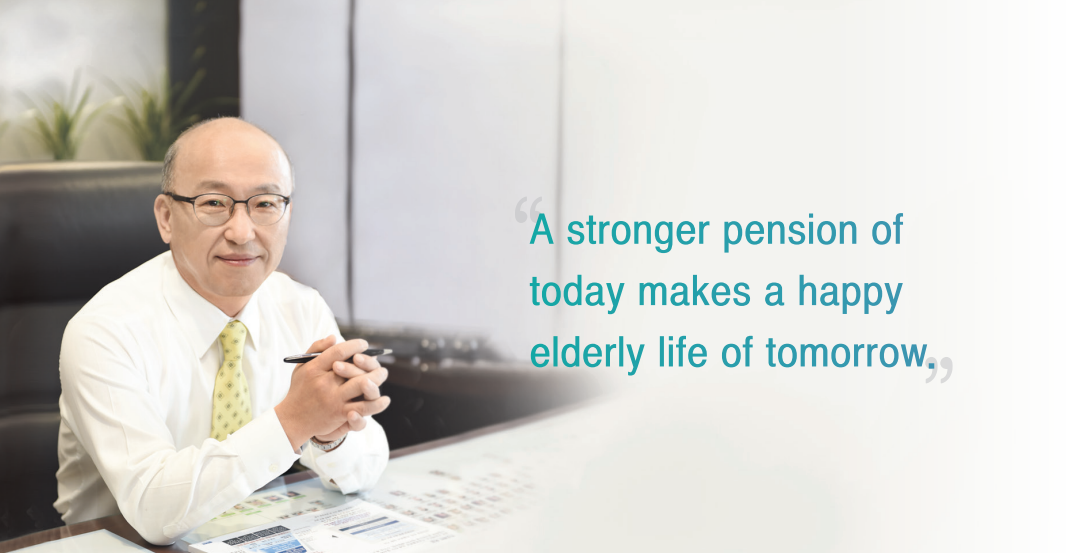


Building up Trust between generations

Social Responsibility Management Report 2016





“A stronger pension of today makes a happy elderly life of tomorrow.”

We appreciate your warm interest and love for the NPS this year again.

Guaranteeing a Stable Elderly Life for the Public The NPS has 21.57 million subscribers among the public in Korea along with as many as 4.03 million beneficiaries as Korea's largest public fund and the world's third largest pension fund. The NPS strives for the subscription of the underprivileged in preparation for their elderly life through support for premium payment. Its goal is to play its essential roles as a public pension service provider to help the whole public prepare for their elderly life. The NPS plays its roles as an institution for intermediary schemes for the entire public to prepare for their post-retirement life, while stabilizing the basic pension to ease poverty of the elderly. The accuracy rate in determining pension payments was raised to 99.94% to bring up reliability of the pension, thereby presenting the NPS' utmost efforts to pay the accurate amount of pension benefits. The NPS achieved the highest earnings rate of 4.57% in 2015 among the world's six pension funds. The NPS' stable performance over the medium and long haul is manifested by its average annual earnings rate of 4.7% for the past five years and that of 5.5% for the past decade.

Social Responsibilities of the NPS As the portion of the national pension in the national economy is rapidly expanding, its social responsibilities and roles are on the rise. The NPS is grounded in the applicable law for implementing responsible investment for the first time as a domestic pension fund management institution. The NPS also proactively exercises its voting right, while managing the SRI fund of approximately KRW 6.85 trillion. The NPS is contributing to community through its social contribution driven by core competencies: enrichment of its welfare service for the disabled, stabilization of the basic pension, upgrading of the welfare service for the underprivileged, creation of jobs in the private sector, and management of NPS Cafe 36.5.

The NPS will further strive to serve as a national pension service provider trusted by the public by scaling up its scheme and fund management through endless changes and innovation.

Thank you.

문형준

Moon, Hyung-pyo

August 2016. Chairman & CEO National Pension Service

NPS Overview

The NPS was established in September 1987 for the purpose of enhancing the welfare and creating a stable livelihood for its contributing members by providing pension benefits for old age, disability, and death. As of the end of 2015, we are providing pension service to 21.57 million insured and 4.03 million beneficiaries, and managing a fund of KRW 512.3 trillion.

