reached -0.44%p in 2014. The average return for the past three years dropped 0.31%p, while the average excess return for the past five years was 6.10%. The excess yield for overseas fixed income based on US dollars dropped 0.48%p, which is attributable to slowed performance in emerging markets due to shrinkage in the raw materials markets.

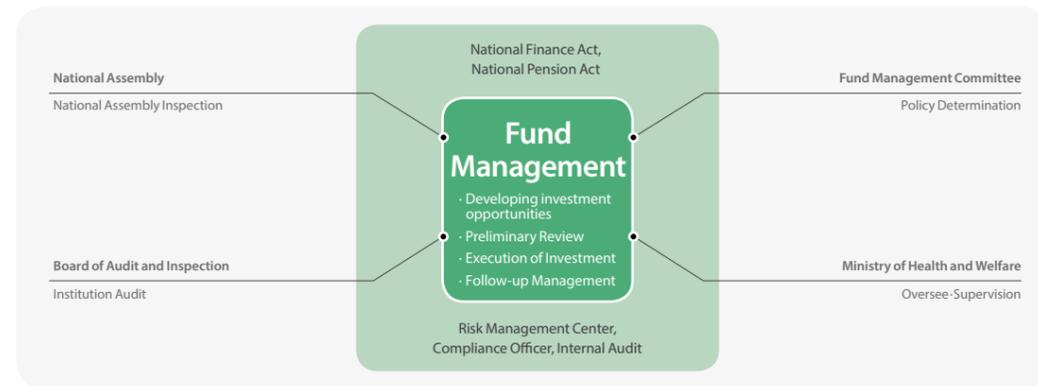


**Increased Rates of Return for Alternative Investments** The amount of alternative investment as of late 2014 aggregates to KRW 46,655 billion with an increase of 15.7% compared with 2013. The total return of alternative investments in 2014 takes 12.3%, showing significant increase from 6.4% of 2013. The return in domestic alternative investments accounts for 9.2%, along with 15.2% of global alternative investment. Such decrease in performance is because of: clearer signals of the U.S. economic recovery, improved performance for enterprises, economic turnaround in the real estate market in major advanced countries, and a lower interest rate.

**Risk Management in Fund Management**

**The Risk Management System** Due to the diversification of its portfolios including expanded investment in risky assets the NPS is striving to strengthen its risk management and capabilities for responsiveness. We manage risks preemptively and systematically to effectively respond to changes in the investment environment through an integrated risk management system that oversees all of the fund's assets. The entire risk management process, including awareness, diagnostics and setup of response measures is constantly reviewed and improved, and preemptive risk management capacities such as scenario analysis have been intensified. Risk management business units have been sophisticated by specific asset group, and their linkage with the fund management performance analysis system has been strengthened in order to support effective investment decision making. In 2014, we carried out initiatives to implement tasks for specific application of national risk management by revising organization of investments, including investment portions by country, refining ways to diagnose the status of risk reduction and outlining guidelines for consignment management. Seeking to beef up risk management for alternative investments, we expanded a list of items for review based on the Key Risk Indicator (KRI). As a result, we can now ensure the diversification of the risks of items under review and the recognition of prevention functions for risk signals prior to yield aggravation. We have also launched the Investment Management Committee as an exclusive follow-up management body tasked to carry out in-depth risk inspection for risky assets.

**Dedicated Risk Management Division** In order to intensively manage risks related to fund management, the NPS has launched the Risk Management Department as part of the Fund Headquarters. The department was subsequently upgraded to the Risk Management Center in 2014. Due to the need to strengthen foreign exchange management capacity and exchange risk management in order to meet increased investments abroad, we launched dedicated division for foreign exchange management. In addition, we operate the Risk Management Committee led by the chief executive as a chairman with members of external specialists. Moreover, the Investment Management Committee as a post-investment management review body that deliberates on major matters related to the post-management of assets acquired by the fund. Internal control of fund management is independently carried out by compliance officers. Internal audit is conducted by NPS along with constant audit by external auditors, the Board of Audit of Inspection of Korea and the National Assembly.



**Risk Management for Global Investment** It has become essential for us to strengthen foreign exchange management functions due to expanding portfolios of overseas investment. In this regard, we devised measures for risk management as we started to manage short-term funds in foreign currencies, while reviewing measures to manage exchange risks. We also adopted the country risk management standard for the first time in Korea, taking preemptive approach on different level of sovereign risk by country. NPS internally performed risk rating on 71 countries in total, established risk exposure\* ceiling and selected 5 counties with investment restriction including Egypt. We also came up with measures on the integrated management system for foreign exchanges, setting the appropriate hedging ratio\*\* vis-à-vis the overall overseas investment scale. We strengthened our control over foreign exchange risks by managing the currency basket in consideration of the exchange rate outlook, and established an efficient counter mechanism against foreign exposure risks.

\* Exposure: the amount exposed to risks  
 \*\* Hedge ratio: the unit of futures or option contracts needed for one unit of cash equivalents in using the futures or options market to avert price volatility risks of assets held

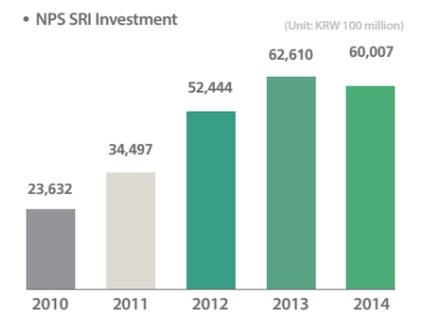
**Reinforcement of the Fund Management Capacity**

**Professional Fund Management Division** The NPS established the Fund Management Division in November 1999 to systematically and professionally manage the National Pension Fund. The division mostly consists of specialists diversely experienced in professional investment including analysis of the financial market, investment in financial products and risk management. Multifaceted efforts are underway to secure human and physical infrastructure to efficiently initiate investment diversification and preemptively respond to changes in the investment environment over the medium and long haul. We will continue to strive in establishing an advanced IT system, creating a stable work environment to secure and maintain competent human resources and improving the compensation scheme.

**Talented Workforce for Fund Management** NPS is taking systematic approach with medium-term workforce plan to strengthen global competitiveness. Under the slogan that the top expertise lies in ability of stable fund management, we explored investment opportunities preemptively. We opened Singapore Office in 2015 to serve as a gateway for global investments, and recruited 69 employees dedicated to fund management. By steadily increasing the number of specialists amid a greater scale of the fund and expansion of overseas and alternative investment, we will ensure that fund amount per manager which stood at KRW 2.2 trillion in 2014, could be reduced to the level of amount in advanced countries. (KRW 0.43~0.91 trillion per head).

**Reinforcement of Public Roles of the Pension Fund**

**Facilitation of Socially Responsible Investment** Considering the impact of the fund on the national economy and a greater national interest in social responsibilities, we are phasing in activities meant to intensify the public roles of the national pension over the medium and long term. We started management of the SRI Fund in 2006 as a form of consignment management of domestic equities, as part of our socially responsible investment strategy. The SRI Fund was worth KRW 6.0007 trillion as of the end of 2014. Its yearly average yield, since its setup until the end of 2014, stood at 6.73%, hinting at an excess yield of 2.93% vis-à-vis the benchmark.



The NPS strives to diversify investment targets by adopting the concept of 'corporate partnership' with domestic enterprises, and seeks for global joint investment opportunities with high-yield domestic enterprises so that new yields and investment schemes can be secured. The targets for corporate partnership have been broadened from the existing high-yield large enterprises to SMEs and mid-sized firms with relatively big growth potentials. Through such partnerships, we have been able to diversify the fund's global investment portfolios and at the same time contribute to the growth of promising SMEs and mid-sized firms. Minimum prerequisites for partnership must be met among domestic management candidate enterprises as we continue to invest in overseas equities and fixed income under the initiative of shared growth with SMEs and mid-sized firms.

**Expansion of External Management** External management of the fund is in place to enhance investment return and hedge risks by leveraging the expertise of external management companies. We have diversified schemes for external management by expanding the utilization of preliminary management companies in the fields of domestic fixed income and domestic alternatives, while expanding the types of domestic equity assets outsourced to external managers. Internal management and external management are used in parallel, giving consideration to the scale of the fund. However, the portion and amount of external management by asset is subject to the approval of the Fund Management Committee. Selection and supervision of management companies must be performed in a fair manner by following the standard guideline. NPS encourages the adoption of GIPS to external managers for the objective comparison on the investment performance. This contributes to the development of the domestic financial in addition to the selection and supervision of consignment management companies. We conduct constant review of the reporting content, the investment records for consignment funds, yields, and trends of management

companies/fund managers of management companies, trustee companies, and rating agencies. We also periodically evaluate and try to determine whether management companies comply with the consignment management agreements and management performance standards in order to decide on whether or not to continue working with any of the associated management companies.

