



# 2020 ANNUAL REPORT

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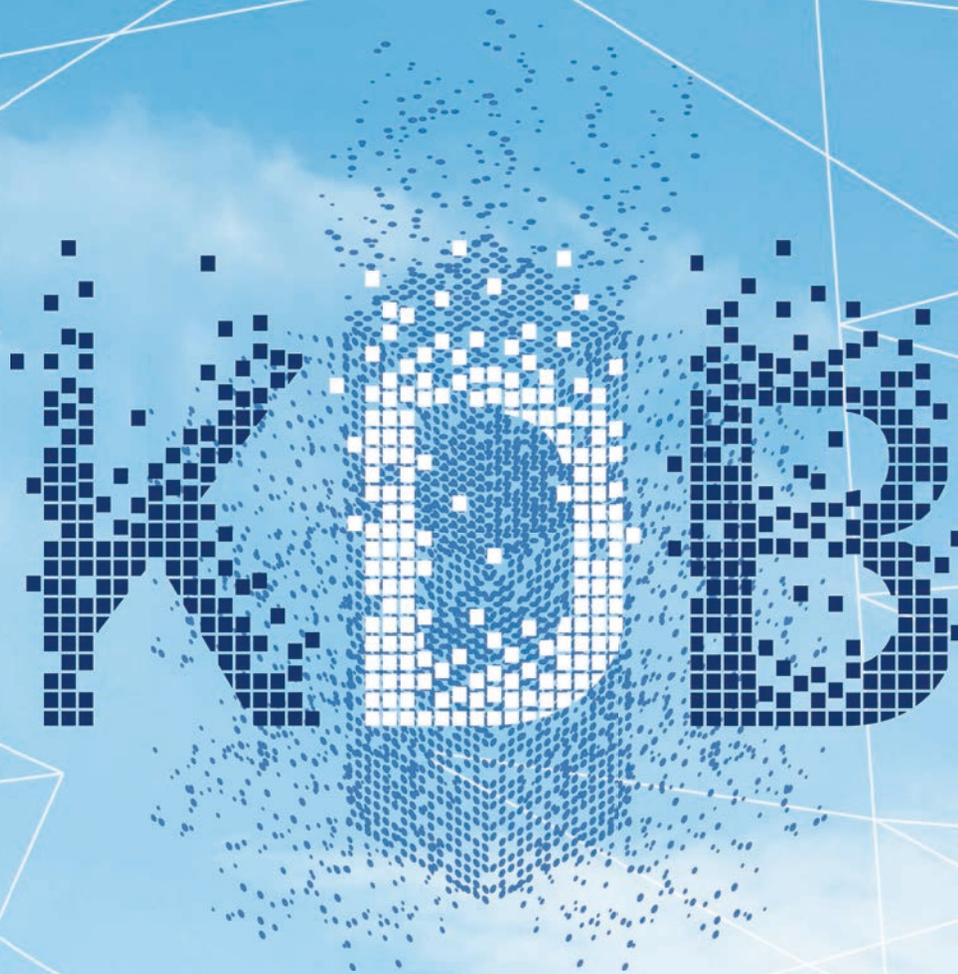
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To adapt to the changes in the digital finance environment, KDB set directions to facilitate the **Digital Transformation**



The Spread  
of a Digital Mindset



Remote Business  
Operation



Data-based  
Decision Making



Process  
Automation

Korea Development Bank (KDB) has been the foundation of the nation's economy and financial industry for the past 66 years.

KDB has evolved successfully in line with the changing demands of its stakeholders and Korean markets. KDB now inspires to transform into the nation's leading financial platform which materializes a better society.

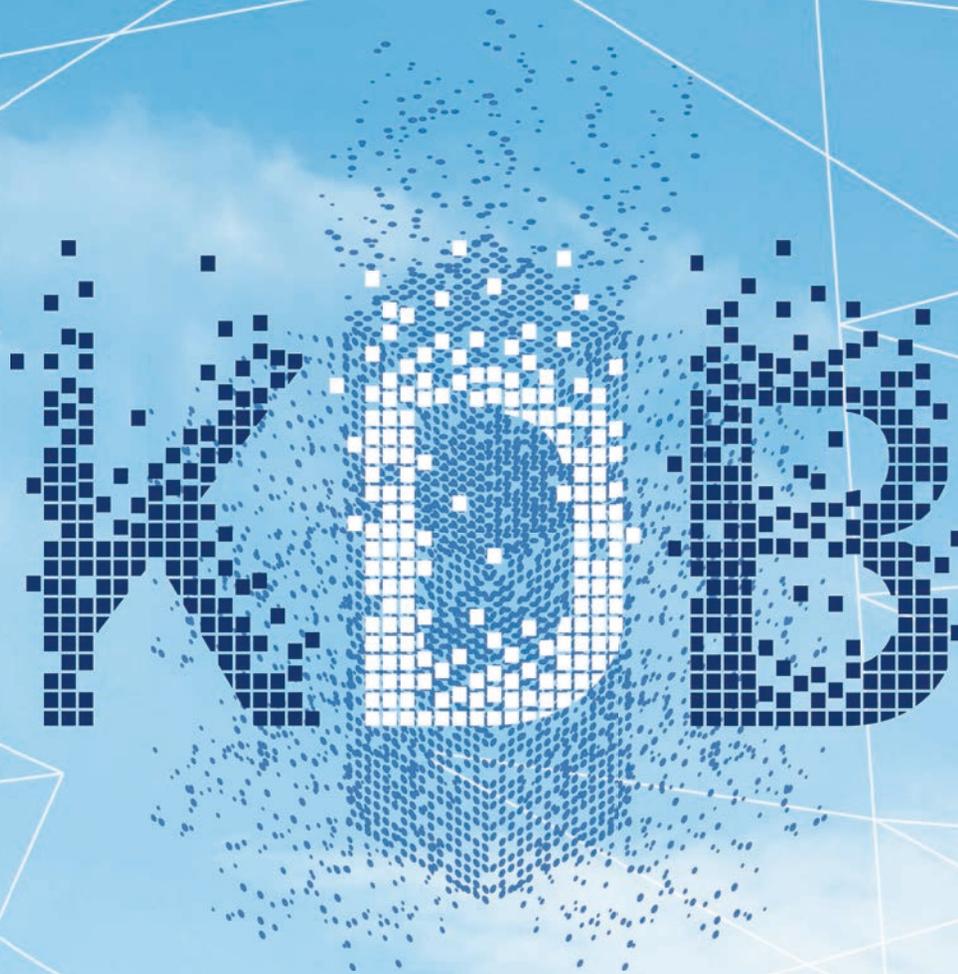
As we usher in the new era of Fourth Industrial Revolution, KDB will provide a strong impetus for a greater sense of responsible management, promotion of sustainable finance, and creating the future for a shared growth with innovation and creativity.

KDB will turn transactions into connections, connections into opportunities, and opportunities into powerful waves of new growth, fulfilling its ultimate mandate of an advanced policy bank at the forefront of Korea's sustainable growth.

This report is also published in an interactive PDF format, allowing readers to move quickly and easily to pages in the report, and including shortcuts to related web pages. The 2020 Annual Report of KDB Bank in an interactive PDF format is available to download at our website.

[www.kdb.co.kr](http://www.kdb.co.kr)





To adapt to the changes in the digital finance environment, KDB set directions to facilitate the **Digital Transformation**



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## Message from the Chairman & CEO

KDB will continue to support Korea's sustainable growth and serve as a pillar that enables the country's transformation into a key player in the post Covid-19 world.

**Lee, Dong Gull**  
Chairman & CEO  
Korea Development Bank



## Dear Clients and Readers,

I would like to express my sincere appreciation to all our clients and partner organizations for their unwavering support and trust in Korea Development Bank(KDB).

In 2020, the world has confronted an unprecedented crisis. The pandemic created by Covid-19 has posed new challenges, with their effects impacting the entire globe. Economic activities were severely restricted, businesses saw their revenues plummet, and people lost jobs. As conventional industries declined and new industries emerged, we also witnessed a profound shift in the economic paradigm.

Still, it was a time for KDB to remain at the forefront of supporting the Korean economy, taking actions to combat the crisis and paving the way for a new economic paradigm to take hold in the country as one of its key policy financial institutions. We quickly came up with a KRW 60 trillion support package funded both by the government and the proceeds from KDB bonds to inject liquidity into businesses. We ensured that funds reached even the non-investment grade issuers by creating facilities to underwrite bonds and purchase commercial papers. In addition to fulfilling the role as a market safeguard, we helped restore the competitiveness of Korea's mainstay industries through a KRW 40 trillion stabilization fund and by playing an instrumental role in closing a mega-merger deal in the country's airline industry. At the same time, we continued planting the seeds of new growth in the midst of a pandemic by going ahead with the KDB NextRound and the KDB NextRise sessions, which are KDB's own platforms of innovation and growth for supporting Korea's promising start-ups.

In 2021, KDB will take a step further to build a better future for Korea. In order to help the country lead in a post Covid-19 era and fulfill our mission of "Advanced Policy Bank at the Forefront of Korea's Sustainable Growth", KDB will focus on the following:

### First, we will strive for the successful execution of the "Korean New Deal."

The "Korean New Deal" is a national development strategy aimed at navigating the country out of the pandemic towards a pathway of leading a post Covid-19 global economy. A total of KRW 160 trillion is planned to be invested by 2025, from which KDB, as a primary policy executing arm of the government, will help create a KRW 20 trillion public sector-led New Deal Fund. This will be coupled with a separate KRW 25 trillion investment and lending program to ensure that the New Deal will most effectively reach the target businesses and industries.

In parallel with this effort, KDB aims to facilitate the transition in the business models of the country's traditional backbone industries by providing not only financial but R&D assistance, driving the momentum for innovation and to reinforce the core fundamentals of these industries. By doing so, KDB will continue to support Korea's sustainable growth and serve as a pillar that enables the country's transformation into a key player in the post Covid-19 world.

### Second, we will lead the way in green finance.

ESG is emerging as a core value that serves as a major standard for establishing corporate strategies and decision makings in the global economy. Low emission development strategies are becoming the basis for national growth strategies in many parts of the world.

In line with these movements, KDB has established and is effectively running its own ESG-integrated system that is on par with those of the global peers. Since 2017 till now, KDB has been Korea's only accredited entity of the Green Climate Fund. It was also the first institution in the country to adopt the Equator Principles. In 2021, KDB will make a full commitment to establishing green finance strategies and product development through a new department dedicated to ESG and New Deal-related planning, which will act as the Bank's control tower for all of its green finance initiatives.

Aiming for reaching net-zero emissions by 2050, KDB will drive Korea's transition into a low-carbon economy by leading the way in green finance. We will help facilitate environmentally sustainable designs and production processes in the country's mainstay industries and uncover promising businesses that fall under the Green New Deal umbrella. We will also strengthen our green infrastructure by coming up with a green taxonomy and green investment guidelines, and, in the process, contribute to the expansion and deepening of the ESG bond markets in Korea including those for green bonds.

### Third, we will encourage the growth of new industries, propelling the shift in industrial paradigm for the future of Korea.

In every crisis lies an opportunity. However, seizing the opportunity depends on what we do during the crisis. Therefore, KDB will lay the foundation to ensure that Korea seizes the opportunity that leads to a quantum leap.

We will allocate KRW 20 trillion to innovative and growth sectors in 2021, which will include bold actions to enable early, strategic capital investments by the country's "BIG3" industries of tomorrow – future vehicle, biohealth, and system on a chip. At the same time, as one of the market makers in Korea's venture ecosystem, KDB will continue its effort to identify and support the new leaders of innovation and growth. Henceforth, we will reinforce and strengthen the links between our start-up incubating and venture investment platforms, the KDB NextOne, the KDB NextRound, and the KDB NextRise. This will translate into stimulating the growth of today's start-ups into tomorrow's unicorns.

Through these efforts and more, KDB will be a stalwart partner in stepping up the economic dynamics of Korea.

### Dear clients,

We will not waste the experiences we accumulated during the Covid-19 crisis but fully capitalize them to continue shoring up the Korean economy and its strides towards a new leap. Until we reach the end of the crisis, and lead in the new era awaiting us, KDB will continue to move forward, one step at a time, determined to steer clear of complacency the whole way. As KDB presses on towards its goals in the coming years, I ask for the same generous support and encouragement you have shown thus far.

Thank you.