As of December 2015

Name of corporation	National Pension Service
Location	180, Giji-ro, Deokjin-gu, Jeonju-si, Jeollabuk-do, Korea
Number of employees	5,230
Organization	Headquarters: 12 departments, 2 centers, NPS Fund Investment Office, Compliance Officer, National Pension Research Institute, IT Planning Regional offices: 7 regional headquarters, 107 branches Overseas: New York office, London office. Singapore office
National Pension Fund	KRW 512.3 trillion

Key Businesses of the NPS



Service 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 service

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



Welfare service

- » Provides retirement planning services
- » Conducts disability registration reviews and provides support for the activities of the disabled
- » Avals 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

Asia Asset Management
'The top excellence at pension fund'
'The top excellence prize at responsible investment awards'

Regional Social Security Forum for Asia and the Pacific
2015 'The special prize in the good practice award for Asia and the Pacific'

LACP Vision Awards
The grand prize in the area of sustainable management at the LACP Vision Awards

Recognition as the most excellent company in social contribution among public organizations chosen by university students for six consecutive years

Social Responsibility Management System

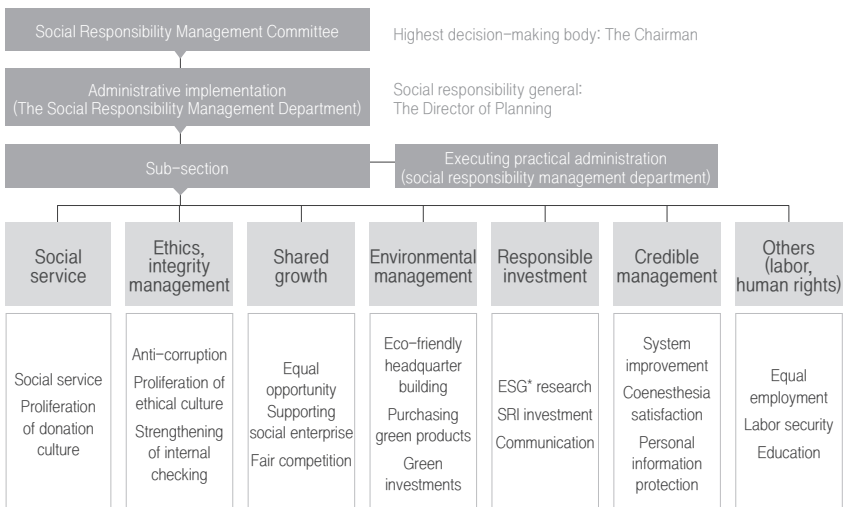
Social Responsibility Management Strategies

The NPS is a comprehensive welfare service institution covering all three major social security areas: public aid, social insurance and welfare services. Our social responsibility management is a core element for sustainable growth, and its purpose is aligned with the corporate vision.

Vision	Nice Partner for a Successful Life					
Strategy	Sophistication of institution management for sustainable growth—raising people's trust and social responsibility					
Social responsibility management goal	A happy community and a warm-hearted society					
Strategy implementation	Ethical management	Environment management	Social contribution	Responsible investment	Shared growth	Strengthened social trust

Promotion System for Social Responsibility Management

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

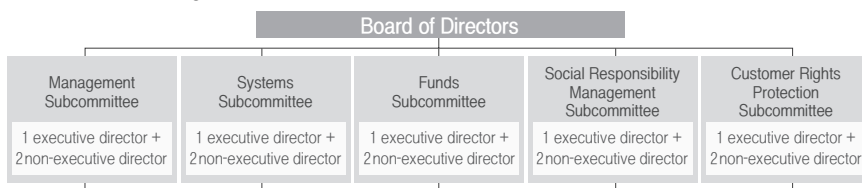


* ESG (Environment, Society, Governance): It refers to the corporate non-financial performance, as related to the environment, society, and governance.

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.



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 2015, such meetings were held 15 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.

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 pension policy director of Health and Welfare.