**Voting Right Execution** Voting rights on equities held by the fund are exercised for the purpose of increasing the pension assets. The voting is duly conducted in good faith to benefit of the insured and beneficiaries, and is expected to contribute to the shareholder value over the long term. Standard and procedure as well as public announcement regarding voting right execution will follow the 'Guideline on the Exercise of the Voting Right for the National Pension Fund' prescribed by the Fund Management Committee. In principle, NPS will be the one in charge of voting right execution. However, for decisions with difficulties to reach an agreement, the special committee on voting right execution will make decision instead. In the 2010 Guideline on the Exercise of the Voting Right, it is indicated, "The Fund shall exercise the voting right in consideration of socially responsible investment factors including the environment (E), society (S) and governance (G)." The related guideline was revised in February 2014: "The Fund shall exercise the voting right in consideration of socially responsible investment factors including the environment, society and governance to achieve a stable yield." Since there are differing stances on the exercise of the shareholders' right let alone the voting right, we strive to devise rational methods and procedures to strike a balance between the shareholder value and corporate management right by taking internal and external opinions fully. In order to enhance a long-term investment return, fulfill our roles of an institutional investor as a management watchdog, and contribute to higher corporate transparency and advancement of the capital market, we will do our best to ensure equitability and transparency by comprehensively considering the impact on the market while considering the opinions of experts and stakeholders.

**Transparent Information Disclosure of the National Pension Fund** We transparently disclose information on fund management so that the insured, beneficiaries and other stakeholders can easily understand the operational status and directions chosen by the fund. The head of the Fund Management Committee discloses the following according to Article 107-4 of the National Pension Act and Article 87 of its Enforcement Decree: fund management guidelines, fund management plans, fund management regulations, financial statements, status and yield of portfolio management, records of investments, and records of the exercise of the voting rights. Information on fund management is available on the NPS website (fund.nps.or.kr) and the website of the Ministry of Health and Welfare (www.mw.go.kr). Disclosure of information on the national pension is restricted in cases that might hugely impact the market upon disclosure and thus disrupt the normal operations of fund management. In other words, we strive to disclose the related content as much as possible within the scope of causing no side effects due to the disclosure of the information. This prevents the loss of the pension – an invaluable public asset – due to lower external competitiveness in fund management resulted from excessive exposure of strategies for portfolios and their management, and assures the removal of disruptive factors against equitable transactions in the small domestic capital market. Maintaining transparency of the management of the National Pension Fund and its management performance is essential to build trust among the public and understanding of our relationship with related institutions, as well as maintaining our principles of equitability and good faith. Therefore, We will therefore do our best to disclose information within a rational scope and to maintain the trust in the management of the National Pension Fund.

Special Report

## Depletion of the National Pension Fund

Should I expect to get no pension at all when the fund is depleted?

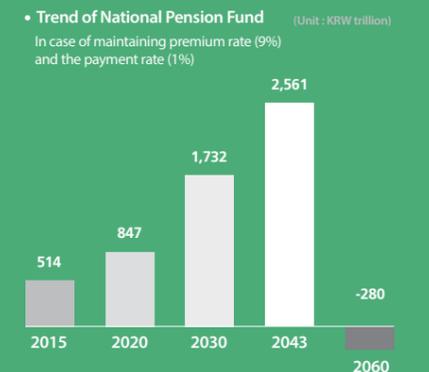
Q. I am 25 years old and I just started working at a company. This year I got paid for first time, and I signed up for the national pension plan. However, I heard in the news that the pension funds will run out in 2060, so even though I'll be paying into the program for 40 years, I won't get any money back. What am I supposed to do?

A. The scale of the National Pension Fund is closely linked to the national pension scheme. In the Korean national pension scheme, which is not fully mature yet, there is a significantly higher number of insured persons than beneficiaries, leading to a buildup of reserves on end. Pension experts categorize Korea's scheme as a 'partially funded system' based on this phenomenon (where a portion of the premiums is paid to beneficiaries in the form of pension benefits, with the remainder accumulated as a fund). The partially funded system will inevitably convert to a 'pay-as-you-go system' once the pension scheme matures. The fund's reserves, now exceeding KRW 500 trillion, will likely reach a peak of KRW 2,561 trillion in 2043. However, as the number of pensioners continues to rise amid low birth rates and aging societal trends, the fund will be subject to greater expenses than premium incomes starting from 2043, and will be depleted by around 2060.

Yet, this projection is merely based on a scenario that maintains the current premium rate (9%) and the payment rate (1%). The government, as the managing entity of the fund, makes estimates of the national pension every five years and amends the fund management plans accordingly. Thus, the fund might increase if premium rates go up and the payment rates are modified through pension reform. In other words, the scheme is constantly being revised to stabilize and finance the national pension and assure its sustainability. Even if the current pension scheme is left intact by 2060 and the fund becomes depleted, pensioners would still get their pensions. In Korea, a part of the premiums is accumulated as a fund, but in advanced countries, where pension schemes have been up and running for over 100 years, a pension fund is accumulated only at the beginning, and once the pension scheme matures, the resources needed to be paid for a certain year are collected in the same year under a pay-as-you-go system.

In the U.S., Japan, and Europe, which have adopted their pension schemes in the early 1900s, their respective funds were almost depleted in the mid-1990s, so these countries now take the pay-as-you-go approach. However, there has been no single country to date that has stopped payment of pensions among the 170 countries that have implemented a public pension system.

Nevertheless, significant anxieties over the pension fund's depletion are attributable to the public's mentality that assumes that the national pension is a form of 'saving,' where you get as much as pay: when the fund is gone, no money will be paid back. However, the national pension is a social insurance whereby the economically active generation supports the previous generation, and the following generation supports the current one, so this form of social insurance should rather be looked upon as cross-generational solidarity.



# 03

Ethical Management with Integrity

NPS will practice clean and transparent ethical management.



“Since the NPS deals with the public’s personal information, it thoroughly reviews whether this information is being used for official purposes through a constant monitoring system, and stringently applies its policies upon identification of any wrongdoings. All employees take part in ethical training and apply these lessons in their daily work with a full sense of ethical accountability.”

Customer Support Division Assistant Manager  
Ahn, Hong-sik

## WHY

Why is an ethical management material?

Ethical management is deemed as a critical factor that can have a huge impact on the sustainability of a company, going beyond a company’s basic steps of achieving compliance. Accordingly, public demand for social responsibility from companies has heightened, and companies that have failed to respond appropriately have become the targets of criticism, putting their survival at risk. Due to the nature of a public institution, its impact on the society is significant, requiring more stringent ethical management principles than a private entity. The NPS, as a public institution that is accountable for the post-retirement life of the public is, no doubt, in operation based on the public’s trust. The principles of ethical management, therefore, will be enshrined more thoroughly, and employees will be required to do their work with an ethical mind-set.

## HOW

How is an ethical management managed?

The NPS has authorized the National Pension Service Charter in 2000 to enact a process of transparent ethical management. In order to put this process of systematic and organized ethical management in practice, we stipulated and announced a code of ethics, a charter of ethics, and a code of actions for employees, in a proactive effort to engage the participation of employees. The NPS places a top priority on ethically managing the actions and value judgments of its employees across all of its management activities. We minimize unjust acts and risks that might result from a lack of ethical awareness on the behalf of employees and suppliers. For this, various systems are in place: the Integrity Pact, an external accounting audit, the mandatory usage of the Clean Card, an electronically negotiated contract system, and the operation of the Clean Reporting Center.

Evaluation of the Management Status for Information Security of Public Institutions

**87.09** points

Awarded the ‘Most Excellent’ grade on the National Intelligence Service’s evaluation for 3 years in a row

Cyber Attacks and Infringement Incidents

**zero**

Achieved ‘Zero’ cyber infringement incidents for 3 consecutive years

Number of Participants in Ethical Training

**11,135** people

Participation averaged 2 times per person through various education programs, including on/offline





Level of ethical awareness among employees

94.5 points

We will enhance reliability by reinforcing ethical management.

We will further strive to raise the stakeholder's trust upon us under the principle on ethics in our decision-making process and actions.

**Reinforcement of the Ethical Management System**

**Ethical Management Values and Implementation of its Principles** The NPS has authorized the National Pension Service Charter in 2000 to put in practice a transparent and ethical management process, and stipulated a code of actions for its employees, which served as the ethical standard for their actions. We strive to create a transparent corporate culture under the goal 'Realization of trusted and clean NPS,' which aligns well with our corporate-wide management strategies. We have made the ethical norms we employ more robustly reflective of our ethics charter, code of ethics, and code of actions.

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

**Improvement of the Organizational System for Ethical Management** In order to systematically respond to such issues as ethics and integrity, the Social Responsibility Management Committee headed by the chairman plays a



key role in making decisions on the direction and action guidance of the ethical management system. The Social Responsibility Management Committee was launched within the Board of Directors to intensify corporate-wide monitoring of the ethical management system we employ. We also operate an Integrity Ombudsman system through use of national pension advisors who monitor the integrity of on-site organizations (by district). In addition, we ensure that members of the Anti-Corruption & Integrity Promotion Group include members of the public to secure transparency, as part of our anti-corruption checks.