# Management Profiles

## Chairman & CEO



**Lee, Dong Gull**

Chairman & CEO

## Vice Chairman & COO



**Sung, Joo Yung**

Vice Chairman & COO

## Auditor



**Joo, Tae Hyun**

Auditor

## Senior Executive Director



**Choi, Dae Hyon**

Senior Executive Director

## Independent Directors

**Yang, Chae Yeol**

Independent Director

**Kim, Nam Jun**

Independent Director

**Lee, Yune**

Independent Director

**Son, Kyo Deog**

Independent Director

**Yook, Dong Han**

Independent Director

## Senior Management : Division Heads



**Chang, Byoung Don**

Innovation & Growth  
Banking Division



**Oh, Jin Kyo**

SME Banking Division



**Kim, Sang Soo**

Risk Management Division



**Kim, Bock Kyu**

Strategy · Green Finance  
Planning Division



**Park, Sun Kyoung**

Business Administration  
Division



**Ahn, Young Kyu**

Corporate Banking Division

KDB strives to create values for the benefit of its stakeholders through a responsible and transparent management system which is made possible by its advanced governance.

## Compliance Officer



**Lee, Byung Ho**

International Business Division



**Yang, Ki Ho**

Capital Market Division



**Bae, Young Un**

Credit Review Division



**Lee, Young Jae**

Chief Compliance Officer

# KDB at a Glance

Foundation

1954

Number of Employees

3,446

Credit Ratings

Moody's

Aa2

S&P

AA

Fitch

AA-

• Equivalent to the sovereign ratings of the Republic of Korea

## Global Initiatives

UN Global Compact



Green Climate Fund



International Development Finance Club



Equator Principles



• As of December 31, 2020

# Financial Highlights

## Summary Statement of Financial Position

(Unit: KRW billion; Consolidated basis)

	2020	2019	Change	
			Amount	%
<b>ASSETS</b>	<b>304,996.5</b>	268,839.7	36,156.8	13.4%
Cash & due from banks	<b>11,794.2</b>	7,761.2	4,033.0	52.0%
Securities	<b>76,532.4</b>	78,179.8	(1,647.4)	(2.1%)
Loans	<b>164,585.8</b>	149,926.9	14,658.9	9.8%
Other assets	<b>52,084.1</b>	32,971.7	19,112.4	58.0%
<b>LIABILITIES</b>	<b>264,007.0</b>	233,762.6	30,244.4	12.9%
Deposits	<b>46,961.4</b>	36,315.3	10,646.1	29.3%
Borrowings	<b>24,542.8</b>	24,968.4	(425.6)	(1.7%)
Bonds	<b>143,329.3</b>	125,206.8	18,122.5	14.5%
Other liabilities	<b>49,173.5</b>	47,272.1	1,901.4	4.0%
<b>EQUITY</b>	<b>40,989.5</b>	35,077.1	5,912.4	16.9%
Issued capital	<b>20,765.6</b>	18,663.1	2,102.5	11.3%
Capital surplus	<b>1,055.9</b>	1,000.6	55.3	5.5%
Retained earnings	<b>12,347.1</b>	10,658.8	1,688.3	15.8%
Capital adjustments	<b>278.1</b>	278.0	0.1	0.0%
Accumulated other comprehensive income	<b>2,053.5</b>	40.9	2,012.6	4,920.8%
Non-controlling interests	<b>4,489.3</b>	4,435.6	53.7	1.2%

## Summary Statement of Income

(Unit: KRW billion; Consolidated basis)

	2020	2019	Change	
			Amount	%
Net operating revenue	<b>3,870.1</b>	2,546.1	1,324.0	52.0%
Net interest income	<b>1,566.6</b>	1,378.8	187.8	13.6%
Non-interest income	<b>2,303.5</b>	1,167.3	1,136.2	97.3%
Provision for credit losses	<b>1,313.5</b>	(162.6)	1,476.1	-
G&A expenses	<b>1,454.1</b>	1,526.6	(72.5)	(4.7%)
Operating income	<b>1,102.5</b>	1,182.1	(79.6)	(6.7%)
Non-operating income	<b>1,745.8</b>	(862.3)	2,608.1	-
Income tax expenses	<b>717.2</b>	213.7	503.5	235.6%
Profit for the period from continuing operations	<b>2,131.1</b>	106.2	2,024.9	1,906.7%
Profit from discontinued operations	<b>(169.8)</b>	173.0	(342.8)	-
Net profit	<b>1,961.3</b>	279.1	1,682.2	602.7%

# BUSINESS HIGHLIGHTS

## CORPORATE BANKING & RESTRUCTURING

 Corporate Banking

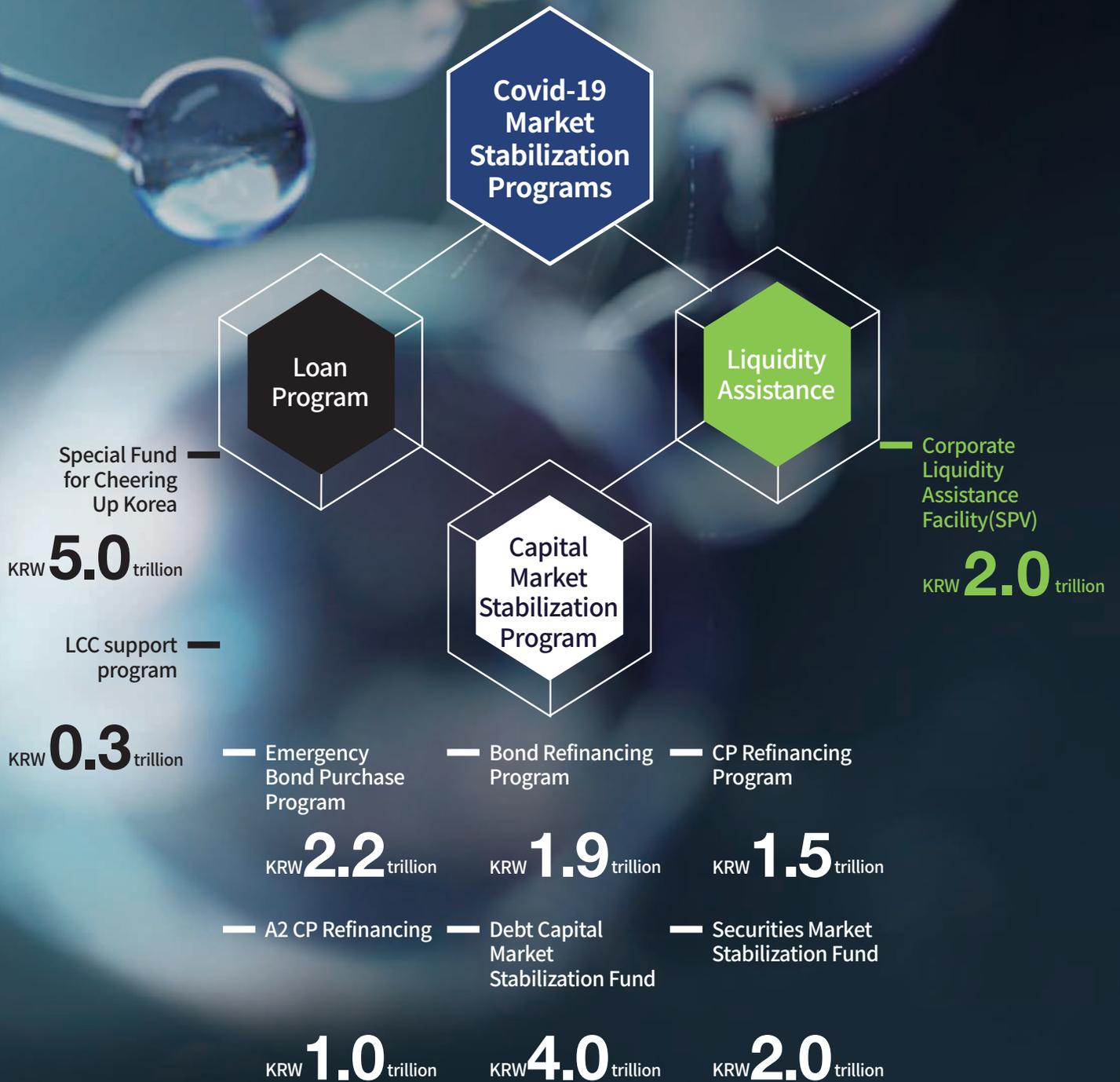
 Debt Capital Market

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In 2020, KDB financed in total amount of KRW 91.1 trillion, 63% (or KRW 57.1 trillion) of which was extended to small and medium sized enterprises (SMEs) and medium sized enterprises (MEs). In particular, the Bank provided KRW 3.57 trillion in 2020 under the “Special Fund for Cheering Up Korea” program to SMEs and MEs hit hard by the Covid-19 pandemic in order to prevent temporary degradation of their businesses from triggering a collapse of the industrial ecosystem and leaving a lasting damage in the national competitiveness.



# PROMPT RECOVERY FROM COVID-19



# 2 REVITALIZING INNOVATIVE GROWTH

## VENTURE FINANCE

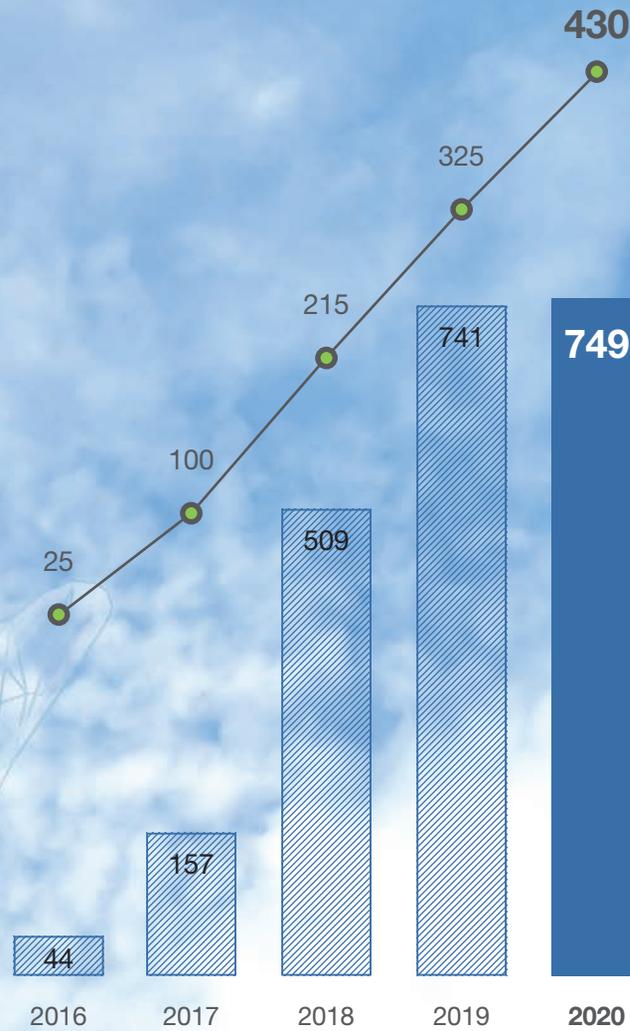
 Venture & Technology Banking

 Scale-up Banking

 KDB NextRound

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The KDB NextRound is a market-driven platform for venture investment that provides start-ups with the opportunity to attract investments, and investors with the opportunity to discover new investment targets. Since its inauguration in 2016, 430 IR rounds have been held for a total of 1,514 companies. The rounds introduced start-ups identified by accelerators, venture capital firms, and government-funded research institutes and attracted venture capital from both domestic and overseas investors. Among the start-ups which participated in the rounds, 358 successfully attracted investments totaling KRW 2.2 trillion.