As of July 2016

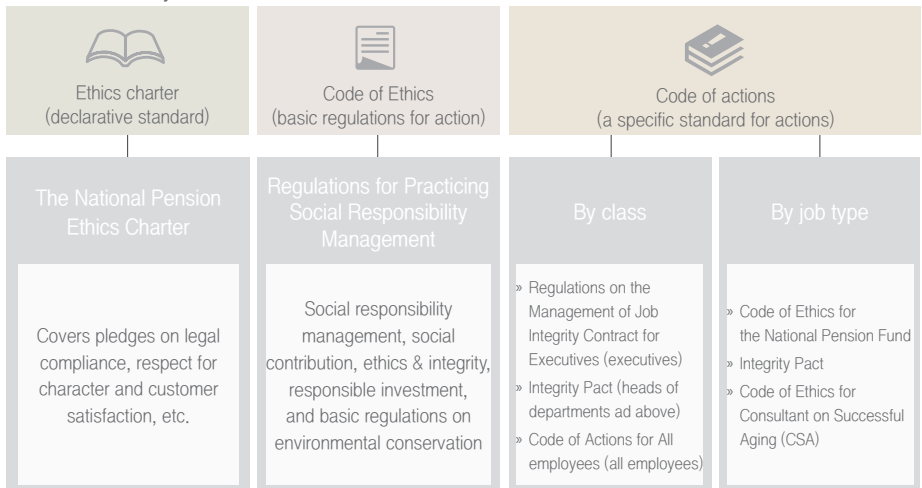
	Name	Organization & Position	Remarks
Executive directors	Moon, Hyung-pyo	Chairman	Chairman of the board
	Rhee, Won-hee	Executive director of planning	Executive director
	Kim, Moo-yong	Executive director of operations	Executive director
	Kang, Myoun-wook	Executive director of fund management	Executive director
	Park, In-suk	Pension policy director of MOHW	Government representative
Non-executive directors	Lee, Seung-cheol	Vice president of the Federation of Korean Industries	Business owner representative
	Kim, Young-bae	Vice president of Korea Employers Federation	Business owner representative
	Choi, Doo-hwan	Executive vice president, Federation of Korean Trade Unions	Employee representative
	Kim, Gyeong-ja	Vice president, Korean Confederation of Trade Unions	Employee representative
	Kang, Jeong-hwa	President, Consumers Union of Korea	Individually insured representative
	Park, Jong-baek	Lawyer, Korean Bar Association	Individually insured representative

Ethical Management

Reinforcement of the Ethical Management System

The NPS has authorized the National Pension Service Charter in 2000 to put into practice a transparent and ethical management process, and stipulated a code of actions for its employees in 2003, which served as the ethical standard for their actions. In order to preemptively respond to the Anti-Graft Act which will be enacted in September 2016, the NPS has specified types of illegal grafts, and come up with a corresponding reporting and handling procedure. As such, the NPS strives to achieve its ethical management goals by completely revising its code of actions for employees.

The Ethical Norms System



Organizational Alignment for Upgrading the Execution Capabilities for Ethical Management






The NPS makes decisions on directions and action guidance for ethical management under the leadership of the Social Responsibility Management Committee headed by the NPS chairman. The NPS launched the Anti-Corruption Group by scaling up and reshuffling the existing department on anti-corruption and integrity in January 2015, and increased the number of personnel for the Integrity Inspection Group. We also substantiated the management of the Ethical Integrity Group in 107 branches, and promoted the activities in the Anti-Corruption & Integrity Promotion Group (Working-Level Promotion Group), Advisory Committee and Integrity Ombudsman. As a consequence of such endeavors, we achieved Grade 1 in the establishment of anti-corruption infrastructure in the evaluation of anti-corruption policies at the Anti-Corruption & Civil Rights Commission.

Ethical Management Training for All Employees

The NPS has run tailored ethical training programs for each rank and job function targeting all employees. Training was attended by a total of 18,158 employees, and one employee, on average, completed training sessions 3.47 times.

Stakeholder Engagement

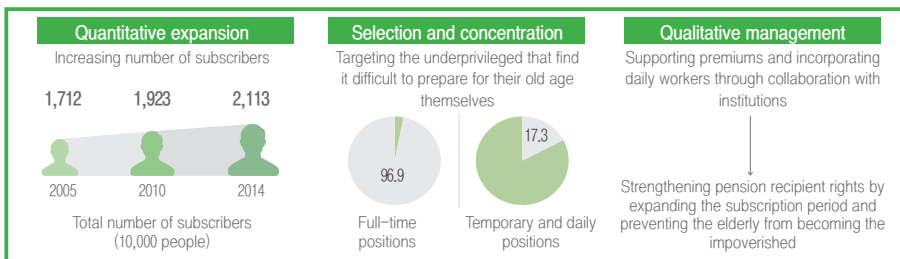
We strive to listen to the opinions and demands of stakeholders through our various open channels. The NPS categorizes stakeholders into five groups: subscribers, beneficiaries, suppliers, communities, and employees. As part of the NPS's vision on social responsibilities, our relevant units in charge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