**Site-oriented Ethical Management Measures**

**Promotion of Preventive Ethical Measures** We enact preventive ethical measures by identifying the areas of work vulnerable to ethical management based on the analysis of internal and external issues and the gathering of stakeholder opinions. In order to safeguard the management of the fund, we view phone and email usage records and approve the use of email and messenger systems for fund management positions on a quarterly basis, and make use of an exclusive space and personnel in order to maintain information security and block any risks of fund information leakage. We also make an effort to prevent any potential acts of inequitable transactions based on inside information by monitoring the employees' (and their families') dealings in equities associated with fund management. As for the area of contracting, a system to select contracts by evaluators was put in place to enable random selections by the Contract Supervision Department (previously, departments involved in the selection of contracts conducted their own selection of contracting parties).

**Efforts to Promote Ethical Management Measures** The NPS encourages the application of ethical principles in the daily lives of our employees. To this end, we offer incentives, encourage leaders to apply ethics in their work, run integrity action units, and provide integrity training to public officials throughout their service cycle. We offer ethical management promotion programs befitting each category of participants, and provide related institutions with the know-how to prevent bloated management structures within parent companies.

• Operation of Ethical Management Promotion Programs Suitable for Each Class

General Public	Propagating the NPS' commitment for ethical management action including the inclusion of the integrity slogan via available media e.g. ring tone with a message on the NPS at call centers (the number is 1355), letters of introduction to beneficiaries and subscribers
Suppliers	Conducting meetings with suppliers for integrity practice and the sharing of challenges particular to each company * Held in September 2014 with CEOs and employees representing 51 suppliers
Related Institutions	Reviewing activities among participating institutions and sharing best practices by operating an autonomous body for preventing corruption and promoting integrity among related institutions* * Five institutions including the Ministry of Health and Welfare, The National Health Insurance Corporation, and The Government Employees Pension Service
Local & International Communities	Publishing the Social Responsibility Management Report for three consecutive years and conducting activities to endorse the UN Global Compact (UNGC) * UNGC: an international body under the umbrella of the UN that demands companies and institutions to fulfill their social responsibilities

**Ethical Management Training Programs**

**Ethical Training for All Employees** We run layered ethical training programs for all employees, which are different from uniform and standardized ones: Step 1. Overview of basic theories; Step 2. Case studies; and Step 3. Discussions. Various programs are in operation, including online and offline courses. In 2014, 11,135 employees participated in ethical training.

• Operation of Various Online and Offline Training Programs

Type	Program	Personnel
Online	Training on dilemmas of ethical training	2,259
	CSR Cyber Training	498
	Video training on integrity	4,955
Offline	On-site training on integrity	3,392
	Group training	31

**Operation of the Internal Control System**

**Customized Training for Relevant Employees** We offer customized training for employees required to have a thorough sense of ethics. In this regard, we have conducted training on sustainable management to meet ISO 26000 guidelines, as well as intensive training on socially responsible management for employees involved in contracting and leaders expected to practice principles of ethics and integrity. For employees involved in overseas investments, training on the Foreign Corrupt Practices Act (FCPA) aimed to prepare trainees against potential ethical risks in the process of conducting overseas investments.

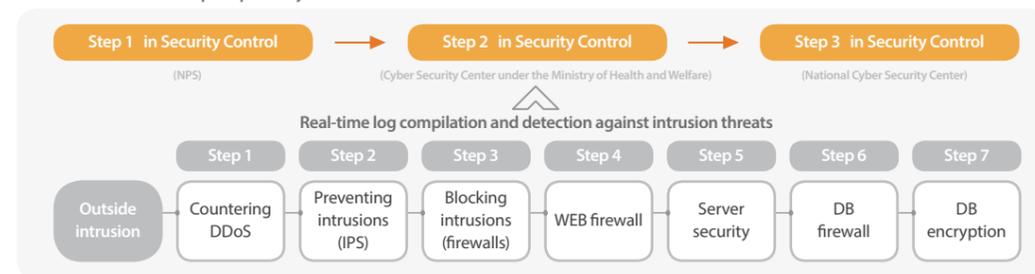
**Higher Expertise and Independence in Audits** We run programs to develop audit specialists, including a system for mandatory taking of audit courses suitable for individual careers and aimed at strengthening expertise in auditing. We have also implemented a promotion system based on the length of service in the Audit Division, and reinforced the Audit Advisory Committee's operations. Additionally, we have expanded collaborative audits led by working-level employees in charge, while also fully utilizing external specialists in order to raise effectiveness in specific-area audits. We strive to achieve more equitable audits by securing independent working conditions for auditors, and by preventing any unfair treatment in the appointment or evaluation of auditors.

**Efficient Management of the Internal Audit System** Current auditing methods need to change with the increase in the number of auditing targets and a changing audit environment. To meet these changes, we put in place risk evaluation models that take job features into consideration, converting to a risk-based audit system focused on four areas (control level, job, customers, and discipline) whereby business units are subject to risk evaluation (eight evaluation items for departments at the headquarters and 13 items for the branches). We have also launched an audit unit tasked to prevent a bloated management system, and an audit unit for reviewing the fund's alternative investments and risk management. Moreover, our IT-based internal audit system, which includes the e-audit system, and the fund audit system have been further strengthened.

**Reinforcement of the Information Security Management System**

**Countermeasures Against Cyber Threats** Thorough inspections and stringent controls must be instituted at the NPS in light of personal information leakage. To this end, we revised upward the position of the CISO (Chief Information Security Officers) to the head of IT Division (an executive level position) and launched the Information Security Department for the exclusive purpose of information protection. We also increased the number of information security personnel to eight, including specialists capable of security management. We are continuously blocking cyber attacks through our 3-Step Response System, and we continue to uncover and resolve weaknesses in security to protect against cyber terrorism threats. As a result, we were awarded the highest level of points (96.9) in the national infrastructure security level inspection, up 3.1 points from the previous year.

• Flow chart for the 3-Step Response System



**Stronger Protection of Personal Information** As we hold a massive amount of sensitive information (such as income information, family relations, etc.), our ability to perform our given tasks is critically dependent on the protection of personal information. When employees seek to access personal information, the due reason is 100% verified by our improved monitoring system. We have also developed the NPS Privacy Impact Assessment (NPS-PIA) model, through which we explore tasks for improvement and take relevant actions. Training on personal information protection takes place for all employees, as suitable for their job type. The managerial level of the NPS is also monitored along with the review of the personal information protection system in all departments

Special Report

## Spreading Best Practices of Ethical Management

NPS recognizes ethical management as a core factor for sustainable growth and development.

### Communicating Our Practices of Ethical Management through UN Global Compact

In order to improve sustainable growth through the pursuit of international standards and corporate social responsibility, the NPS has been in compliance with its corporate citizenship and social justice responsibilities since October 2012, when it joined the UNGC (UN Global Compact), a voluntary and international agreement for social responsibility. The UNGC was created at the proposal of Kofi Atta Annan, former Secretary-General of the United Nations. The Compact was inaugurated in 1999 and launched in 2000 to implement social and environmental principles across the globe. Its purpose is to provide the framework for combining the UN Global Compact's 10 principles with corporate strategy in the form of human rights, labor, and environment, as well as to develop a social rationality among global corporations and markets. At NPS, we communicate our practices of ethical management by forwarding our social responsibility report as a CoP (Communication on Progress) to the UNGC website.

UNGC Enrolled	Communication on Progress	Activity Verification (UNGC)	Impact (Spread)
Declaration of implementing 10 principles in the form of human rights, labor, environment, and anti-corruption	Social responsibility activities: Social Responsibility Management Report	Reviewing the adequacy of the report	Registering the report on the UNGC website

### Sharing the Values of Ethical Management through the UNGC Youth CSR Conference

The UNGC Network Korea organized the 2nd Youth CSR Conference in July 2014 at Kyung Hee University under the theme of 'Challenges for Building a Sustainable Future.' With participating university students and graduate students from ASEAN 5 countries (Malaysia, Vietnam, Singapore, Indonesia and the Philippines), the proposal for the NPS's CSR strategy was selected for an excellence award at the conference. It is meaningful that the NPS, as a member of UNGC, is leading the efforts on socially responsible management and that our employees are doing their best for developing a pension system that is thoroughly communicated to the young generation, who are to be its future pension subscribers.

### Presenting Best Practices at the UNGC Round Table Conference of Korea, China and Japan

The NPS presented the best practices of our ethical management system at the UNGC Round Table Conference between Korea, China, and Japan, which was held in Tokyo in August 2014. This annual conference was started in 2009 in a bid to increase and spread the public's awareness in ethical management and CSR in East Asia through a strengthening partnership among the UNGC network of Korea, China, and Japan. The NPS presented cases of ethical management in areas such as the strengthening of policy for proxy voting rights and the evaluation of ethical management of bidding companies, and revealed our willingness to be an exemplary institution for socially responsible management.