## NextRound

- Accumulated Number of IR rounds provided by KDB NextRound
- Investment attraction through KDB NextRound (KRW billion)

## NextRise 2020, Seoul

Number of start-up participants for the NextRise 2020, Seoul

**186** participants

Number of Conferences held at the NextRise 2020, Seoul

On-line **49** / Off-line **26**

Number of Meetings held in relation to business cooperation and investment opportunities at the NextRise 2020, Seoul

On-line **207** / Off-line **1,507**

# 3 SOCIALLY RESPONSIBLE BANK

## LIABILITY MANAGEMENT

 KDB Bonds

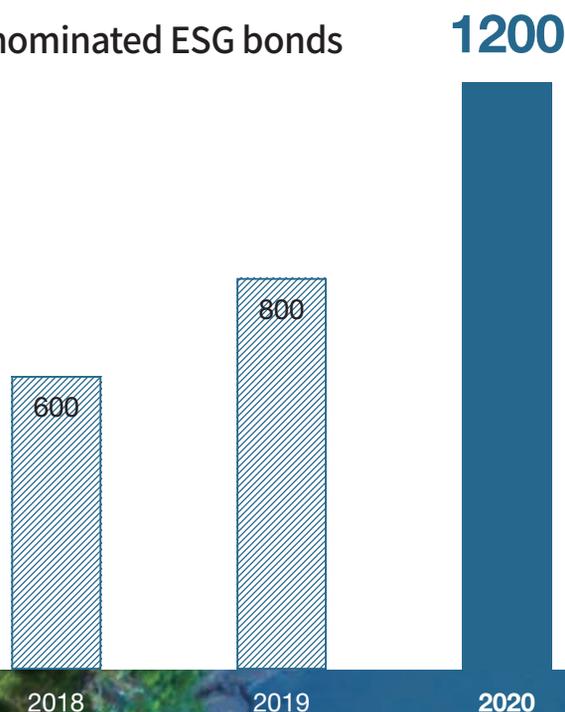
 Deposits

KDB pioneered the ESG bonds market by issuing its first foreign currency denominated Green Bond in amount of USD 300 million in 2017 and the country's first ever domestic green and social bonds issuances amounting to KRW 600 billion in 2018, and has shown its commitment to the global trend of promoting sustainability in finance.

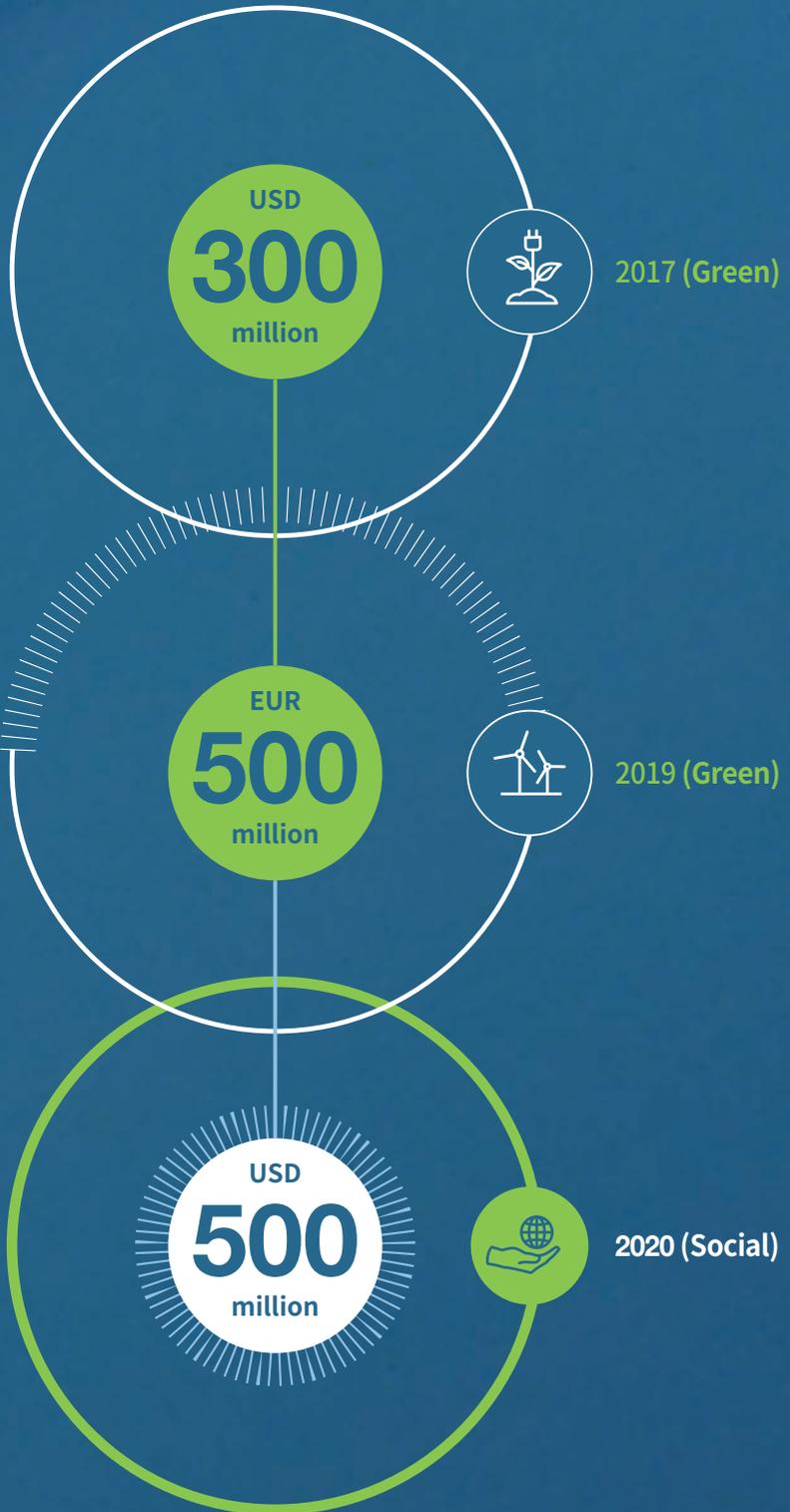
Moreover, KDB strengthened the transparency of disclosure of the social and environmental impacts of its ESG bonds. For its foreign currency denominated ESG Bonds, KDB obtained a second party opinion for its 2019 KDB Sustainability Bond Framework, and for its domestic ESG bonds has obtained an independent third party opinion on the bond prospectus. Such efforts will help enhance investor confidence in KDB's ESG bonds and contribute to a qualitative growth of the ESG bond market.

### KRW-denominated ESG bonds

(Unit: KRW billion)



# Foreign Currency-denominated ESG bonds



## Long-term Growth Direction (Goals for 2040)

KDB has set the direction for its long-term growth, targeting the year 2040, to enable longer-term perspectives on how it responds to changes in economic and social trends, and redefine the role of an advanced policy bank. In order to realize its vision by 2040, KDB has selected eight strategic tasks, which reflect its mission, vision, and the KDB Way.



# Mission & Vision

## Mission

### Advanced Policy Bank at the Forefront of Korea's Sustainable Growth

\* An advanced policy bank refers to a government-owned financial institution, which has aims to support both industrial and social sectors, by promoting the national economy and improving people's quality of life.



## Vision

### Korea's Financial Platform Leading to a Bright Future

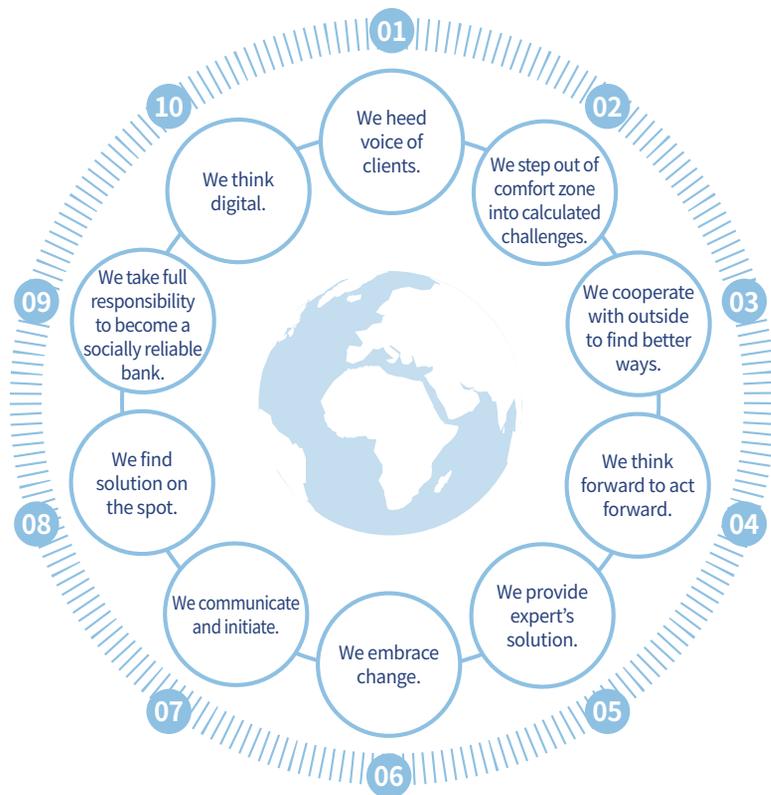
\* A financial platform refers to an innovative financial institution that performs more than an intermediary for borrowers and lenders – it connects all stakeholders, allows information exchange and provides comprehensive financial services.

KDB will realize its vision of becoming a “Korea's Financial Platform Leading to a Bright Future” through its mission as an “Advanced Policy Bank at the Forefront of Korea's Sustainable Growth.” The mission envisions KDB's identity and role as a policy financial institution that seeks to promote the growth of the Korean economy from an industrial development aspect and improve the lives of the people from a social development aspect. The vision embodies our determination to advance into an innovative financial institution, spearheading the changes brought on by the Fourth Industrial Revolution and encompassing the needs of all market participants.

# KDB Way & Long-term Tasks

## KDB Way

KDB Way is a set of guiding principles shared by all the members of KDB to achieve the Vision.



## Long-term Tasks

KDB has selected eight strategic tasks with a dual focus on business success and internal innovation, which are necessary preconditions to achieving its vision as a policy bank.

### Tasks for Business Success

- Focus on corporate and industrial innovation
- Secure global competitiveness
- Support the new economic era of the Korean Peninsula\*
- Build a solid business foundation for policy finance

### Tasks for Internal Innovation

- Establish ourselves as the R&D hub for policy finance
- Pursue bank-wide digitalization
- Create a healthy organizational culture for friendly work environment
- Build a foundation for autonomous management

\* To be implemented in connection with the progress in denuclearization negotiations and improvements in inter-Korean relations

# Mid-term Management Strategy

## Mid-term Management Strategy

Based on its long-term growth direction, KDB has established a mid-term management strategy spanning over a period of five years from 2019 to 2023 as below.

### KDB Mid-term Management Strategy (2019~2023)



#### Lead innovation and growth

- Foster new industries and new technologies
- Become a leading venture capital platform
- Strengthen the role as a venture capital supplier

#### Support the reshaping of the industrial ecosystem

- Help the mainstay industries enhance their competitiveness
- Facilitate generational transition in corporate leadership

#### Enhance the competitiveness of global & investment banking business

- Expand the operational base for global operations
- Increase profitability of global operations
- Globalize IB operations and provide more support through policy financing

#### Pioneer new areas of policy finance

- Actively seek out new demands for policy finance
- Prepare for a new economic era on the Korean Peninsula

#### Build stable and sustainable operational foundation

- Pursue bank-wide digital transformation
- Build on the capacity for stable revenue generation
- Introduce innovation to the organization and internal processes

# Management Goal, Implementation Strategies, and Key Tasks for 2021

## Management Goal

Global KDB,  
leading innovation  
and the future  
of Korea

## 3 Key Strategies



Support Korea's  
economic transition and  
prepare for the future



Help restore Korea's  
economic vitality through  
decisive response  
to crisis



Internalize the KDB Way  
through reforms from  
within

### Task Details

#### <Economic and Financial Environment>

- Positive signs of improvement in the global economy and finance supported by increase in trade volumes and investments
- Downside risks remain, most notably from uncertainties surrounding the Covid-19 pandemic
- Industrial transformation driven by social distancing and digitalization
- Korea in the middle of making a bold attempt at transitioning its economic and social structures through the Korean New Deal
- Korea's financial industry still lagging behind their global peers
- Growing need for actively managing ESG-related risks

### 6 Key Tasks

**01** Lead the transition to a low-carbon economy through the Korean New Deal

**02** Help improve Korea's economic dynamics by supporting innovation and new growth

**03** Drive the shift in industrial structure by stimulating corporate and industrial innovation

**04** Lead in the way of advancing Korea's financial capacity by strengthening global and investment banking competitiveness

**05** Support Korea's economic leap by effectively responding to overcome the Covid-19 crisis

**06** Deepen the foundation for sustainable policy finance

### Sub-tasks

- Provide support for the Korean New Deal and achieve intended outcomes
- Strengthen green and social finance based on ESG principles

- Increase support for innovation and growth to maximize the nation's growth potential
- Expand funding for the scaling up of innovative start-ups

- Help reinforce competitiveness in key industries and facilitate the reshaping of the industrial structure
- Continue the support for SMEs and MEs to help improve Korea's economic fundamentals

- Broaden global operations focusing on strategic areas
- Actively explore overseas markets via, among others, global wholesale banking
- Build up IB operations and strengthen the capacity in the capital markets

- Continue with the relief programs to help overcome the crisis
- Pursue efficient corporate restructuring

- Expand corporate social responsibility
- Improve profit-generating capacity and asset/financial soundness
- Internalize the core values of the future (e.g., digital transformation)

\* In order to elaborate on each of the key tasks and ensure their effective implementation, KDB has established a total of 14 sub-tasks.