Type	Definition and channel	Main opinion
Internal Stakeholder	 <p>Fulfilling roles to create services of the NPS and deliver them to customers</p> <p>On-site management, Junior Board, labor-management council, labor-management meetings, Ombudsman Committee</p> <p>Employee</p>	<ul style="list-style-type: none"> » Relocation of headquarters » Improving personnel system
External stakeholder	 <p>Customers subscribed to the national pension</p> <p>VOC, Fact-finding survey, Questionnaire</p> <p>Subscriber</p>	<ul style="list-style-type: none"> » Sustainability of system and fund » Providing convenience for subscribers » Improving rational system » Enhancing work efficiency » Acquiring pension recipient rights for underprivileged
	 <p>Customers that receive the national pension</p> <p>VOC, Fact-finding survey, Questionnaire, satisfaction survey, Beneficiary forum, Outreach service, Beneficiary meeting</p> <p>Beneficiary</p>	<ul style="list-style-type: none"> » Improving Pension benefit system rationally » Thorough notice on claims upon the occurrence of recipient rights » Prevention against non-receipt of basic pension'
	 <p>Customers influencing the value, creation pursued by the NPS</p> <p>SNS, website, workshop, Social Responsibility Committee, Working-Level Committee for Social Responsibility Management, public hearing, Fund Management Committee, meeting</p> <p>Community</p>	<ul style="list-style-type: none"> » Social consensus and efforts for easing the elderly poverty » Supporting old age preparation » Developing the regional economy » Resolving such issues as equity in social insurance subscription for the socially underprivileged and vulnerabilities in recipient rights
	 <p>Customers in the relationship to enhance mutually, pursued values and achieve mutual growth</p> <p>Win-Win Growth Council, Shared Growth Council, Dodream Center</p> <p>Partner</p>	<ul style="list-style-type: none"> » Listening and remedying grievance » Supporting partners' competitiveness

Has the scheme been improved to give benefits to a more number of people and are services convenient enough?



A Paradigm Shift in Pension Subscription The total number of subscribers to the national pension is steadily on the rise every year, and approximately 96.9% of regular employees are insured. Yet, the subscription rate of temporary and daily workers who would require old-age preparation more desperately than anybody else is as low as 17.3%.



Intensive Notification for the Underprivileged The NPS conducted a subscription drive based on scientific analysis on career-interrupted women and baby boomers, etc. who are lagging behind in preparation for their elderly life. The NPS resorted to targeting based on the 'Subscription Possibility Index' and the 'scientific analysis tool' for the underprivileged in old-age preparation. As a result, the NPS incorporated 630,000 workers as those who file their income through a tailored subscription drive sited to subscriber groups, and the number of arbitrary subscribers reached a peak of 240,000.

Establishment of a Pension Safety Net through Institutional Improvement Despite multifaceted efforts for the subscription of the national pension, the underprivileged including part-time workers and minor employees under the age of 18 are excluded from subscription. As a consequence, part-time workers amounting to about 210,000 could gain the recipient rights, which contributed to the government's initiative to 'facilitate part-time jobs' and protected the working rights of minor employees. Moreover, the NPS could pave the way for the premium support of maximum KRW 47,250 a month per individual for 820,000 people a year by initiating the acquisition of pension recipient rights for about 4.46 million career-interrupted women and introducing the unemployment credit scheme.

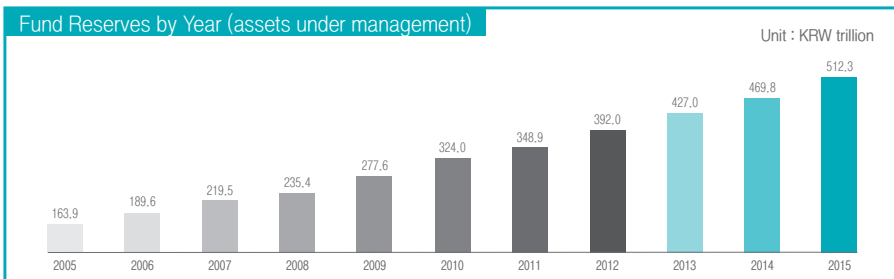
Rational Improvement of the Scheme to be Subscriber-Centered In 2015, the NPS initiated institutional improvement, protected subscriber rights and eased their inconveniences by introducing the daily installment calculation scheme for arrears, expanding the eligible targets and amount for credit card payment, and coming with up a legal ground for installment payment of premium arrears.