# 04

Community Development and Welfare Services

NPS will grow together with local communities.



“The relocation of the NPS is expected to serve as a new growth engine for the local economy. The know-how and competencies of the NPS will enable local residents to live a better life, and bigger synergies are expected if the NPS continues to serve as a driving force for other institutions that have already been relocated to the Innovative City in Jeonju-si, Jeollabuk-do, for the shared growth in the community.”

Department of Local Economy in Jeonju City Government, Manager Kim, Gi-peyong

### WHY

Why is community development and welfare service material?

Corporate social contribution activities have recently developed in the directions of donation, volunteerism, and resolving social issues in communities. The duties and functions of the NPS are significantly broad and are closely linked to people's lives. We extend old-age pensions to people who have reached a threshold in age and fulfilled subscription requirements, as well as pensions for the disabled and the bereaved with some conditions attached. Moreover, we also conduct tasks in support of the public's preparation for post-retirement life, as well as tasks related to the disabled, including making decisions on the grades of disabilities. Since the scope of stakeholders impacting and being impacted by the NPS is wide, the NPS' roles of contributing to the community and disseminating social responsibilities are becoming ever more important.

### HOW

How is community development and welfare services managed?

The NPS strives to contribute to the society by leveraging its techniques and competencies to the best of its abilities. To this end, we seek to enhance our medium- and long-term competitive edge beyond reaching out to the underprivileged; we also seek to contribute to the growth of communities by developing and running strategic social contribution programs. Since the opening of our headquarters building in Jamsil in October 2011, the NPS has launched 'NPS Café 36.5' in five locations. As a result, some spaces in our buildings could be used free of charge, leading to job creation for the underprivileged and enabling us to fulfill our social responsibilities by donating 50% of the revenues from cafes to those in need. We also support traditional markets to invigorate the local economy (and a certain revenue portion is deducted from the traditional markets and contributed as a social contribution fund), while our employees are proactively engaged in volunteering. We also systematically assist the public in navigating through their elderly life with retirement preparation services.

#### Social Contribution Awareness Survey

1<sup>st</sup> place

Recorded 1st place in social contribution (in the category of public institutions) for 5 consecutive years in awareness surveys of nationwide university students

#### Generation of jobs in the private sector

3,944 people

Launched investment businesses and strengthened private partnerships

#### Satisfaction with the National Pension Silver Loan

91.8 %

Provided KRW 27.6 billion in National Pension Silver Loans





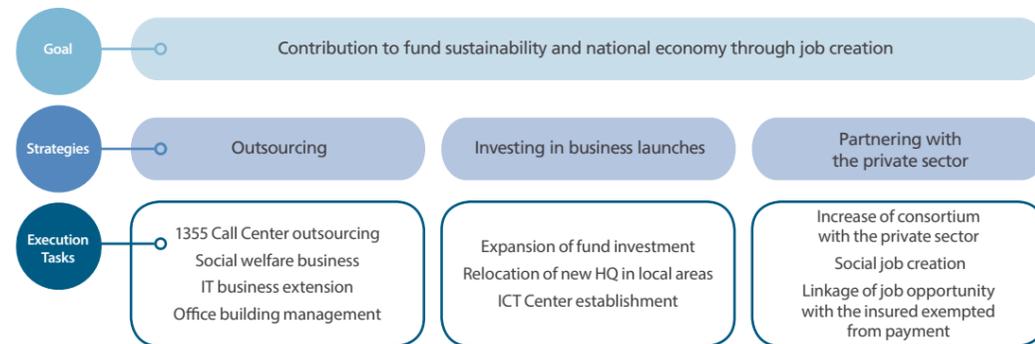
Employee volunteering hours

69.6 thousand hours

We will contribute to community development through social contribution.  
We will instill win-win growth that will spread the culture of sharing and contribute to problem-solving in community.

Efforts in Community Development

**Community Uplifting Scheme** The NPS is deeply involved in resolving community issues, beyond the running of charity work programs. We are creating a virtuous cycle of reducing the number of the insured exempted from payment and expanding the pension recipients' rights by creating jobs in the domestic employment market and resolving labor shortages for SMEs.



**NPS Café 36.5 – Job Creation for the Underprivileged** In order to create new jobs and help the underprivileged achieve economic self-sufficiency, the NPS established the NPS Café 36.5 Cooperative in 2011. The NPS Café 36.5 is a café built on the image of 'a world as heart-warming as the human temperature' (36.5 °C) that sells coffee with a loving attitude 365 days a year. The NPS also avails spaces in its main building for free to these cafés, which recruit the socially vulnerable (basic livelihood security recipients, single parent families, immigrant married women, and career interrupted women). The café sells coffee at lower prices compared to large franchises, uses fair-trade coffee beans produced in Vietnam, Nepal, and other countries, and donates 50% of its sales to those in need. In 2015 we added another Café 36.5 in the Jeonju Branch of our new local headquarters building. Starting with the café's initial opening in the Jamsil Branch, we have expanded the number of branches to include Daejeon, Daegu, Gangnam, and Busan.

**Revitalization of the Local Economy Through Small Business Support** Our 'shopping and delivery service' initiative in the Mangwon markets kicked off with support from the government in the form of labor subsidies, but we

found it difficult to secure sales channels due to a lack of promotion or marketing efforts. To address this setback, the NPS started a program named 'Don't worry Kim Daeri' (a shopping service), aimed at expanding shopping and delivery services to companies. The service provides customized service (slicing, washing, and plating of refreshments and snacks) for the convenience of employees in need of snacks. The Promotion Team at the NPS has promoted the service to various companies through corporate networking, and developed a customer management training program, as well as a brochure. The project was extended to university festivals and alumni reunion events, thus continuing to raise revenues. With its relocation to the Innovative City in North Jeolla Province, the NPS plans to revitalize the shopping and delivery service in the Shin Jungang Market in Jeonju.

Job Creation in the Private Sector

**Job Creation Through the Expansion of Outsourcing** The NPS creates jobs by outsourcing to the private sector in selected areas with high private efficiency and low criticality. The targets include the 1355 Call Center, IT, and facility management, and we minimize the number of non-regular positions and improve the working environment for 'emotional laborers.' The number of outsourced personnel has reached 1,024, up 68 from the previous year, and the rate of employees with a long service period of over 10 years at the 1355 Call Center has increased 19% year-on-year. Despite the economic downturn, we have increased the number of jobs in consignment management companies for fund management, and have induced the conversion of management positions into regular ones. As a result, the number of consignment management funds increased by 26 to 276, while the stability in the management personnel is reflected in the evaluation of consignment management companies.

**Job Creation Through Private Partnerships** The NPS creates jobs by partnering with the private sector in the undertaking of its projects with specific purposes, including the management of the national pension subscribers and providing services for the disabled. In this regard, we signed a business contract with national associations of tax attorneys, labor attorneys, and accountants on the provision of agent services that report on the national pension (340 such jobs have been created so far). Additionally, the NPS took part in job fairs aligned with local governments, and using the information of the insured at our disposal, we brought together the jobless with prospective employers, thus generating 368 jobs. Moreover, we recruited 56 welfare planners who can provide professional counseling based on our available welfare service to the disabled, in tandem with providing other services for the disabled. We have also made efforts to increase job diversification by leveraging our competencies.

(Unit: Number of people)

Type	Total	Contracting-out	Order placement for investment projects	Partnership with the private sector
Regular	3,703	1,254	1,720	729
Non-regular	241	46	139	56
<b>Total</b>	<b>3,944</b>	<b>1,300</b>	<b>1,859</b>	<b>785</b>

Social Contribution Based on Core Competencies

**'Love Plus for Subscribers'** For low-income people requiring stable funding, support to secure the pension recipient right is more essential than any other. We extend contributions for 'Didim Siat Bankbook' (Seed Bankbook) for the self-sufficiency of underprivileged children receiving the survivor pension, while supporting annuity premiums for low-income subscribers including single mothers.

**'Love Plus for Beneficiaries'** We have strengthened our roles as a robust pension management institution by adding social responsibility functions to our given tasks by linking our tasks with social contribution. We have identified 7,777 senior citizens of high age who live alone and have severe disabilities, and duly engaged in heart-to-heart social charity work. A total of 991 employees and operators at the call centers periodically make phone calls to the elderly living alone and engage in a heart-to-heart phone conversation on their pressing issues.

**'Love Plus for the Disabled'** The NPS is engaged in projects to enhance the commitment of the disabled to become self-sufficient. We conduct activities of Egogge Dongmu (shoulder-to-shoulder friendship), engaging talented people with disabilities to care for the disabled with more severe symptoms. In order to resolve the emotional

alienation of the severely disabled, we have changed the focus of the tour programs for the disabled from empathy-based experiences to more experience-oriented ones.