# BUSINESS REVIEW

KDB has strengthened policy financing support by providing funds in a timely and stable manner to aid the recovery of the economy which was hit by Covid-19.

In addition, KDB has taken the lead in adopting global norms and standards and spread them across the nation not only to promote both quantitative expansion but also the qualitative growth of green financing based on the Korean New Deal and ESG principles.

- 020 Corporate Banking & Restructuring
- 023 Capital Markets
- 026 Innovation & Growth Banking
- 030 Venture Finance
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- 038 International Business
- 040 Pension & Trust
- 042 Research & Credit Review



# Corporate Banking & Restructuring



**KDB provided customized corporate banking services to companies and helped them respond to changes in the era of the Fourth Industrial Revolution.**

## Corporate Banking

### REVIEW OF 2020

In 2020, the Korean economy faced a drop in both domestic demand and exports following the contraction in the global economy due to the outbreak of Covid-19. The nation recorded a negative growth for the first time since the 1997 Asian Financial Crisis.

With increased uncertainties in global economy due to the pandemic, Korean companies took various measures to adapt to the rapidly changing environment such as making inroads into new business ventures for securing further development, investing to upgrade their facilities in response to the era of the Fourth Industrial Revolution, and executing necessary corporate restructuring. Accordingly, KDB reinforced the strength of the overall industries through providing financing in a timely and sufficient manner, which were aimed at enhancing the core competitiveness of its corporate partners and facilitating the transition of their business models to help secure the future growth engines.

As Korea's most prominent corporate banking specialist, KDB provided financial services customized to the needs of its clients with a wide range of products.

The Bank also played a strong supporting role in 1) increasing financial support for conventional industries such as materials, chemicals, metals, and equipment, 2) providing a timely liquidity support to the companies adversely affected by Covid-19 and 3) leading major green projects.

With its industry and finance alliance program, KDB actively conducted the government's plan of reshaping Korea's industry that centers around future technologies. Through its Joint Support Council for Overseas M&A and Investments, KDB successfully identified acquisition targets and provided acquisition finance and advisory services in cooperation with other financial institutions.

Furthermore, as Korea's leading policy finance institution, KDB established and managed the Key Industry Stabilization Fund and advised its corporate clients on preemptive financial structure improvement. In addition, the Bank carried out local job creation projects designed to benefit both employees and management, and worked on facilitating the transition in business models of corporate clients in order to further sophisticate the nation's industrial structure. Through these efforts, KDB as a reliable and solid financial partner for its clients has ensured that its activities were aligned to promote the sustainable development of the national economy.

## LANDMARK DEALS OF 2020

**Reshaping company's business structure through the industry and finance alliance program**

## OVERVIEW

- In September 2019, KDB established the Joint Council for Overseas M&A and Investments jointly with other financial institutions, which is a system to support cross-border M&As and investment activities of Korean enterprises in order to achieve the ultimate goal of improving their competitiveness.
  - Role of Policy finance institutions and commercial banks: Providing joint support for cross-border acquisitions and investments
  - Role of Korean enterprises: Identifying acquisition targets and searching for potential buyers, proposing ideas for institutional improvements such as tax benefits
- The Council has provided preemptive strategic support for capital investment and business restructuring for the purpose of strengthening the competitiveness of major industries such as semiconductors, displays, and rechargeable batteries.

## PROGRAM HIGHLIGHTS

Beneficiary	Program	Details of support provided
Company L	Joint Council for Overseas M&A and Investments (industry and finance alliance program)	<ul style="list-style-type: none"> <li>- Expansion of global production capacity of rechargeable batteries</li> <li>- Approx. USD 5 billion joint financial support for five years (2020-2024) involving global capex expansion for manufacturing rechargeable batteries</li> </ul>
Company S	Joint Council for Overseas M&A and Investments	<ul style="list-style-type: none"> <li>- Acquisition of proprietary technology and expansion into global markets</li> <li>- USD 1.5 billion support for acquisition financing for Company S's acquisition of a business unit of US company D</li> </ul>

## SIGNIFICANCE

KDB proactively supported capital investments in core industry areas related to the Fourth Industrial Revolution (i.e., rechargeable batteries, semiconductors, etc.) through the aforementioned deals, contributing to the competitiveness of Korea's parts and material sectors.

**Green loans for environmentally sustainable projects**

## OVERVIEW

KDB has been a major proponent of industrial transition in Korea centering on the environmental sustainability of businesses, and in doing so, has helped companies to compete better in the global markets.

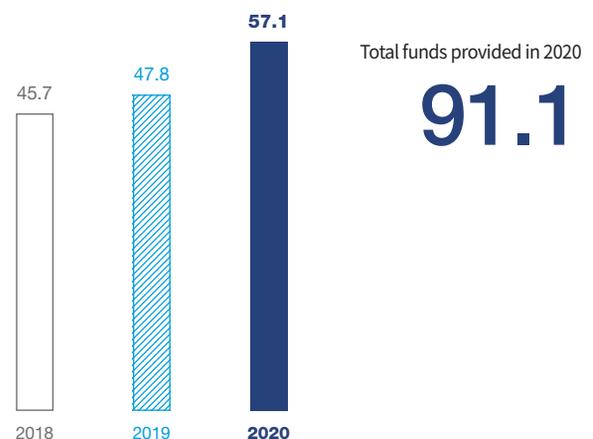
## LOAN HIGHLIGHTS

Beneficiary	Details of support provided
Company S	Arranged a KRW 550 billion acquisition finance for acquiring Korea's largest waste treatment company
Company H	Financed KRW 500 billion and supported the company's R&D for developing future vehicles
Company S	Arranged a KRW 1.8 trillion financing for acquiring another company that produces material for rechargeable batteries and for capital investment

In 2020, KDB financed in total amount of KRW 91.1 trillion, 63% (or KRW 57.1 trillion) of which was extended to small and medium sized enterprises (SMEs) and medium sized enterprises (MEs). In particular, the Bank provided KRW 3.57 trillion in 2020 under the "Special Fund for Cheering Up Korea" program to SMEs and MEs hit hard by the Covid-19 pandemic in order to prevent temporary degradation of their businesses from triggering a collapse of the industrial ecosystem and leaving a lasting damage in the national competitiveness.

**Financing for SMEs & MEs\***

(Unit: KRW trillion)



\* MEs: Companies that fall neither under the legally defined scope of SMEs nor are affiliated to conglomerates restricted from cross-shareholding

## PLANS FOR 2021

In 2021, KDB, as the nation's representative policy financial institution, will continue to provide liquidity not only to major conglomerates but also to viable SMEs and MEs operating in key industries of Korea. The Bank will keep identifying promising companies in new industries and expand its business scope by supporting small and medium sized social infrastructure, such as shared housing projects. KDB will also concentrate its support on the companies involved in the Korean New Deal\* through cooperation with local governments across the country.

Furthermore, the Bank will provide customized financial solutions to strengthen competitiveness of Korea's key industries such as semiconductors, displays, and rechargeable batteries, and successfully fulfill the mandate from the government to lead the paradigm shift in the Korean economy. The Bank is fully committed to supporting the government's Korean New Deal and helping companies reshape their businesses and reinforce their competitiveness through promoting industry-finance cooperation. In doing so, KDB plans to provide seamless support to further developments and enhance its capacity to implement policy finance, bracing for the era of the Fourth Industrial Revolution.

\* The plan announced by the government in July 2020 which entails 160 trillion Korean won investment to create 1.9 million jobs by 2025. The strategy aims to create not only government-supported jobs but also jobs that support the structural transition towards a digital and green economy.

## Corporate Restructuring

### REVIEW OF 2020

With its strong expertise in corporate banking, KDB has led many significant corporate restructuring initiatives in Korea since the Asian Financial Crisis of 1997. During the financial meltdown of 2008, the global economy fell into a state of stagnant growth period and numerous Korean companies became subject to restructuring. Against this backdrop, KDB has become an effective safety net for the Korean economy and its industries by promoting principle-based and sound corporate restructuring practices.

KDB has actively endeavored to normalize operations of the country's major shipbuilding and shipping companies facing challenges from the prolonged global economic recession. The Bank provided HMM with support for investment in essential capital expenditures and promoted intensive management reforms to strengthen its operational competency, which led to a financial turnaround in 2020.

Also, with the objective of a swift and fundamental business normalization by 2021 of Hanjin Heavy Industries and STX Offshore & Shipbuilding Co., Ltd, KDB has initiated M&A procedures and selected preferred bidders for these companies.

KDB provided emergency funding to Doosan Heavy Industries & Construction, along with assistance for financial structure improvement and business realignment. KDB also utilized the Key Industry Stabilization Fund to support Asiana Airlines and promoted its mega-merger with Korean Air, enhancing aviation industry's competitiveness through restructuring.

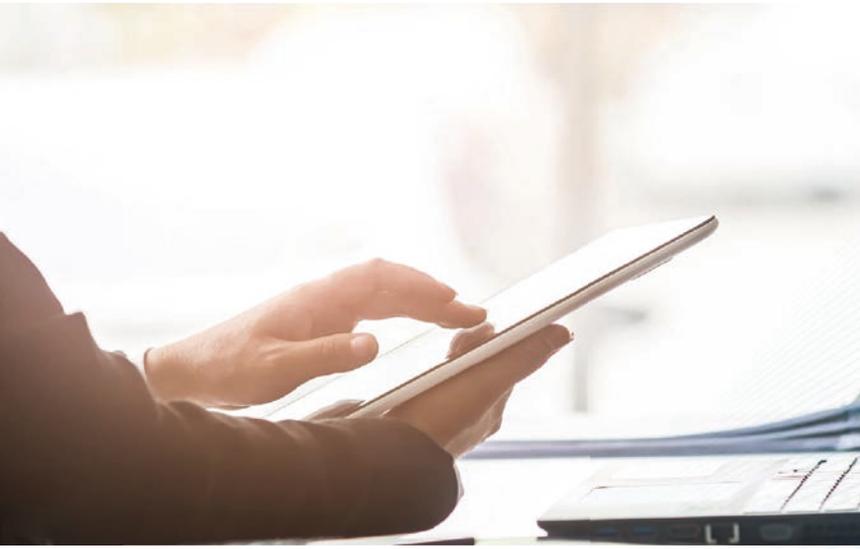
Furthermore, KDB has invested in the Corporate Restructuring Innovation Fund together with other financial institutions, with the goal of supplying liquidity to the market and encouraging voluntary and preemptive restructuring.

### PLANS FOR 2021

In 2021, KDB will adhere to corporate restructuring practices based on the consistent principles and put its experience and expertise to full use. By supporting corporate clients who undertake reshaping of structural realignments on their own and make financial improvements, the Bank pursues to minimize potential insolvencies.

The Bank will also take prompt and efficient measures to ensure the effective restructuring of financially distressed companies. By playing a key role in supporting such companies revive their operations, KDB will contribute to restoring the vitality in the Korean economy and industrial ecosystem.

# Capital Markets



**KDB provides various financing options for its clients such as arrangement of corporate bond issuance, structured finance, M&A and PEF.**

## Debt Capital Market

### REVIEW OF 2020

The outbreak of Covid-19 pushed the debt capital markets into a tailspin. Volatility and uncertainty increased as liquidity crunch in the money market triggered fear of another potential financial crisis.

Amidst such unstable market conditions, KDB continued to successfully perform its pivotal role as industry leader and market stabilizer for Korea's capital markets by leveraging its status as the only bank in Korea with the license to arrange/underwrite and advise on corporate debt securities including structured products.