Stable Settlement of the Basic Pension The basic pension, an expanded pension of the basic old-age pension, pays monthly benefits of KRW 820 billion to 4.5 million subscribers, taking up 70% of the lower-middle income class aged 65 or older as of 2015-end, that is, KRW 202,600 per individuals a month. The NPS established the 'prevention net against non-receipt of the basic pension', opening up an era of one-person, one-pension whereby 85% of the elderly aged 65 or higher totaling 6.77 million could receive more than one public pension (basic pension or national pension). In the awareness survey on the basic pension, 91.9% of the elderly responded, 'It is very good that it was adopted' and 92.5% said, 'It is helpful to one's living'. According to the research findings of the 'Analysis of Poverty Reduction Effects of the Basic Pension' conducted by Korea Institute for Health and Social Affairs.

Does it have expertise in fund management which the public can trust?



Status of Forming the National Pension Fund The National Pension Fund amounts to KRW 638.6 trillion in total as of 2015–end with the accumulated pension premiums, etc. of KRW 404.4 trillion and operating profits of KRW 234.2 trillion. With the revenues formed so far, the NPS paid pension benefits of KRW 120.1 trillion, and manages and operates the remaining reserves. The valuation amount of assets for the National Pension Fund increased to become the world's third largest pension fund with KRW 512.3 trillion as of 2015–end. Accordingly, the national pension has positioned itself as the world's third largest public pension fund following GPIF of Japan and GPF of Norway.



Stable Management of the Fund We strive to maximize the management of income under five fund management principles: profitability, stability, public goods, liquidity and independence in management. The fund management earnings reached KRW 21.7 trillion along with the return on investment of 4.6% throughout 2015. Despite the expanded market volatility of home and abroad due to the sluggish economy of China, lower oil prices and the Federal Reserve raising interest rates, the fund was stably managed to the extent of outperforming the benchmark point. In alternative investments, the return on investment stood at 12.3% along with earnings of KRW 5.9 trillion, which contributed to raising the earnings rate of the fund. In overseas equities and fixed incomes, the return rates were 5.7% and 1.5%, respectively, while the domestic equities' and fixed incomes' recorded 1.7% and 4.3%, respectively. The return of investment for overseas assets is as high as 7.0% a year.

Efforts for Investment Diversification The NPS has diversified its investment for the past decade to raise the long-term return along with sustainability of the fund. The portion of bond assets taking up 87% of the fund as of 2005–end was reduced to the current level of 57%. The portion of alternative assets including real estate and infrastructure, and equity assets was expanded to 43% out of the total assets of the fund.

Risk Management System The NPS accurately measures risks impacting the fund's finance in managing and controlling them. Moreover, the NPS determined the annualized total risk exposure and risk exposure by asset type based on strategic asset allocation and allocation of active risks, and constantly monitors their implementation status. The NPS Fund Investment Office has the Risk Management Center and the Risk Management Committee.

Establishment of Infrastructure for Responsible Investment The NPS has secured the applicant law for implementing responsible investment for the first time as a domestic pension fund managing institution. Moreover, the NPS has established an evaluation system for ESG (environment, society and governance). The NPS also discloses the current status of responsible investment by adding it to the items to be disclosed. The NPS manages the fund as a type of consignment management of domestic equities worth about KRW 6.85 trillion as of 2015.

What kinds of service are provided for a stable old age preparation and welfare for the disabled?