**'Love Plus for Community'** In order to make our communities healthier and happier, voluntary charity work is underway at our headquarters, hoping to take full advantage of local opportunities. We continue to initiate social contribution activities in consideration of community needs, including opening a marketplace for direct transactions of local specialties, improving the environment, and engaging in local events. Our sharing initiatives have spread as far as Cambodia and Mongolia through overseas volunteering efforts, as we have transferred our national pension scheme model to those countries and provided support for residential facilities, thus carrying out our global CSR vision.

**Enhancement of Welfare Services**

**Promotion of Consulting Services on Successful Aging** Thanks to medical advancements, the average life span in Korea has rapidly increased in tandem with a great interest in this leap. As a social insurance institution, the NPS has responded to this public interest by opening the Happy Retirement Plan Center at 152 branches and counseling centers nationwide. The retirement plan service helps the public prepare for their post-retirement life, assisting with finance, health, interpersonal relationships, and leisure. Lectures on 'The Retirement Plan' and on 'Counseling on Customized Retirement Plan' are provided by professionally trained employees. Various other information is offered at 'My Pension' (<http://csa.nps.or.kr>), a website dedicated to the retirement plan. Thanks to site-oriented proactive training sessions and counseling provided, the number of training participants increased by 3,744 and the number of counseling cases went up by 4,289 from the previous year. The quality of retirement plan services was also upgraded, so the public knowledge of the retirement plan showed an increase of 2.1 points year-on-year to 87.8 points.

**Service for Consulting on Successful Aging for the Public** The NPS has operated the CSA (Consulting on Successful Aging) as a public institution since 2008. In 2015, the NPS' Consulting on Successful Aging was selected as 'Korea's Representative Brand' in the old-age welfare service category. Since December 2015, and with the passing of the Act of Old Age Preparation Support, the NPS has been designated as a 'Central Old Age Preparation Support Center.' In this capacity, it manages the development of experts in preparation services for the aged, conducts research, studies, training, promotions, and partners internationally on projects in this field. The NPS' 107 branches are designated and in operation as 'Local Old Age Preparation Support Centers.' They provide CSA services for adequate preparation for the aged in areas of finance, health, leisure and interpersonal relations through diagnosis, counseling, training, linkage with related institutions, and follow-up management.



**Convenient Disability Review for the Disabled** The NPS is a key institution in the provision of welfare services for the disabled, including disability registration review and activity support. With the reshuffle in the comprehensive disability determination system recently emerging as a new paradigm in the disability sector, the importance of the NPS as a disability determining review body has been spotlighted more than ever. We now support the expenses associated with the preparation of documents to be reviewed, and extend services for people with disabilities to receive medical records directly from hospitals. We also provide a convenient disability review process by sharing documents to be reviewed with relevant institutions. The process for reviewing the disability pension and grade has been made uniform – we have streamlined the entire review process so that a review for each step can now be completed all at once.

**Expansion of Activity Support for the Disabled** The NPS provides activity support services for the disabled who struggle to do things by themselves due to physical or mental disabilities, including daily life services such as providing meals, washing one's face, or assisting with movement outside one's house. Once the severely disabled (Grades 1 through 3 and aged six to 65) apply for service to their neighborhood community center or the NPS, they can receive services by being designated as beneficiaries after the NPS completes its determination review and the local government's beneficiary qualification review. The services offered are: Activity Assistance Service, where activity assistants visit the houses of the disabled to help them with physical activities, house chores, and movement; Home-Visit Bath Service, where caregivers bring bathing equipment to bathe the disabled; and Home-Visit Nursing Service, to provide such services as nursing, diagnostic assistance, and mouth hygiene check-up.

• Status of Service Recipients (Unit: Number of people)

	2011	2012	2013	2014	2015.6
	46,621	50,520	60,435	64,419	67,848

**Provision of Emergency Livelihood Funds for the Aged** The loan service for the Old-Age Emergency Fund (the National Pension Silver Loan) is a program that extends emergency livelihood funds to pensioners aged 60 and above. The types of the emergency funds provided include medical expenses, funeral grants, housing deposits/ monthly rents, and disaster rescue with the Silver Loan. The funds are available at all times, and about 7,000 applicants were provided for a total of KRW 27.6 billion. The Silver Loan, which has been up and running since 2012, has contributed to the stabilization of the beneficiaries' retirement age living conditions by expanding loan opportunities to pensioners struggling to get loans through other channels, and resolving the need for emergency funds. User survey results revealed a 91.8% satisfaction rate, with 97.4% of the respondents wanting the service to be continued. The Silver Loan was expected to be in service for three years, but it will continue to stay in operation continuously to provide support to the post-retirement life of pensioners.

Special Report

## Relocation into the Innovative City in Jeonbuk

We strive to seek the best way for mutual living and cooperation.

With the relocation of its main building to the Innovative City of Jeonbuk in June 2015, the NPS has continued on its course for mutual development with the communities in the form of social contribution activities. The NPS has signed the 'Agreement for Mutual Cooperation' with North Jeolla Provincial Government, and decided to recruit over 15% of its local workforce as new employees. It has also signed an MOU with six universities in Jeonbuk to facilitate the development and recruitment of local employees.

Additionally, in July 2014, the NPS signed the 'Business Agreement to Revitalize Traditional Markets' with the Shin Jungang Market in Jeonju, in accordance with the 'Government 3.0' initiative, taking a lead in reviving the local economy. After signing the MOU, the NPS purchased customized summer health products from the market and distributed them to 1,221 seniors living alone across the nation, including 200 living in the Jeonbuk area.

Employees were involved in a tour program with the disabled at the Jeonju City Council of the Jeonbuk Association of Persons with Physical Disabilities, and in a ceremony to launch the 'Jeonju Eoggedongmu Volunteers Group,' which was held with the disabled in Jeonju. The NPS will strive to achieve mutual development with and as a part of the 1.88 million Jeonbuk people through social contribution activities.



# 05

Talent Management with Respect for Employees

The NPS will improve corporate culture and system through respect and understanding.



“I can work in the morning and take care of my child in the afternoon. It is normally difficult to return to work after a childcare leave, but I was even promoted after returning to work, so I can sense that the company is being considerate to me.”

Mokpo Branch of the NPS, Assistant Manager  
Yu, Min-yeong

## WHY

Why is talent management material?

In the present global economic downturn and faced with a shrinking domestic economic growth, securing work force talent is critical for improving our future competitiveness. The NPS selects and develops competent workforce talent through open recruitment, fair appointment, and various competency development programs. We also seek to create a decent workplace that protects the rights of its employees and guarantees the quality of their work and life. The NPS strives to boost the satisfaction of employees by enacting a systematic welfare benefit scheme as a part of the corporate culture. Securing competent employees through these endeavors is a must for the NPS to achieve future sustainable growth.

## HOW

How is talent management managed?

Under the principle of open recruitment, the NPS prohibits discrimination throughout the entire process of recruitment and appointment, and recruits personnel based on their capabilities and competencies. Fair opportunities are created by: recruiting talent in Jeonbuk based on proactive promotion; recruiting based on an open recruitment scheme; and allocating a certain quota of openings to the socially underprivileged. We run a fair personnel recruitment system, focusing on capabilities regardless of academic background or gender. Continued female talent development programs are up for grabs based on a gender-equal corporate culture, leading to a higher rate of women managers. In order to protect employee rights, we operate channels to register employees' complaints on issues of sexual harassment, discrimination, and the working environment, and we enable a seamless follow-up to these complaints through direct communication. We are building a corporate culture that facilitates a happier work life for employees through the expansion of part-time employment and a flexible work scheme that enhances the quality of life for our employees.

### New Recruitment

**422** people

Increasing the organization's vitality by expanding new recruitment

### Participants in Part-time Work

**67.4** %

Establishing flexible work activation plans, revising rules, test-running intensive work, etc.

### Ratio of Female Managers

**14.9** %

The percentage of female managers was up 1.4% from the previous year





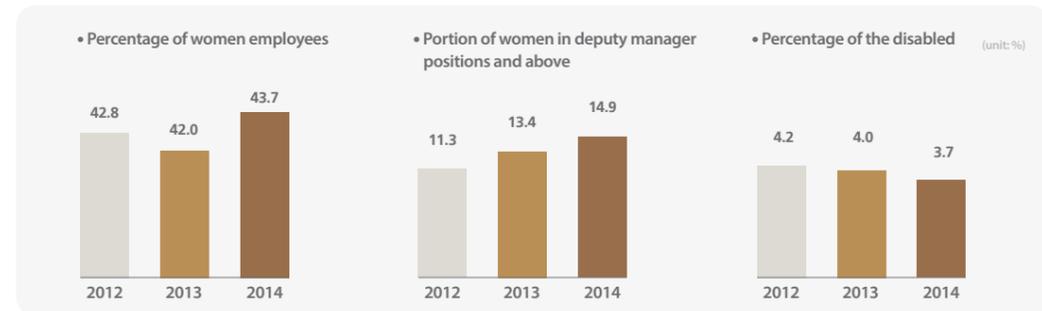
Employee satisfaction level

78.2 points

We will respect the diversity of employees and guarantee equal work opportunities. Employees are stakeholders and members of the NPS. We will strive to offer equitable evaluation and compensation, and non-discriminatory opportunities.