KDB took the initiative in incorporating the Corporate Bond Refinancing Program and the Emergency Bond Purchase Program into the government's financial relief package, which significantly contributed to the restoration of investor confidence and stabilization of the corporate bond market in Korea.

In 2020, KDB also continued to reinforce its position as Korea's leading investment bank by successfully arranging public offerings in the international market for issuers like Doosan Infracore and Korea National Oil Corporation (KNOC) amid heightened volatility. The Bank also expanded its scope of business to non-G3-currency markets by obtaining its Foreign Australian Financial Services License (FAFSL) and participating in the arrangement of Kangaroo bonds through a subsidiary located in Hong Kong.

In structured finance, KDB provided customized financing support to SMEs and MEs through securitization of accounts receivables, real estates, and other assets. The Bank also arranged the issuance of asset-backed securities (ABS) for companies operating in Korea's key industries, supporting their financial needs and minimizing any negative impact on the national economy.

### LANDMARK DEALS OF 2020

#### Covid-19 Market Stabilization Programs

##### OVERVIEW

KDB has continuously performed its key mandate as a market stabilizer in times where Korea faced economic challenges and crises. In early 2020, when liquidity strains in the money and bond markets were growing due to the Covid-19 pandemic, KDB preemptively initiated various market support programs as part of the government's financial relief package. The programs significantly contributed to bringing back investor confidence and the stabilization of the corporate debt capital market in Korea.

Particularly worthy of note is the Corporate Liquidity Assistance Facility (SPV), the first policy measure to be established through a coordinated effort among a policy financing institution (KDB), the central bank (Bank of Korea) and the government. The Facility aimed at supporting AA to BB rated corporate bonds and A1 to A3 rated commercial papers issued by non-financial firms. It helped stabilize the bond market and supported businesses that suffered from sharp downgrades in their credit rating, tumbling down to non-investment grades due to Covid-19-related factors.

Market Stabilization Programs	Program Size (KRW tril.)		Liquidity Provided (KRW bil.)	
	Total	KDB	Total	KDB
DCM Stabilization Fund	20.0	4.0	2,961	600
Emergency Bond Purchase Program	4.4	2.2	369	184
Bond Refinancing Program	1.9	1.9	1,444	1,444
CP Refinancing Program	2.0	1.5	1,118	1,118
A2 CP Refinancing	1.0	1.0	300	300
Corporate Liquidity Assistance Facility(SPV)	10.0	2.0	3,000	1,220
<b>Total</b>	<b>39.3</b>	<b>12.6</b>	<b>9,192</b>	<b>4,866</b>

#### KEY OUTCOMES

Credit spreads tightened and stabilized since the implementation of the programs. Liquidity was provided into the bond markets and as a result, reduced uncertainty and strengthened investor sentiment.

The effects were more visible in the lower-rated corporate bond market, with average order-book size substantially increasing and unsold bond issues drastically decreasing, and resulting in an increase in net issuance of BBB rated bonds.

#### PLANS FOR 2021

In 2021, KDB will utilize its overseas networks to expand its client base to non-residents and also extend its DCM business by closely working with public corporations and blue-chip companies.

For structured finance, the Bank will offer differentiated products by structuring a wide range of underlying assets including the traditional private bonds, receivables, redeemable convertible preference shares, project finance loans and intellectual property rights.

Last, KDB will promote the growth of the ESG bond market in Korea.

## M&A

#### REVIEW OF 2020

KDB provides financial advisory services specializing in M&A at home and abroad, and arranges acquisition financing for corporate clients, enabling them to secure necessary funding and manage appropriate capital structures.

In 2020, despite the sharp contraction in the financial market caused by Covid-19, the Bank actively advised corporate clients on potential M&A deals and appealed its strengths in arranging acquisition financing.

Such efforts helped them to restructure and realign businesses in the domestic market, further allowing them to identify their new growth engines and gain access to international markets. KDB also leveraged its overseas networks to expand its businesses, arranging acquisition financing for non-resident clients.

#### LANDMARK DEALS OF 2020

### Successfully advised LG Household & Health Care on its acquisition of a global cosmetic brand Physiogel of GlaxoSmithKline(GSK).

#### OVERVIEW

In February 2020, KDB, as a financial advisor, successfully closed a deal regarding LG Household & Healthcare's acquisition of Physiogel, a dermatology cosmetic brand of GSK. LG Household & Healthcare, a leader in Korea's cosmetics and household goods sector, was able to establish a beachhead for entry into the global markets through the acquisition.

#### ADVISORY HIGHLIGHTS

KDB played a key role throughout the acquisition process as a buy-side advisor by initiating the acquisition proposal to LG, securing the preferred bidder status, and negotiating the transaction including the price.

#### DEAL SIGNIFICANCE

The deal marked a successful case of an out-bound M&A for a Korean company looking to expand its overseas operation. It was also KDB's first sole advisory transaction of a cross-border deal for a large corporate in Korea. It was a result of utilizing its international networks that KDB built over many years of work.

#### PLANS FOR 2021

In 2021, the Korean economy is expected to make a turnaround with the boost from the government's economic stimulus package and experiences accumulated over the course of overcoming the Covid-19 crisis. Demands for M&As are expected to gradually increase, as companies try to utilize business restructuring/reorganization to secure their growth in the post Covid-19 era.

KDB will continue to identify potential M&A demands for corporate in need of their financial structures and business models. In addition, KDB will originate cross-border M&A transactions to support Korean companies' global expansion by establishing more mutually beneficial partnerships with overseas investment banks and strengthening its global target sourcing capabilities.

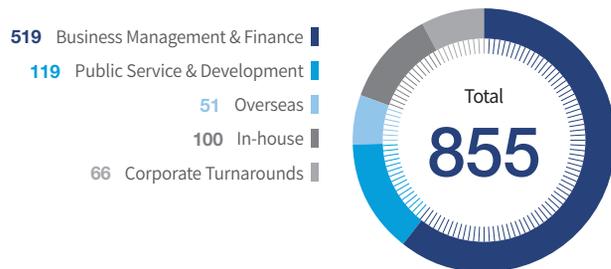
## Consulting

### REVIEW OF 2020

Since 2003, KDB has engaged in over 800 consulting projects covering a wide range of topics, including business management, finance, public services and developments, and corporate turnarounds. The Bank leverages its expertise accumulated over the course of its operation as a primary policy financial institution in Korea. By fully utilizing its extensive industrial and corporate client database and in partnerships with other institutions, KDB provides the most optimal solutions to its clients.

### Number of consulting services provided (2003~2020)

(Unit: No. of services provided)



2020 was a challenging time for companies' business activities due to the spread of Covid-19. In response to this unprecedented pandemic outbreak, KDB provided free consulting services to SMEs and MEs to help them establish contingency business strategies against the rapid changes in the market, which contributed to ensuring the effective implementation of the Bank's various policy financing programs.

Based on its accumulated know-hows from the consulting projects, KDB provided effective solutions to start-ups looking for growth and conducted feasibility studies for large-scaled PF transactions.

### PLANS FOR 2021

In 2021, KDB plans to develop a new consulting program targeting scale-up companies to help them establish their initial businesses and investment strategies. The program will facilitate them to efficiently raise and recover their funds through IPOs and M&As. In addition, the Bank will continue to support the government's policy initiatives and provide consulting services to the companies that require preemptive business restructuring and collaboration with KDB for variety of investment banking services.

## Private Equity

### REVIEW OF 2020

Since the start of its private equity business in January 2005, KDB has set up 29 private equity funds (PEFs), and has built up an extensive track record in fund management, including buy-outs, growth financing, and mezzanine financing. As of the end of 2020, total capital commitments of the 14 funds under management by KDB recorded KRW 2.5 trillion. The Bank ranked seventh in Korea measured in terms of total commitment size, with a market share of approximately 2.6%.

In a low interest rate environment, funds continued to flow into PEFs in chase for higher rates of return. Consequently, by the end of 2020, the number of PEF managers in Korea increased to 337, and total capital commitments amounted to approximately KRW 97 trillion.

Despite recent unfavorable market conditions, KDB sought to increase its rate of return by adopting exit strategies for investment assets within a blind pool of funds such as KDB Value PEF VII and KDB Sigma PEF II. Also, the Bank has continued to discover and invest in innovative and promising companies in the environment and energy sectors through the KDB Small Medium Mezzanine PEF and Infrastructure Initiative 1<sup>st</sup> PEF. KDB also participated as a major investor in a fund managed by the International Finance Corporation (IFC) through its KDB Asia Fund. By doing so, KDB contributed to the financing of major infrastructure and industrial projects in Asian developing economies such as Bangladesh and Myanmar.

### PLANS FOR 2021

KDB established a new fund ("KC SMEs and MEs Value Up 1<sup>st</sup> PEF") with fund size of KRW 200 billion in January 2021. The primary purpose of this initiative is to meet the growing needs of SMEs and MEs to issue/refinance in the mezzanine market as economic slowdown fueled by the prolonged Covid-19 crisis have significantly weakened their funding positions in the capital markets. The fund is expected to open a channel for SMEs and MEs, who are struggling despite their solid fundamentals, to secure required funding for the expansion of their business.

In response to the government's Green New Deal, KDB will build the foundation for investing in companies in the environment and energy sectors, for which the Bank plans to establish blind funds totaling KRW 500 billion dedicated to financing green infrastructures, pursuing both the public interest and commercial viability.

# Innovation & Growth Banking

KDB plays its role as a leading policy finance institution for innovative growth, nurturing future industries and new growth industries.



## Key to Korea's Innovative Growth

KDB's Innovation & Growth Banking Division envisions the development of new industries for the future of Korea and works to identify the next generation of companies that will lead the innovative growth of the Korean economy in the Fourth Industrial Revolution era.

## Engineering a System to Support Innovative Growth

KDB oversees and manages the "Common Criteria for Innovative Growth", which defines innovative growth categories according to the Innovative Growth Policy Council. The Council is made up by four government ministries<sup>1)</sup> and 11 policy financial institutions<sup>2)</sup> dedicated to creating a universal support system for the country's innovation and growth. KDB also endeavors to identify business areas on which the member institutions cooperate, effectively upgrade the universal support system, and properly implement relevant government policies.

1) Ministry of Economy and Finance, Financial Services Commission, Ministry of Trade, Industry and Energy, and Ministry of SMEs and Startups

2) Korea Development Bank, Industrial Bank of Korea, the Export-Import Bank of Korea, Korea Credit Guarantee Fund, Korea Technology Finance Corporation, Korea Credit Information Services, Korea SMEs and Startups Agency, Korea Trade Insurance Corporation, Agriculture, Forestry and Fisheries Credit Guarantee Fund, Korea Growth Investment Corporation, and Korea Venture Investment Corporation

## REVIEW OF 2020

Year 2020 was a mix of a crisis heralded by an unprecedented pandemic in a global scale and a dramatic shift in the economic paradigm. With the slowing down of the global economy and weakening investor sentiments, the focus on finding economic breakthroughs through innovation was more critical than ever.

During the year, KDB, as the Secretariat of the Innovative Growth Policy Council, schemed policy proposals and cooperative initiatives, specifically designed to enable the government, policy financial institutions, and private institutions to effectively support the Korea's innovative growth and Fourth Industrial Revolution businesses.

In particular, KDB launched a new program and established detailed implementation guidelines to support "Korea's 1,000 Innovative Companies Program\*", which is one of the major projects initiated by the Financial Services Commission.

\* A collaborative program led by the Financial Services Commission under which innovative companies (1,000+) are selected and provided with comprehensive financial support (investments, loans, guarantees) for 3 years. The program is initiated by government ministries, policy financial institutions and private financial institutions.

KDB also managed the “Common Criteria for Innovative Growth” with a goal of providing timely financial support for innovative growth. The Criteria is a common standard adopted by policy financial institutions for supporting innovative growth and businesses related to the Fourth Industrial Revolution, designed to remove any potential inefficiencies such as omission of eligible targets, unequal distribution of financing, and redundancy in support.

The Criteria, specified as the “Guidelines for Supporting Innovative Growth Areas by Policy Financial Institutions” from the government’s 『2020 Economic Policy Direction』, is being widely used by policy financial institutions as a standard for various government projects and product developments.