Establishment of a System for an Old Age Service Delivery System for All Citizens The 'Act of Old Age Preparation Support' which was formulated (June 22, 2015) and enacted (December 23, 2015) stipulates that mid- and long-term basic plans on old age preparation support are to be established in each ministry, and the NPS is to be exclusively in charge of the operations. Against this backdrop, the NPS set a legal stage for providing systematic life plans targeting all citizens. The Old Age Preparation Promotion Group was launched to support the stipulation of enforcement rules and development content for it. The Central Old Age Preparation Support Center was launched after the enactment, specifying operations into the Old Age Preparation Promotion Division (business planning), the Old Age Preparation Management Division (business management), and the Old Age Preparation Development Division (content and system development). In order to provide nationwide old age preparation services, 107 branches were designated as Local Old Age Preparation Support Centers, and Happy Retirement Plan Center was launched as the exclusive division.

Quality Improvement of Old Age Preparation Services The NPS has provided old age preparation diagnosis, counseling and training services for the first time in the public sector since 2008. The NPS has conducted old age preparation training to 2.39 million people along with one-on-one counseling for 560,000 people by the first half of 2016. As a result, the 'Citizens' Perception of Old Age Preparation' surveyed by KMAC stood at 92.8 points in 2015, up 11.3 points in 2012. The NPS was selected as a representative brand in the category of 'old age welfare services' in Korea Master Brand Award in 2015 and 2016 (for two consecutive years). The NPS has run 'My Pension (csa.nps.or.kr)' site since 2009, which is used by about 3 million. It allows users to check their national pension benefits, and provides them with self-old age diagnosis, financial diagnosis and my old age preparation information, etc. The "Public-Private Pension Information Linkage Portal Service" has been added to 'My Pension' (csa.nps.or.kr) since April 1, 2016.

Intensification of Expertise in Management The NPS has nurtured specialists by running a course for old age preparation counselors from 2006 for more specialized services. At the NPS, 70.5% of the employees have acquired licenses in comprehensive old age design, old age income and old age living.

Rational Improvement of the Disability Review Standard The disability recognition standard was eased in July 2016 to improve unreasonable cases where the disabled are not eligible to receive the disability pension benefits although they have no capability of working because their disability grade is not recognized. Mental disabilities resulting from brain damage due to physical shock show a similar level of loss in labor capabilities and damage in a daily life with the existing psychological diseases, but they are not recognized as disabilities. As such, people such mental disabilities have not been registered as the disabled. To solve the problem of equity, the NPS is reviewing the disability recognition standard.

Substantiation of Projects for the Disabled The NPS provides services for activity support including daily activities such as eating or washing one's face and assistance for outing for the disabled that find it difficult to perform daily or social activities by themselves. Application targets were expanded from Grade 1 through Grade 3, so as of June-end, 2016, 76,122 beneficiaries were selected. Beneficiaries receive the activity assistance service, home-visit bathing and home-visit nursing service from the NPS. Moreover, diverse public and private welfare resources are aligned to provide one-stop services by identifying individual needs from the disability registration stage.



Is the NPS proactively engaged in solving social issues for win-win growth with community?



NPS Cafe 36.5, Creating Jobs for the Underprivileged The NPS established the NPS Cafe 36.5 Cooperative in 2011 to create jobs for the socially underprivileged including basic livelihood security recipients and married immigrant women, and spread the culture of donation. The NPS Cafe 36.5 is a cafe built on the image of 'a world as heart-warming as the human temperature (36.5 degrees) that sells coffee with a loving attitude 365 days a year'. The cafe sells coffee at lower prices compared to large franchises, uses fair-trade coffee beans produced in Vietnam and Nepal, etc., and donates 50% of its revenues to those in need in community.

Job Creation through the National Pension Fund The NPS created private outsourcing jobs for 297 individuals through expanded outsourcing in private asset management companies, investment in funds specialized in job creation and SOC investment hugely contributing to job contribution. The NPS newly created jobs for 3,213 individuals through order placement in investment projects.

'Love Plus for Subscribers' The NPS supports low-income subscribers who cannot acquire the pension recipient rights due to their failure to pay premiums. Pension premiums of about KRW 67 million were paid to 167 subscribers and 82 of them acquired pension recipient rights. The NPS paid premiums of about KRW 700 million on the behalf of 401 subscribers by 2015. Moreover, the NPS sponsors Didim Siat Bankbook (Seed Bankbook) for self-sufficiency in livelihood for underprivileged children who receive pension benefits for the bereaved.