Talent Recruitment

**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 employees at the NPS stood at 4,992.5 as of the end of 2014. By gender, men amounted to 2,810.5, that is, 56.3%; women numbered 2,182, taking up 43.7%. The portion of women managers in team leader positions and above took up 14.9%, up 1.4% from the previous year. The employment rate of the disabled was 3.7%, which exceeds the 3.0% threshold set by the government.



**Change Toward a More Youthful Organization** As a result of analyzing the factors influencing our present labor conditions, we found it necessary to move toward a more youthful organization by recruiting new employees. We thus had to re-calculate the number of new hires due to a massive volume of retirements or resignations. To this end, we newly employed 422 people in 2014, and scaled up regular positions to substitute those on a childcare leave. We also increased the number of options for employees by facilitating honorary retirement for retirement-age employees, while raising the number of specialized personnel. As a consequence, the average age of our employees in 2014 was lowered to 41.0, and the percentage of employees in their 20s went up to 12%.

**Expansion of Employment Opportunities to All Members of the Society** We strive to recruit competent workforce talent suitable to our employee ideal by adopting an open recruitment scheme that looks beyond one's career/academic background. After analyzing the recruitment results, we remove the items least relevant to competencies, and overlook unfair elements in each recruitment step. We also strive to recruit a diversified workforce to fulfill our social responsibilities and roles for a public institution. According to a 2013 recruitment analysis, our performance in open recruitment was superior to those of other institutions, as we recruited a higher number of the disabled, women, local talent, and high school graduates. However, the portion of local talent recruited in areas where we have newly relocated was somewhat low. To address this shortcoming, we implemented a talent recruitment target system in the new areas, creating a total 1,455.5 jobs: 435 interns, 642 employees for counseling, 334 employees in charge of consignment tasks, and 44.5 local employees in the new areas.

Fair Performance Evaluation and Personnel Appointment

**Operation of a Performance/Competency-Oriented Evaluation System** The NPS operates a systematic performance evaluation system based on MBO\*, raising rationality and reliability through step-specific feedback. We spearheaded the adoption of a competency evaluation system based on performance in selecting executives to establish a fairer appointment management system, while raising objectivity based on multilateral validation of candidates to be promoted.

\* MBO (Management by Objectives): It refers to an organizational management system that measures and evaluates track records by setting clear goals for a business unit and its employees and enabling them to put them into action.

**Rational Appointment Management System** The NPS operates a rational appointment management system for competency and performance-based evaluation. In evaluating new employees, we evaluate on their attitude to work, character, and competencies in performing their work. We have also raised the fairness in managing appointments by allocating performance-based positions. Efficiency in organizational management has been boosted through balanced recruitment of personnel by gender and job rank. In addition, we strive to develop individual competencies through systematic management appointments, including promotion, training and compensation for new employees who are high school graduates. Meanwhile, we have continued to offer rational welfare benefits.

Development of Employees' Competencies

**Reinforcement of Specialized Job Training** The NPS makes an effort to develop human resources for each strategic direction it takes by analyzing the competencies and needs of employees. We have so far strengthened on-site leadership training to develop strategic leaders, and adopted senior mentoring in all leadership training courses. Level-specific job training takes place under a mentor-mentee job training program to foster pension experts, and specialized training is available and customized for each area. In addition, our 'Rookie Course' (a one-year course reflecting the features of the entrants) provides corporate culture guidance to new employees. Moreover, we have facilitated learning units and smart learning to create a corporate culture that fosters the growth of each unit and employee. Training on retirement planning is also provided for (expected) retirees among employees, as labor and management leaders have agreed on the necessity of training for retirement preparation.

Strategy 1 Developing strategic leaders		Strategy 2 Fostering specialists		Strategy 3 Reinforcing competencies for new employees		Strategy 4 Creating a corporate culture for mutual growth		
Leadership development	Leadership improvement	Core leaders	Job	Fund	Common	High school graduates	Work-life balance	Learning units
Training for the promoted by job rank	On-site leader training Improvement training for those in their fifth year with their work Development of women leaders	Consignment training for specialized areas (business management, public administration, etc.)	Developing job professionals Job training for each level of difficulty	Developing specialists in global investment Reinforcing operational support	Devising a yearly training scheme	Basic competency development course (support for university entrance)	Improvement in the training system for retirement preparation	Diversification and facilitation of learning units

**Implementation of the Women Talent Development Project** In order to create a gender-equal corporate culture, the NPS has taken measures to ensure no disadvantage might result from taking a childcare/maternity leave. We also prevent career interruption for women by operating flexible work systems, including part-time work and 'flex-time' work. We have also implemented a project to foster the promotion of women by scaling up the number of women managers on end. We are ensuring that many women employees can engage in leadership training and programs for leaders under this project, and continue to allocate women managers to major positions such as compliance officers and the head of the Audit Division.



**Establishment of Sound Labor-Management Culture**

**Efforts to Protect the Rights of Employees** The NPS is making multifaceted efforts to protect the rights of its employees. The Grievance Committee, for example, consists of one representative from the labor and one from the management, in order to efficiently treat grievances and complaints in the workplace. We routinely listen to employees' grievances through the Labor-Management Council, held four times a year. In accordance with the Act on the Promotion of Workers' Participation and Cooperation and the Operating Regulations of Labor-Management Committee, a grievance system has been in operation, resolving 259 cases (69.5%, accepted) in 2012, 183 cases (74.9%) in 2013 and 203 cases (59.1%) in 2014. Additionally, management information system application channels are in operation along with grievance receipt channels for in-house messengers, e-payments, etc. Grievance officers are designated for each department (branch) for the efficient handling of grievances. The Gender Equality Grievance Committee is focused on handling sexual harassment-related grievances in a systematic and thorough manner. The Healing Program ('Report on My Mind') is up and running to protect employees stricken by violent language/actions and sexual harassment due to malicious grievances, and we have also launched a program on a recreational leave for the victims of sexual harassment. Once it is determined that employees stricken by malicious actions are incapable of continuing their work in a proper manner due to psychological shock, they may take a leave of three days is awarded to them by the head of the department.

**Organizational Revitalization through Communication** Transparent management activities are in place based on cooperative labor-management relations. Labor-management communication channels are in operation in two ways: Pending agenda for the two parties is shared based on official and non-official meetings, and bilateral consultative meetings are held to arouse strategic consensus on key agendas. We have also organized labor management seminars that gather top management and all executive members of the labor union to discuss ways to normalize bloated management structures and appointment/evaluation schemes, and to improve the corporate culture. Various site-oriented communication channels are in operation to enable employees to express their thoughts freely and thus facilitate communication with the top management on various ideas from the sites, and to get feedback from them. In 2014, the chairman of the NPS met employees at 76 branches; that year, the NPS took 218 cases submitted for suggestion and resolved 111 of them. Another 107 cases made the last stage, awaiting management decision. Based on this mutual growth effort between labor and management, the NPS was awarded the presidential commendation for labor-management cooperation in May 2014.

- Official Communication Channels**
- Collective negotiations, labor-management council meetings, Long-term Development Committee
  - Holding of labor-management discussions and workshops
  - Seminars on management agenda touring nationwide and workshops for branch heads nationwide
  - Industrial Safety and Health Committee, Grievance Committee

- Non-official Communication Channels**
- Meetings of labor-management representatives, labor-management meetings by region
  - Labor-management strategic council meetings, labor-management work meetings
  - Small-scale vertical meetings for employees, new employee meetings
  - Meetings with former managers in labor affairs, labor union website

- Bottom-up Communication Channels**
- Junior board for each regional headquarters, CS Board
  - Mentoring system, suggestion system
  - Operation of Help Desk for work, and Labor-Management Cop
  - Operation of on-site grievance counseling channels

- Top-down Communication Channels**
- On-site management by the top management and special courses lectured by the top management participating as special lecturers
  - Direct communication channels between labor-management representatives
  - Emotional letters of the chairman (to parents of new employees, etc.)
  - NPS' Daily News, alert on pending management agenda

**Work-Life Balance**

**Easing of Long Working Hours and Creation of Part-Time Jobs** In order to enhance the quality of life for employees and raise work efficiency during working hours, we seek to propagate a culture of leaving work on time, along with an intensive working system. We set intensive working hours (9~10am, 4~5pm) for efficient job performance, minimizing unnecessary tasks, including non-essential meetings, negotiation on work, and phone calls. On the Day of Family Love (falling twice a week, on Wednesday and Friday), employees are discouraged to dine out together or work extra time. Leave Work on Time is announced once a week (on Wednesday) so that employees may leave work on time to spend time with their families. We have simplified the process to apply for part-time work and enabled employees with children aged nine and below to apply. As a result, 58 full-time employees were moved into part-time positions, and we recruited 14 part-timers as regular employees.