Moreover, based on the “Common Criteria for Innovative Growth”, KDB also established the “Common Criteria for New Deal Investment” in order to support projects affiliated with the Korean New Deal. The newly established criteria was created based on opinions of the relevant ministries, policy financial institutions and industrial experts, and is expected to be used as a standard guideline for evaluating and selecting investment targets of Policy New Deal Funds and policy financial institutions’ financial support to New Deal projects.

### PLANS FOR 2021

KDB, as a prominent policy financial institution leading Korea’s innovative growth, will continue its close and active cooperation with the government ministries, including the Ministry of Economy and Finance and the Financial Services Commission, to support the acceleration of the innovative growth.

2021 marks the second year since the launching of “Korea’s 1,000 Innovative Companies Program” and KDB continues stable operation of the program by evaluating and selecting more potential companies, and identifying areas required for improvement through systematically collecting feedback of previously selected innovative companies.

The Bank will complete the 4<sup>th</sup> revision of the “Common Criteria for Innovative Growth”, reflecting global demands and the latest technological trends as well as new government policies. In addition, KDB will make a full devotion to the successful implementation of the Korean New Deal through effectively managing the “Common Criteria for New Deal Investment” and monitoring the status of support for a New Deal ecosystem.

Lastly, KDB will strive to increase financial support to the areas of innovative growth, and thus serve as a catalyst for the transformation of the industrial structure of Korea into one that is centered on the promising companies armed with creativity and technological prowess.

## Indirect Investment

### REVIEW OF 2020

KDB provides companies with customized funds based on their stages of growth. The funds are supplied through private equity (PE) and venture capital (VC) funds managed by private fund managers. In response to the government’s policy direction, the Bank established funds such as the policy-type New Deal Fund, the Growth Support Funds, and the Materials, Parts and Equipment Fund. KDB also pioneered various investment projects to secure future growth engines and diversify its profit base, and currently leads the domestic VC market.

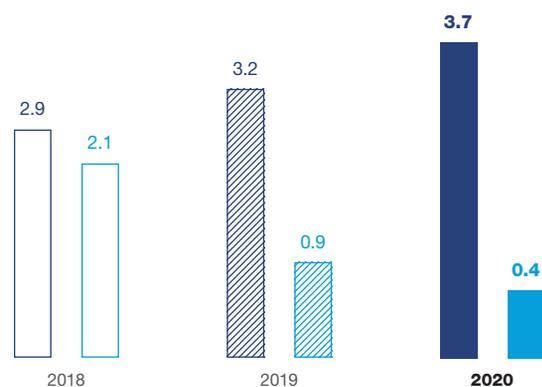
### Growth Support Funds

KDB played a key role in the establishment of the Growth Support Funds, which invest in companies in their growth to exit phases. Since 2018, the Bank has actively supplied growth capital to start-ups, SMEs and MEs. In 2020, KDB set up funds worth KRW 3.7 trillion, which together with the previous years’ funds, added up to a total of KRW 9.8 trillion, and successfully finished the 3-year policy support program. KDB has been an active supporter of start-ups, SMEs, and MEs in their early phases, providing venture capitals amounting to KRW 3.4 trillion through various funds.

### Details of the Growth Support Funds

(Unit: KRW trillion)

■ Fund Size ■ Investment Amount



### Materials, Parts, and Equipment Fund

KDB established a KRW 620 billion fund to provide focused assistance to the country's materials, parts, and equipment sectors in response to changing internal and external economic conditions. The fund exceeded its target commitment of KRW 400 billion and is expected to play a crucial role in enhancing the national competitiveness in the materials, parts and equipment industries, which are important sources of new jobs in the country. The fund is also expected to meet the mid- to long-term capital needs of innovative companies in a timely manner and guide them to make head starts in respective competing markets.

### Securities Market Stabilization Fund (in response to Covid-19)

KDB has invested KRW 2 trillion in a KRW 10 trillion Securities Market Stabilization Fund, which was urgently established to restore investor confidence after the Covid-19 Crisis. As the single largest investor of the fund, KDB successfully conveyed and achieved the government's policy objectives for securities market stabilization as the fund swiftly reduced the volatility and brought back stability to the stock markets.

### Regional Investment Funds (in response to Covid-19)

The Bank launched a KRW 26 billion Regional Industry Vitality Fund to promote innovative industries located in the provincial areas, which followed the successful establishment of a similar fund in 2019. While the 2019 Regional Investment Fund limited its targets to certain cities like Gwangju and Daegu (both the main investors of the Fund), the new fund expanded its targets to all regions outside the Seoul metropolitan area. The Korea Institute for Advancement of Technology (a public entity under the Ministry of Trade, Industry and Energy) joined as the main investor for the fund in order to vitalize regional investment initiatives and develop local economies. Particularly, the fund accelerated regional investments by providing special incentives to the regions severely hit by the Covid-19 pandemic.

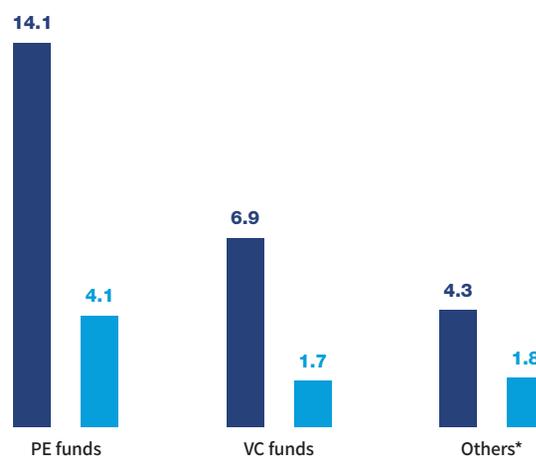
### Major Achievements in 2020

In 2020, KDB reinforced its role as one of the major investors in the domestic fund market with a track record of establishing 192 funds with an accumulated asset under management of approximately KRW 7.6 trillion. The Bank has supported a balanced and competitive growth of Korea's fund market by introducing a fund manager league system for the first time in 2016. KDB has also promoted an innovative investment culture by boosting expansion of a private sector-led VC market, allowing greater autonomy to asset managers for their responsible management and emphasizing performance-based fund management.

### Indirect Investment Volume

(Unit: KRW trillion)

■ Fund Size ■ KDB Participation



\* The Growth Ladder Fund, policy financial fund of funds (e.g., the Innovative Growth Fund, the Materials, Parts, and Equipment Fund), and the Securities Market Stabilization Fund

### PLANS FOR 2021

For the next five years, KDB will lead the establishment of policy-type New Deal Funds worth KRW 20 trillion to achieve the government's policy objectives including those for the Korean New Deal. It will also facilitate the investment by the Materials, Parts and Equipment Fund established in 2020 and follow up with an additional investment projects totaling KRW 500 billion, fostering healthy investment initiatives in these key areas and thereby strengthening Korea's overall industrial competitiveness.

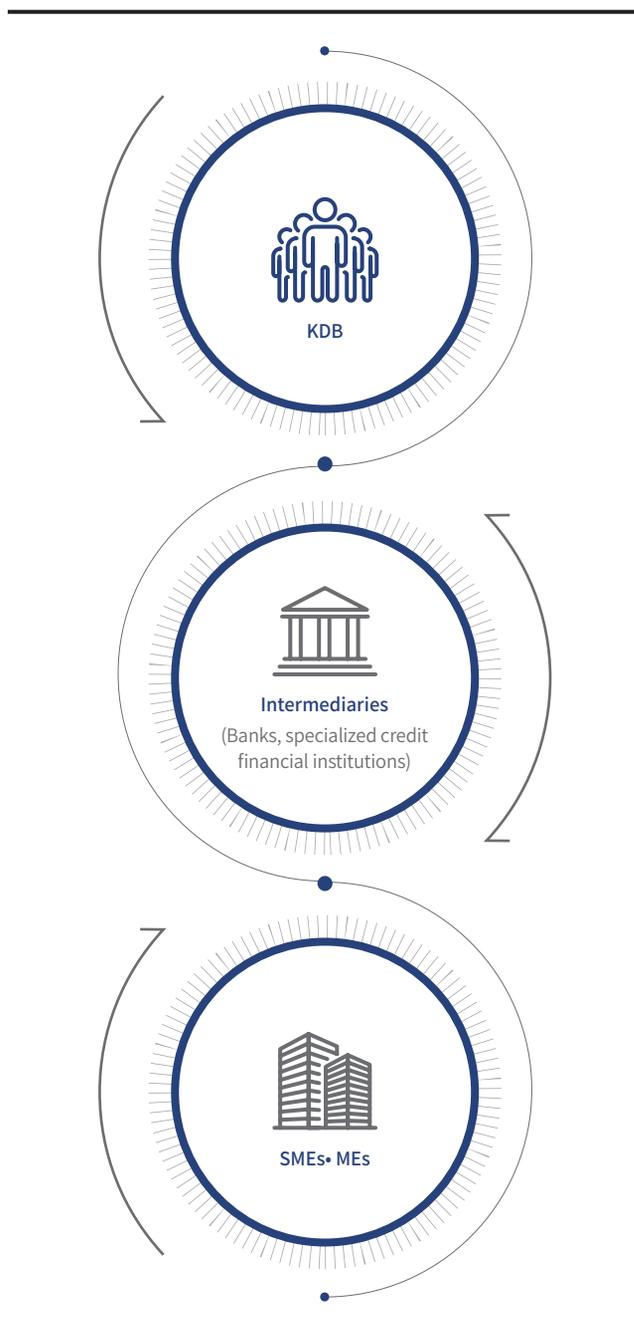
The Bank will proactively support the government's New Deal policies by creating the Smart Logistics Fund and the Green Impact Fund, each worth KRW 350 billion and KRW 50 billion. KDB will promote various investment projects to create new business opportunities for the future in collaboration with leading global companies and overseas asset managers.

As one of Korea's major institutional investors, KDB will fulfill its role by fostering an innovative start-up ecosystem through ample supply of venture capital.

## On-lending

### REVIEW OF 2020

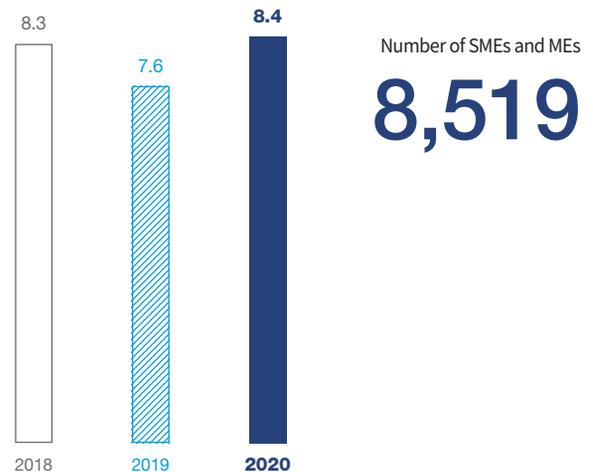
On-lending is a market-friendly, indirect policy finance tool specifically developed for SMEs and MEs. Financial intermediaries request KDB for funds on behalf of their SME and ME clients. In turn, KDB reviews qualifications of each requested client and supply the intermediaries with long-term and low-rated funds.



In 2020, KDB supplied on-lending loans totaling KRW 8.4 trillion to 8,519 qualified SMEs and MEs, which played a significant role in the growth of these corporates.

### On-lending loans supplied by year

(Unit: KRW trillion)



89.5% of the loans provided were directed to SMEs, and most of the loans were small-sized, averaging KRW 900 million per transaction, which was an essential move to reinforce SMEs' competitiveness.

There were two programs specifically designed to provide tailored support. "The Special On-lending for Strengthening the Competitiveness of the Materials, Parts and Equipment Sectors" (January 2020) and the "Special On-lending for Companies Hit Hardest by Covid-19" (April 2020) were launched in a timely manner to support government policies and respond to the unprecedented crisis.

### PLANS FOR 2021

In January 2021, KDB will launch the Special On-lending Program for New Deal Companies, a customized program to assist the government's policies for Korean New Deal. Together with other initiatives, the program will contribute to Korea's economic recovery by building the necessary infrastructure for a digital and green economy that will restore investments and support job creation in the post Covid-19 era.

The Bank will continue its on-lending support for the country's innovative growth and industrial competitiveness and play an instrumental role in overcoming the Covid-19 crisis through additional relief measures for companies struggling with the aftereffects of the pandemic.

# Venture Finance



KDB has been a loyal partner for start-ups from the beginning of the venture capital market in Korea, and is helping small giants grow into global unicorns in the Fourth Industrial Revolution.