'Love Plus for Beneficiaries' The NPS extended KRW 340 million to 705 basic recipient children who receive pension benefits for the bereaved to help self-sufficiency of the underprivileged. Heart-to-heart social volunteering activities are performed including supply of goods, chitchatting and clean-up for low-income beneficiaries living alone in alignment with the survey to identify recipient rights. Through a program titled the Love Connecting for the Elderly Living Alone, operators at the call center make regular phone calls to 845 elders who live alone to engage in heart-to-heart phone conversations on their pressing issues. Emotional support was offered through 18,023 calls.

'Love Plus for the Disabled' The NPS supports rehabilitation treatment fees for raising the willingness of the disabled to overcome their disability by launching the 'Happy Together Fund' for rehabilitation support for disabled children through the One-Person One-Sharing Account. The NPS runs volunteering group where the disabled take care of the disabled with more severe symptoms. The NPS organized empathy-based trips for the disabled for 64 times by 2015, providing various opportunities for social engagement including outdoor camps and experiential trips for the disabled who cannot afford trips physically or economically.

'Love for Community' The NPS continues to initiate voluntary charity work in each division on sites to make our community healthier and happier through dynamic exchanges with the region, opening a marketplace for direct transactions of local specialties, improving the environment, and engaging in local events.

Overseas Social Contribution The NPS is taking the lead in overseas volunteering, while transferring the national pension scheme to Cambodia and Mongolia, befitting the scale of the world's third largest pension. The NPS transferred the national pension scheme first in Vietnam in 2013, and then in Cambodia in 2014 and Mongolia in 2015. The NPS is helping families in multicultural households who could not afford to visit their hometown to spend a happy time with their family.

The NPS contributes to people's happier life with pension and welfare services.

The NPS manages 21.57 million subscribers in 107 branches nationwide.

Public pension subscription rate for over 65 years old

85%

New subscription of the underprivileged in preparation for elderly life

630,000 Person

Subscriber management

Supports for subscriber, Calculation and management of premiums



Nominal GDP **32.9%**

Domestic equities Market **35.5%**

Domestic fixed income market **24.8%**

Fund management

Pension subscribers

21,570,000 Person

Subscription of businesses 12.81 million 59.4%

Regional subscriber 8.3 million 38.5%

Voluntary & continuous subscribers 0.46 million 2.1%

Equity investment KRW 164.8 trillion 32.2%
 Fixed income investment KRW 292.2 trillion 57%
 Alternative investment KRW 54.7 trillion 10.7%

The NPS manages the national pension fund in consideration of both the return on investment and stability.

Rate of return in 2015 **4.6%**

Accumulated average rate of return **6.0%**

SRI fund **KRW 6.85** trillion

Accumulated operating profits **KRW 234.2** trillion

The NPS strives to pay with the highest accuracy the national pension benefits – the life – long monthly wages for the public in the era when people live up to 100 years.

Recipient rate of basic pension **66.4%** Accuracy of payment determination **99.94%**



Pension benefit payment

Accurate pension benefits payment, Supporting recipient rights for the underprivileged



Pension beneficiaries

4,030,000 Person

Old-age pension 3.15 million 82.3%
Bereaved family's pension 0.605 million 15.7%
Disability pension 0.07 million 2%

Welfare service

Review for disability registration and support for activities of disabled, Work capability assessment for basic, Service for old age preparation livelihood security recipients, Aligning support for disabled

The NPS is doing the utmost for a stable old age living for the public and the welfare for the disabled.

Awareness level of public on old age preparation

92.8 points

Professional workforce for old age preparation

5,509 Person

Nationwide Old Age Preparation Support Centers

107 offices

Support for activities of disabled

7,221 Person



Social Responsibility Management



Strengthening preventive ethics programs and capabilities for taking ethical actions

Sustainability Index AAA
Grade 1 in the evaluation of anti-corruption policies (in the sector of establishment of anti-corruption infrastructure)



Win-win growth with community driven by core competencies

Job creation in the private sector 6,599
Average voluntary service per employee 12.6 hours
Supporting the operation of NPS Cafe 36.5 Cooperative



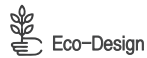
Win-win growth with partners

Purchase ratio from SMEs 82%
Venture investment including SMEs KRW 6,138 billion
Satisfaction level of partners 93 points



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To minimize environmental impact throughout the entire lifecycle of this eco-design report, NPS has used soybean oil and shunned the use of spot color printing or coating.