**Facilitation of the Flexible Work Scheme** Due to recent government policies aimed at addressing the issue of career interrupted women and continued rise in the percentage of the women employees, we have expanded the flexible work scheme to support the continued social activities of women, and as an alternative, so as to prevent the withdrawal of specialized workforce in fund management, IT, etc. The flexible work scheme is in operation for employees to flexibly adjust their regular working hours in consideration of individual conditions and work situations. The flexible work scheme is categorized into part-time work, customized work time, and flexible working-hour system. Employees may choose a work system that is most suitable to their circumstances from among the three types. The utilization of the flexible work scheme in 2014 reached about 6.6%, and is expected to increase in the future.

**Harmony Between Work and Family** We strive to create a culture where both employees and their families can be happy through a work-life balance. We conduct mentoring concerts for new employees to strike a balance between their life and work, and Happy Mirae Dream training for would-be retirees among employees. The W-Mentoring program is available for women employees returning to work after a childcare leave to support their smooth return to work. We have expanded the period for taking a leave for overseas study for self-development of employees from three to four years, and we are holding seminars in pursuit of GWP (Great Work Place). We have changed the style of work to pursue what is essential (such as one-page reporting) in order to discourage the customary culture of working late at night, and encourage employees to take long-term leaves to enjoy a better quality of life.

Type	Explanations	Targets (Reasons)
Part-time work	Part-time Working four hours a day	Employees engaged in childcare, family care, self-development, pregnancy, arrival/departure traveling long distances, researcher/fund management
Flex-time work	Customized work-time*	Adjusting arrival and departure time Employees engaged in childcare, family care, self-development
	Flex-time**	Adjusting arrival and departure time on Monday and Friday Employees without any connection with a region they have been transferred to

\* Customized Work-Time System: a system to autonomously select arrival and departure time within a statutory hour (8 hours) scope per day  
Working type: Type A (08:00 17:00), Type B (08:30 17:30), Type C (09:30 18:30), Type D (10:00 19:00)  
\*\* Flex-time system: Adjusting arrival and departure time for travelling between one's place of connection and a workplace without changes in the number of working hours (40 hours a week)

**Improvement of the Welfare Benefit System** The NPS has dramatically reduced the welfare benefit system for employees for the sake of rehabilitating management as early as possible. Instead of increasing welfare benefit expenses, we run the non-wage welfare benefit system. We support work-life balance by operating family-friendly programs, and strive to create a happy workplace by revitalizing flexible work. The 'Healing Program' is up and running for the health benefits of our employees as we pay attention to the stress levels of our employees.



# Appendix

Social Responsibility Management Performance  
Memberships & Principles  
Independent Assurance Statement  
GRI Content Index

## Social Responsibility Management Performance

### Economic

#### Statement of Financial Position

(Unit : KRW million)

FY	2012	2013	2014
Current assets	131,388	187,629	171,750
Non-current assets	555,581	674,159	745,486
Total assets	686,969	861,788	917,236
Current liabilities	104,061	124,340	80,131
Non-current liabilities	698,474	840,971	933,445
Total liabilities	802,535	965,311	1,013,576
Deficit	-110,231	-99,513	-95,224
Other components of earnings	-5,335	-4,010	-1,116
Total Equity	-115,566	-103,523	-96,340
Liabilities and Total Equity	686,969	861,788	917,236

#### Statement of Comprehensive Income

(Unit : KRW million)

FY	2012	2013	2014
Operating revenue	12,049,434	13,637,200	14,333,688
Operating expense	12,026,503	13,609,422	14,307,536
Operating income	22,931	27,778	26,152
Other expense	2,610	3,007	3,599
Other income (loss)	-14,908	-18,080	-22,457
Finance income	4,242	5,158	5,655
Finance expense	1,563	1,095	1,110
Profit before income tax	8,092	10,754	4,641
Corporate tax	-	-	-
Net profit for the term	8,092	10,754	4,641
Other inclusive gains and losses (after tax)	-5,335	1,325	2,893
Total inclusive gains and losses	2,757	12,079	7,534

#### Economic Value Distribution

(Unit : KRW million)

Customer (Pension payment)	13,779,943
Employees (Wage, severance pay, benefits )	352,408
Government (Taxes & dues)	25,762
Local community (Social Contribution expense)	820
Suppliers (Purchase from SMEs)	105,100

## Society

### Status of Employees

(Unit: number of employees)

Type	2012	2013	2014
Quota (including 5 executives)	4,604	4,786	5,149
Actual number of employees (excluding an additional quota such as those on childcare leave, etc.)	4,578	4,709.5	4,992.5
Regular employees	4,570	4,709.5	4,992.5
Employees under indefinite term contracts	-	2	7
Non-regular employees	225	605	454
Indirect employment	601	655	673
Women managers	103	129	145
The disabled	209	225	208
New regular employees	Total	183	422
	Women	101	259
	The disabled	-	2
	Local talents (non-metropolitan area)	62	243
Non-regular employees	High school graduates*	38	18
	Specialized high schools	32	-
	Science & engineering majors	78	163
	Total	2,117	1,307
	Interns	304	435
	Counsellors	1,331	616
	Exclusively in charge of con-signment tasks	482	360
Retirement (including the superannuated and honorary retirees)**	44	19	59

\* In 2014, 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 (63%, 266 out of 422), 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.

### Facilitating the flexible work system

(Unit: number of employees)

Type	2013	2014
Part-time work system	43	72*
Flexible work system	Flex-time work	180
	Intensive work	-
		249
		7

\* Recruited 14 people (regular positions), and converted 58 employees in their positions

### Support for childbirth and childcare

(Unit: number of employees)

Childbirth leave prior and post to giving multiple births (120 days for multiple gestation)	2
Hours of maternal protection (reducing two working hours a day for the pregnant of less than 12 weeks and over 36 weeks)	88
Infertility leave (one day each for infertility treatment and egg retrieval)	2
Childcare leave for men (maximum three years)	10
Childbirth leave for one's spouse (five paid days)	68
Infant childcare leave (once a month for childcare of infants less than three years old)	212
Fetus check-up leave (once a month during pregnancy)	131

### Hours of employee training and satisfaction with training

Type	2013	2014	Variations
Number of trainees (number of people)	55,804	63,603	7,799 ↑
Satisfaction with training (number of points)	4.39	4.52	0.13 ↑

### Track Records of the Board of Directors

(Unit: %)

No.	Date	Agenda	Attendance Rate
1	2014. 1. 28	5 agenda in addition to the 2014 business management plan (draft)	90.9
2	2014. 2. 25	6 agenda in addition to the 2013 fiscal year closing for the NPS (draft)	90.9
3	2014. 3. 25	Some revisions for regulations on the organizational title (draft)	90.9
4	2014. 4. 22	3 agenda in addition to some revisions for the regulations on the management of the National Pension Review Committee	81.8
5	2014. 5. 12	Some revisions for regulations on the organizational title (draft)	90.9
6	2014. 5. 27	5 agenda in addition to the second supplementary budget for 2014 (draft)	100
7	2014. 6. 24	3 agenda in addition to some revisions for the personnel appointment regulations (draft)	90.9
8	2014. 7. 16	Composition of the Executive Recommendation Committee (draft)	90.9
9	2014. 8. 28	3 agenda in addition to some revisions for the regulations on the management of the National Pension Research Institute	100
10	2014. 10. 29	7 agenda in addition to the NPS' mid-term management goals (draft)	100
11	2014. 11. 25	3 agenda in addition to changes in the budget for a project to evaluate working capabilities of basic livelihood security recipients (draft)	100
12	2014. 12. 23	6 agenda in addition to some revisions for the Articles of Incorporation (draft)	100

**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 June 2015, 3,913 eligible employees (90.6%) are subscribed to the labor union.

**Promotion of Shared Growth by Leveraging Competencies** We adopted the preliminary management company scheme in 2012 to explore competitive small-and medium-sized management companies by reflecting the features of the national pension and equitably provide opportunities for transactions. We also expand investment in small-and medium-sized venture companies with growth potentials and support SMEs and mid-sized firms lacking in finance to advance abroad. The amount of investment of our fund through the investment fund in venture capital and investment in small-and medium-sized equities funds amounts to KRW 6.0959 trillion in total as of 2014-end. Our fund is striving to promote growth and create an investment atmosphere in related industries by initiating joint investment in promising SMEs and mid-sized firms advancing abroad through the Corporate Partnership Program. Continued expansion of investment in social infrastructure is underway for highways, ports and schools, etc.