## Venture & Technology Banking

### REVIEW OF 2020

Since 1997 when Korea's venture capital market was just beginning to take a shape, KDB has developed the market while making direct investments in the country's promising start-ups and SMEs. The Bank has recently increased its investments in the companies leading the Fourth Industrial Revolution and those with technological prowess, in line with the government's policy objectives of discovering and developing new engines for innovative growth.

### Establishing the infrastructure to cultivate a start-up ecosystem

KDB sponsored the production of the K-Tech Innovators, an ARIRANG TV show aired overseas to introduce and promote Korean start-ups into global markets. The TV show was made up of 10 episodes featuring 30 start-ups invested by KDB, and was broadcasted in 105 countries around the world.

In addition, KDB launched the Tech Start-up Value Up Alliance in collaboration with the country's four science and technology institutes\* and Mirae Holdings, providing a platform for promoting financial and non-financial support for tech start-ups incubating the innovative technologies of the institutes.



ARIRANG TV



Launch of Tech Start-up Value Up Alliance

\* Korea Advanced Institute of Science and Technology (KAIST), Gwangju Institute of Science and Technology (GIST), Daegu Gyeongbuk Institute of Science & Technology (DGIST), and Ulsan National Institute of Science and Technology (UNIST)

## Responding to Government Policies and Leading the Market through Differentiated Investments

KDB led the domestic venture capital market by introducing products like the Growth Sharing CB (A debt-type rapid investment vehicle) and the SAFE (Simple Agreement for Future Equity; An equity-type rapid investment vehicle) which were launched in April and October, respectively. The Bank also launched the Start-ups Crisis-overcoming Support Program to supply much needed liquidity to the venture capital market suffering from the pandemic and made early investments in sectors that were expected to outperform in the post Covid-19 era.

Moreover, the Bank focused its investment on the government's policy such as the Korean New Deal initiatives for investing in priority on 1) data, artificial intelligence, and 5G under the Digital New Deal category, and 2) materials, parts, and equipment related to Korea's core industries (future cars, bio & health, and system semiconductors)

Working jointly with the Korea Credit Guarantee Fund(KODIT), KDB has developed intellectual property(IP)-backed financing product to improve synergy effect between two policy financial institutions. The Bank played a leading role in IP financing by launching an IP-guaranteed loan program in connection with KODIT's IP value assessment and guarantee program in 2019 and an IP-Plus-guaranteed loan program in 2020. Moreover, KDB has made a significant progress in fostering the government's IP financing initiatives by contributing funds to create a recovery institution that is to liquidate the repossessed intellectual assets, and taking part in development of IP Finance Management System, an online platform that provides services for IP based financing.

### PLANS FOR 2021

In 2021, KDB plans to strengthen commercialization of R&D and technology to identify and foster promising start-ups. This will be accompanied by new product developments and pinpoint investments in start-ups qualified for the Digital New Deal and those in the innovative growth sectors, thereby promoting the growth of the country's promising tech start-ups.

## Scale-up Banking

### REVIEW OF 2020

In 2020, KDB established the Scale-up Banking Department dedicated to handling large-scaled investments and loans for innovative companies in the maturity stage of business development. The ultimate goal of the department is actively nurturing fast growing start-ups which are the key driving force behind job creation and securing the nation's economic growth potential.

## Support for innovative scale-up companies with large financial support covering both investments and loans

In 2020, KDB provided capital totaling KRW 480.8 billion (KRW 358.8 billion in investments and KRW 122 billion in loans) to 36 innovative scale-up companies with high potential, allocating KRW 13.4 billion per company on average.

During the year, 14 large-scale investments were made, each worth KRW 10 billion or more, including a key KRW 100 billion equity investment in Kakao Enterprise, a prominent AI-based B2B IT platform company.

KDB also launched Mega Venture Special Loan product, providing loans with preferential interest rates based on corporate value recognized in the market for start-ups that would normally be excluded from debt financing under the traditional, financial statement-based credit rating and review system. This product allowed KDB to execute nine transactions involving a mix of investments and loans, leading to a drastic improvement in the quality of the Bank's scale-up financing.

### Launching the Start-Ups Crisis-overcoming Support Program

KDB launched a KRW 300 billion program for promising start-ups facing temporary liquidity challenges and those making contribution to overcoming the Covid-19 pandemic. Since the launch of the program in April 2020, the Bank provided a total of KRW 290 billion in 58 transactions, serving as a safety net in the market to help start-ups weather the crisis in a timely manner.

### The Post-Covid Initiative: Creating an Innovative Ecosystem to Respond to Infectious Diseases

KDB begun forming an innovative ecosystem to promptly respond to new potential outbreaks of infectious diseases that may occur in any future.

To this end, KDB organized an advisory committee in September 2020 composed of experts from various fields including academia, medicine and industry. The advisory committee provided its expertise on the likelihood of emergence of other diseases and validity of the response measures (e.g., vaccines, treatments, diagnosis technologies, etc.), based on which KDB has made investments in companies with the relevant technologies. KDB plans to elevate the advisory committee to a response committee in the event of a potential outbreak, in order to provide efficient financial support for the commercialization of necessary response technologies, including financing the construction of production facilities and large-scale clinical trials.

## Overview of the Post-Covid Initiative

	Advisory Committee	Response Committee
<b>Classification</b>	FORECAST	REACT/RESPOND
<b>Purpose</b>	Set the directions of investment	Provide early analysis on infectious diseases and technology reviews
<b>KDB's Mission</b>	Invest in companies with relevant technologies in response measures	Support the commercialization of the technologies (large-scale clinical trials, etc.)
	<b>Form an innovative ecosystem</b>	<b>Establish an early response system</b>

## Role of each party in the Post-Covid Initiative

Classification	Roles
Advisory Committee	Composed of experts from academia, medicine and industry to make proposals on the directions for investment and recommendations on relevant technologies and companies (Kick-off meeting held on September 24, 2020).
KDB	KRW 200 billion investment over a span of five years in the companies with technologies that could respond to potential pandemic crisis. ※ Promoting joint investment through special funding rounds at NextRound sessions.
Open Innovation	Promoting technological advancement and commercialization through multidisciplinary cooperation of subcommittees composed of experts from industry, academia and medicine that focus on diagnosis, treatment, and vaccine developments and distributions.



Kick-off Meeting of the Post-Covid Initiative Steering Committee (September 24, 2020)

## PLANS FOR 2021

In 2021, KDB will strengthen its role as a major institutional supplier of scale-up capital in Korea and actively expand its investment and loan financing to growing ventures. In particular, the Bank will contribute to the successful implementation of the government's New Deal policies by setting up a KRW 1 trillion program over the next five years ("K-New Deal Start-ups Support Program") to increase funding support for the companies eligible under the "Digital and Green New Deal Criteria".

In addition, KDB aims to continue building stable asset portfolios by providing systematic supports through a mix of both investments and loans to innovative companies with high potential and policy relevance such as those engaged in bio & health and remote business industries.

## KDB NextRound

### REVIEW OF 2020

The KDB NextRound is a market-driven platform for venture investment that provides start-ups with the opportunity to attract investments, and investors with the opportunity to discover new investment targets. Since its inauguration in 2016, 430 IR rounds have been held for a total of 1,514 companies. The rounds introduced start-ups identified by accelerators, venture capital firms, and government-funded research institutes and attracted venture capital from both domestic and overseas investors. Among the start-ups which participated in the rounds, 358 successfully attracted investments totaling KRW 2.2 trillion.

In 2020, in addition to its general IR rounds, KDB held special rounds focusing on particular industrial segments such as bio and fin-tech to meet growing market demands. The Bank also held a global round in collaboration with international venture capital companies to support Korean start-ups seeking to expand their business into overseas. Another type of rounds were also held for regional venture hubs to vitalize the venture ecosystem outside the Seoul metropolitan area.

In addition, KDB organized a fair of the "NextRise 2020, Seoul" from June 23<sup>rd</sup> to 24<sup>th</sup> to provide a boost to the venture ecosystem and the economy struggling to overcome the Covid-19 Crisis as well as opportunities of growth sharing for venture capital companies, start-ups, and large enterprises. The two-day fair was co-hosted by KDB, the Korea International Trade Association, Korea Venture Business Association, Korean Venture Capital Association, and National Research Council of Science & Technology and many different participants from domestic and overseas venture capital firms, large enterprises and MEs, and the Tech Incubator Program for Startup organizations attended the fair.

186 domestic start-ups, big-names in the industry such as SamsungNEXT and AWS opened exhibition booths at the fair, and 26 conference sessions were held with Hyundai Motors announcing their open innovation strategies and panel discussions by Korean unicorns such as Coupang and Market Kurly. 49 online conference sessions were also held via a on-line channel, with topics ranging

from overseas investment trends to strategies for unicorn companies' success. The fair also provided a venue for on-/off-line business meetings for start-ups, venture capital firms, and domestic and international companies. Total of 1,507 offline and 207 online meetings for investment and business cooperation were arranged for 665 and 179 companies, respectively, making "NextRise 2020, Seoul" the largest start-up event ever to be held in Korea.



NextRise 2020, Seoul

KDB established and has been managing special-purpose funds to support the development of the Korean venture capital market and companies. Since 2014, the Bank has set up Global Partnership Fund Series (I to IV) with total size of KRW 484.5 billion to help innovative Korean start-ups advance to global markets and attract overseas investments. At the same time, the funds fostered the qualitative growth of Korea's venture ecosystem by promoting international venture capital companies' entry into the domestic market.

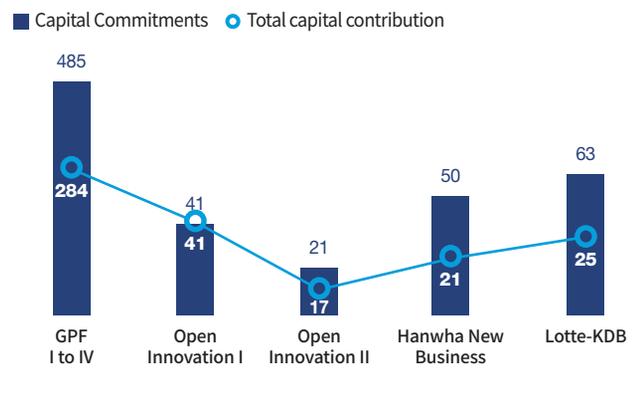
The Open Innovation Fund I was set up in 2017 to support Korea's southeastern region, and the Open Innovation Fund II was launched in 2019 for Korea's southwestern region. Both funds encouraged MEs in these regions engaging in traditional manufacturing business to join the venture ecosystem for open innovation, and continued to support MEs and start-ups for business cooperation and M&As.

The Hanwha New Business Global Plus Up Fund set up in 2018 jointly with Korea Trade-Investment Promotion Agency and the Hanwha Group, is currently operated by the Bank in a bid to attract more foreign investment.

The LOTTE-KDB Open Innovation Fund made in collaboration with the LOTTE Group was set up in 2019 to encourage active participation of the country's large conglomerates in the venture ecosystem and facilitate their open innovation. The fund has since been supporting the growth of Korean unicorn companies by establishing a cooperative system between large enterprises and startups and providing support for investment, technology partnership, network buildup, M&A opportunities, and international market entry via the established networks of the large enterprises.

### Special-purpose funds

(Unit: KRW billion)



In July 2020, KDB launched a start-up accelerating program, the KDB NextONE, and has been supporting the selected start-ups in their early stages. The KDB NextONE enables start-ups in their early stage to grow quantitatively and qualitatively through its business assessment consulting and customized mentoring service and connecting them to potential investors and partners. In the first round of the NextONE program, numerous start-ups successfully raised investments, improved their business performances, and helped create new jobs, putting the companies on the right track for further growth.

### PLANS FOR 2021

KDB will focus its efforts on building up a thriving venture ecosystem in Korea to assist the government's New Deal initiatives and policy goals of stimulating country's ventures. This will include sponsoring of KDB NextRound for start-ups and launching an on-line platform which will support the entire lifecycle of a start-up from its incorporation/incubation to growth, complementing the current off-line support system and open up a new and more integrated system free of time and space restrictions. Furthermore, KDB plans to organize NextRise 2021 from June 28<sup>th</sup> to 29<sup>th</sup> at COEX in Seoul in collaboration with partners around the world, with a long-term goal of turning it into a global start-up fair for the benefit of all participants.