Support for companies advance abroad	<ul style="list-style-type: none"> <li>Expanding from large enterprises to SMEs and mid-sized firms as investment targets of Co-Pa Fund* (agreed) KRW 559 billion → (executed) KRW 196.2 billion</li> <li>Singing an MOU for joint discovery of and investment in overseas project with EXIM Bank of Korea** (May 2014)</li> </ul>
Investment in SMEs including venture funds	<ul style="list-style-type: none"> <li>Expanding investment through venture funds and small-and medium-sized equities funds, etc. with great potentials (Venture fund) KRW 559 billion newly agreed upon, and KRW 265.9 billion executed for investment (Investment in small-and medium-sized equities funds) KRW 5.3 trillion (2013) → KRW 5.689 trillion (2014)</li> </ul>
Management of preliminary management companies of small-and medium-sized equities funds	<ul style="list-style-type: none"> <li>Operating the preliminary management companies of small-and medium-sized equities funds to raise interest in the small-and medium-sized equities funds and discover competent management firms (4 companies, KRW 141 billion) → 2 of the companies promoted as regular management companies</li> </ul>

\* Private equity fund formed for the purpose of overseas M&A

\*\* Raising stability in investment by leveraging debt guarantee of EXIM Bank of Korea for overseas alternative investment

**Support for Stronger Competitiveness of SMEs** The NPS continues to initiate performance sharing tasks in consideration of features of the institution. Performance sharing refers to mutual sharing of performance of trust companies' support for trustee companies among the two sides. In order to propagate performance sharing with partner companies, we initiate performance sharing with call centers and with IT maintenance companies, consign the management of resorts and extension of free-of-charge lease for social enterprises that are small in scale.

**Pension Premium Support for SMEs** In order to secure the pension recipient rights of the underprivileged including low-income workers and ease the cost burden of SMEs, we have supported pension premiums for low-income workers whose income falls below the threshold income level\* for a business with less than 10 employees since 2012. Premium support worth KRW 985.5 billion has been extended to 2,253,000 workers by 2014.

\* Threshold income level for premium support: KRW 350,000~KRW 1.25 million (2012) → Less than KRW 1.3 million (2013) → Less than KRW 1.35 million (2014)

**Efforts to Settle Fair Cooperative Relationships** The NPS has expanded the direct payment for service proceeds to raise transparency in subcontracting fee payment to secondary and tertiary partner companies. We also adopted the Payment Monitoring System (PMS) while transparently disclosing the payment status. We have also expanded the scope of advance payment, contributing to the financial shortage of such companies, and made 100% advance payment for 16 of the cases applying for advance payment.

(Unit : KRW 100 million, (%), (Number of cases))

Type		2012	2013	2014
Records of purchasing products from SMEs	Total amount of purchasing SME products (A)	703	748	1,051
	The budget for total purchase (B)	937	960	1,287
	A/B	(75.0)	(77.9)	(81.7)
Performance in financial support	Advance payment	(23)	(23)	(16)
	Payment of subcontracting price	(11)	(99)	(37)
	Support for overseas advancement	1,300	4,300	5,400
	Investment in SMEs including venture capital investment	54,000	59,000	60,959

## Environment

**Efforts to Reduce GHG Emission** With establishing greenhouse gas emission management system in 2011, NPS reviewed and controlled the source of green house gas over all buildings and vehicles across all the branches as well as own buildings etc. Total emission of green house gas in 2014 was 7,833 tCO<sub>2</sub>e, which NPS reduced 18.8% of the emission against emission standard (9,649 tCO<sub>2</sub>e).

### Greenhouse Gas Emission

(Unit : tCO<sub>2</sub>e)

Type	2012	2013	2014
Direct emission	7,831	9,094	9,649
Indirect emission	6,905	7,036	7,833
Total	926	2,058	1,815

# Memberships & Principles

## Associations and Memberships

Organization	Organization
Korean Social Security Association	Korea Insurance Research Institute
Social Service Network	Korea Employers Federation
Korean Academy of Social Welfare	PPI (Pac Pension Institute)
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

## Support and Principles

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, labour, the environment and anti-corruption.

<b>Human Rights</b>	Principle 1 : Businesses should support and respect the protection of internationally proclaimed human rights; and Principle 2 : make sure that they are not complicit in human right abuses.
<b>Labour</b>	Principle 3 : Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; Principle 4 : the elimination of all forms of forced and compulsory labour; Principle 5 : the effective abolition of child labour; and Principle 6 : the elimination of discrimination in respect of employment and occupation.
<b>Environment</b>	Principle 7 : Businesses should support a precautionary approach to environmental challenges; Principle 8 : undertake initiatives to promote greater environmental responsibility; Principle 9 : encourage the development and diffusion of environmentally friendly technologies.
<b>Anti-Corruption</b>	Principle 10 : Businesses should work against corruption in all its forms, including extortion and bribery

## Principle for Responsible Investment

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.

Principle 1	We will incorporate ESG issues into investment analysis and decision-making processes.
Principle 2	We will be active owners and incorporate ESG issues into our ownership policies and practices.
Principle 3	We will seek appropriate disclosure on ESG issues by the entities in which we invest.
Principle 4	We will promote acceptance and implementation of the Principles within the investment industry.
Principle 5	We will work together to enhance our effectiveness in implementing the Principles.
Principle 6	We will each report on our activities and progress toward implementing the Principles.

# Independent Assurance Statement

To the Readers of NPS Social Responsibility Management Report 2015:

## Foreword

The Korea Management Association Registration Inc. (hereinafter "KMAR") has been requested by of National Pension Service (hereinafter "NPS") to verify the contents of its Social Responsibility Management Report 2015 (hereinafter "the Report"). The NPS is responsible for the collection and presentation of information included in the Report. KMAR's responsibility is to carry out assurance engagement on specific data and information in the assurance scope stipulated below.

## Scope and standard

The NPS describes its efforts and achievements of the social responsibility activity in the Report. KMAR performed a Type 2, moderate level of assurance using AA1000AS (2008) as an assurance standard. KMAR's assurance team (hereinafter "the team") evaluated the adherence to Principles of Inclusivity, Materiality and Responsiveness, and the reliability of the selected GRI G4 indices as below, where professional judgment of the team was exercised as materiality criteria.

The team checked whether the Report has been prepared in accordance with the 'Core Option' of GRI G4 which covers the following:

- **Reporting Principles**
- **General Standard Disclosures**
- **Specific Standard Disclosures**
  - Generic DMA of each of the following material aspects
  - Economic Performance: EC1
  - Indirect Economic Impacts: EC7
  - Procurement Practices: EC9
  - Emissions: EN15, EN16
  - Employment: LA1, LA2
  - Training and Education: LA10, LA11
  - Diversity and Equal Opportunity: LA12
  - Labor Practices Grievance Mechanisms: LA16
  - Local Communities: SO1, SO2
  - Anti-corruption: SO3, SO4, SO5

This Report excludes data and information on joint corporations, contractors, etc., which are outside the organization, i.e. NPS, among report boundaries.

## Our approach

In order to verify the contents of the Report within an agreed scope of assurance in accordance with the assurance standard, the team has carried out an assurance engagement as follows:

- Reviewed overall report
- Reviewed materiality test process and methodology
- Reviewed sustainability management strategies and targets
- Reviewed stakeholder engagement activities
- Interviewed people in charge of preparing the Report

## Our conclusion

Based on the results we have obtained from material reviews and interviews, we had several discussions with the NPS on the revision of the Report. We reviewed the Report's final version in order to confirm that our recommendations for improvement and our revisions have been reflected. When reviewing the results of the assurance, the assurance team could not find any inappropriate contents in the Report regarding compliance with the principles stipulated below. Nothing has come to our attention that causes us to believe that the data included in the verification scope are not presented appropriately.

- **Inclusivity** Inclusivity 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 that the NPS has 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 sustainability performance and is realized through decisions, actions, and performance, as well as communication with stakeholders.
  - The assurance team could not find any evidence that the NPS' counter-measures to critical stakeholder issues were inappropriately recorded in the Report.

We could not find any evidence the Report was not prepared in accordance with the 'Core Option' of GRI G4.

## Recommendation for improvement

We hope the Report is actively used as a communication tool with stakeholders and recommend the following for improvements.

- The NPS has been implementing socially responsible management activities according to core issues appropriately identified by its stakeholders. Furthermore, we suggest that the NPS advances the goals of socially responsible management with stakeholders by improving the evaluation process of Social Responsibility Management activities in accordance with the stakeholders' views.
- The social responsibility concept includes a balanced approach into triple bottom line, e.g., economic, social, environmental aspects. Although the NPS has low impacts on environment as it is a non-manufacturing organization, the NPS needs to improve contents of environmental aspects in the next report to achieve a balance of social responsibility.

## Our independence

With the exception of providing third party assurance services, KMAR is not involved in any other NPS' business operations that are aimed at making profit in order to avoid any conflicts of interest and to maintain independence.

Nov, 9th, 2015



*K. H. Park*  
CEO Ki Ho Park

# GRI Content Index (Core Option)

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## SPECIFIC STANDARD DISCLOSURES

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