# Project Finance



**KDB contributes to the solid growth of the Korean economy by providing comprehensive financial solutions for project finance (PF) including social overhead capital (SOC) and real estate.**

## Domestic Project Finance

### REVIEW OF 2020

KDB provides comprehensive financial solutions to projects for infrastructure, power, plants, and natural resources as well as real estate for the purpose of accelerating regional developments. The Bank also offers financial advisory and arrangement services for shipping and aviation financing to meet the needs of the project sponsors. Since 1995 after successfully arranging project financing for the construction of the Incheon International Airport Expressway, KDB has led the advancement of the Korean PF market over the past 25 years. By leveraging on the creative capacity of the private sector and stimulating long-term institutional investments, KDB has not only fulfilled its mandate as a policy financial institutions to reinforce national infrastructures, improve energy supply, and promote regional economies but also strengthened financial competitiveness and capability in the PF market.

In 2020, KDB arranged financing for 50 major projects - 14 infrastructure and 36 real estates - totaling KRW 10.2 trillion. By arranging KRW 4.6 trillion for infrastructures and energy projects alone, which included the Gangnam Beltway PPP refinancing and the Pocheon 947MW IPP LNG power projects, KDB contributed to revitalizing Korea's major infrastructure market.

In the real estate sector, KDB helped invigorate the regional economies by arranging financing totaling KRW 5.6 trillion for 31 projects, notably the Incheon North Port Logistics Center project and the GO&S PFV Cold Storage Logistics Center project in Yongin, as an anchor player in the domestic real estate PF market.

### PLANS FOR 2021

In the Social Overhead Capital (infrastructure) sector, KDB plans to support the stable operation of the nation's infrastructure network through projects restructuring and refinancing while leading the changes triggered by the Fourth Industrial Revolution. KDB will actively strengthen the financial support for information and communication technology (ICT) infrastructure such as high-speed optical communication networks, data centers and satellites.

For the energy sector, KDB will lead the Korean New Deal initiatives by proposing solutions like a public fund model which invests in small and medium sized solar power projects while promoting the government's renewable energy policy by proactively financing clean energy projects in order to replace the old coal plants.

Moreover, KDB will strengthen its role as a prominent policy financial institution by increasing its equity participation in industrial infrastructure and urban development projects from the real estate market. The Bank will also support the government's policies aimed at strengthening the national

economy by proactively engaging in projects on digital transformation (e.g., smart logistics centers, advanced industrial complexes, etc.) and data center advancements.

## Overseas Project Finance

### REVIEW OF 2020

KDB entered the overseas PF market in 2003 and has built up its deal sourcing networks and further set up PF Desks headed by highly-skilled local experts in Singapore (2011), New York (2015), and London (2016). After successfully arranging financing for four cross-border projects in 2006, including the Oman Aromatics Refinery, KDB fully started its overseas PF businesses in 2011 and has closed 156 overseas transactions totaling USD 13.4 billion by the end of 2020.

In 2020, KDB arranged financing for 12 projects in the international PF markets totaling USD 1.3 billion, and 18 projects in the shipping and aviation sectors totaling USD 2.8 billion. By carrying out projects in both the developed and developing economies including the A465 Heads of the Valleys Dualling Project in the UK, the Japan Solar Power Project, the DoggerBank 1.2GW Offshore Wind Farm Project, and the Jawa 9&10 Power Project in Indonesia, the Bank continued its expansion in the global PF market.

Of the global PF deals that KDB participated as an arranger in 2020, five deals were selected as the Deal of the Year by Project Finance International (PFI).

※ PFI Deals of the Year featuring KDB participation: DoggerBank 1.2GW Offshore Wind Farm Project, the A465 Heads of the Valleys Dualling Project, CFXD Offshore Wind Power Project in Taiwan, Umm Al Hayman Wastewater Project in Kuwait, and WestConnex M4 Road Refinancing Project in Australia.

#### LANDMARK DEALS OF 2020

### WestConnex M4 Refinancing Project in Australia (PFI Deal of the Year)

KDB reached financial close for the WestConnex M4 Refinancing Project in Australia on December 11, 2020. The transaction refinanced WCX's debt in respect of its M4 Asset, part of a three-stage project to construct and operate a toll motorway in the western part of Sydney. It is the largest road infrastructure project in Australia to date with total investment of AUD 15.7 billion, and Samsung C&T participated as one of the design and construction contractors. KDB as a mandated lead arranger successfully closed the AUD 4.2 billion refinancing arrangement along with 18 other global lenders. The deal further paved the way for Korean companies' entry into the Australian infrastructure market while solidifying the Bank's status in the global PF markets.

### CFXD Offshore Wind Power Project in Taiwan (PFI Deal of the Year)

KDB closed a financing transaction on Jan 24, 2020 for the CFXD Offshore Wind Power Project in Taiwan, under which a 600MW offshore wind power facility will be constructed off the central coast of the island with the entire power generated to be sold to a state-owned electricity company based on a 20-year power purchase agreement. The project marks the first large-scaled offshore wind power project undertaken in Asia, with Korea's LS Cable & System participating as a marine cable supplier. KDB as a mandated lead arranger successfully closed a USD 2.9 billion financing with export credit agencies (Korea Trade Insurance Corporation, and the ECAs of Denmark, Netherlands, UK, Norway, Japan and Germany) and 18 other global banks. The deal is expected to promote Korean companies expansion into the new and renewable power markets in Asia and strengthen the Bank's position in the global PF markets.

### PLANS FOR 2021

KDB will strive to expand its PF operations and become one of the leading global PF houses. To this end, the Bank will establish marketing strategies tailored to the geographical regions where PF Desks are located and seek out more opportunities for advisory and arranger roles through greater equity participation in reputable infrastructure funds.

The Bank will also leverage its expertise in international renewable energy projects and corporate PPA-based financing<sup>1)</sup> to work with Korean companies on overseas renewable energy projects and promote the RE100<sup>2)</sup> initiative.

Furthermore, KDB intends to undertake more ship financing targeting global top-tier ship owners to increase its prime assets and enhance the Bank's brand power. As for aviation financing, KDB will aim for a sustainable growth of the business by taking on selective financing opportunities, focusing on clients with proven business capacity.

1) Corporate Power Purchase Agreement (PPA): A legal contract whereby a company purchases electricity from an independent power producer of a utility company.

2) RE100: A global corporate leadership initiative to generate 100% of electricity from renewable sources.

# Trading



KDB offers a diverse lineup of derivative products that satisfy customer needs in a timely manner, allowing clients and financial institutions to seamlessly conduct their daily business activities.

## F/X & Derivatives Trading

### REVIEW OF 2020

KDB has pioneered the Korean trading market since the 1980s when F/X and derivatives products were new in Korea. In 1998, KDB led the development of the KRW interest rate swap and KRW/USD currency options markets, and has been leading the KRW derivatives market ever since. Over some 30 years, KDB has built up broad expertise required to deal with a wide variety of products, ranging from F/X, swaps, options, and other basic derivatives to complex structured derivatives, which enable the Bank to provide hedging solutions tailored to the need of each corporate client.

Despite challenges raised by the Covid-19 pandemic in 2020, KDB leveraged its experience and expertise to offer hedging products customized to the specific needs of its domestic clients and achieved the following outcomes.

First, KDB offered hedging instruments tailored to the financing needs of airlines, shipping companies and refineries while providing currency swaps at competitive prices to public corporations in need of long-term financing, contributing to the country's efforts to overcome the Covid-19 Crisis.

Second, the Bank worked on developing new products that can satisfy clients' needs in a low-interest environment by launching derivative-linked structured deposit products.

Third, KDB led the stabilization of the greenhouse gas emissions trading in Korea. As a market maker, the Bank contributed to the stabilization of emissions trading prices and acted as an advisor to the government, providing advices on ways to advance the market through the adoption of a third-party market participation system.

While playing a role as market-maker in the domestic swap market, KDB supplied foreign currency to the market where the liquidity of foreign currency was limited and also worked to inject liquidity to the currency spot market by building up trade volumes that have undergone contraction since the Covid-19 outbreak.

### PLANS FOR 2021

With unpredictable market conditions expected in 2021, KDB will provide a wider range of products and services customized to the needs of its clients in order to help them run their businesses in a stable manner. KDB's plans for derivatives are as follows.

First, KDB will strengthen its competitiveness in derivative sales by exploring new markets and areas that will help boost the Bank's earnings. The Bank will promote the expansion of its presence by establishing an overseas derivatives desk to identify potential opportunities with overseas non-resident clients. The Bank will also seek to satisfy various demands of its clients through hedging instruments developed based on KDB's proprietary modules.

Second, KDB will proactively respond to global changes in regulations and market rules. The Bank will promote the initial margin agreement with each transaction party to prepare for the new initial margin rules that are expected to take effect from September 2021. Also, KDB will prepare in advance for the implementation of transactions with alternative interest rates in response to the discontinuation of LIBOR. The Bank's unwavering commitment for the protection of derivatives investors will continue in line with new domestic regulations on consumer protection.



## Capital Market Trading

### REVIEW OF 2020

KDB leveraged its overseas financial network to establish preemptive securities management strategies and cooperates with its New York and London Branches to employ a round-the-clock trading system, enabling it to stay vigilant on market volatility at home and abroad. Following the opening of the Chinese stock market to foreign investors, KDB became the first Korean bank to be awarded Qualified Foreign Institutional Investor (QFII) and RMB Qualified Foreign Institutional Investor (RQFII) licenses in 2009 and 2015, respectively. In addition, the Bank obtained China Interbank Bond Market (CIBM) Direct Access qualifications in November 2020. Such accomplishments paved the way for the Bank to make active inroads into securities markets in China and other emerging economies.

The Bank was also designated as a primary dealer for Korea Treasury Bonds, contributing to the government's policy to advance government bond trading in both primary and secondary markets.

### PLANS FOR 2021

KDB is committed to achieving stability in its target return rates and foreign currency liquidity as shown by the adoption of the strategic asset allocation system in December 2020 aimed at improving the Bank's long-term profitability.

Furthermore, the Bank will focus on diversifying its assets under management by expanding investments to include exchange traded funds (ETF), and achieve both portfolio stability and higher profitability. KDB will also support bond offerings by Korean corporate issuers through its active presence in the bond markets as one of the major bond houses in Korea. Through its role as a primary dealer, the Bank hopes to contribute to the sophistication of Korea's secondary bond market.

# International Business



**KDB will support the overseas expansion of Korean businesses and lead the globalization of Korea's financial industry by utilizing its robust global network and global business experience**

## Active Overseas Expansion

KDB plays a significant role in the globalization of Korean financial institutions and their expansion to overseas markets. The Bank leverages its overseas networks to support the government's New Southern Policy and promotes the paired advance of the Korean financial institutions and Korean enterprises to the global markets.

As of the end of 2020, KDB has 27 overseas offices across 18 countries - one regional office, nine branches, six subsidiaries, nine representative offices, and two expatriate employees on secondments - and continues to pursue the expansion of its global presence to better serve the needs of its clients looking to enter overseas markets.

In 2020, KDB made meaningful additions to its overseas networks by establishing the New Southern Business Belt and entering into strategic markets. KDB established PT KDB TIFA FINANCE TBK in October 2020 by acquiring a local corporation in Indonesia where the demand for financial services remains high and opened a branch in Yangon after obtaining the authorization from the Myanmar authorities. In addition, KDB's Head Office was converted to a financial holding company in terms of its legal status within the US, a major achievement in

its effort to establish a venture capital firm in the country for the purpose of nurturing ventures and creating an ecosystem for Korean ventures in overseas markets.

In spite of the Covid-19 pandemic, KDB continued its exchanges with overseas institutions through various virtual meetings, arranging senior-level meetings with partner institutions such as the IFC and Mizuho Financial Group. KDB also strengthened its network and business cooperation through initiatives including 1) a webinar with a strategic client in the global logistics sector in October, 2) a keynote speech by the Bank chairman at the annual conference of the ASEAN Plus Three Inter-Bank Cooperation Mechanism held online in November, and 3) a two-day online workshop with a long-time business partner in Japan in December.

In 2021, KDB will continue its efforts to expand its global presence in strategic regions. It will strengthen its business capacity by completing the Asia-focused network expansion strategy and moving on to establishing new branches and subsidiaries in key markets including Silicon Valley in the US and Hong Kong. In addition, it will actively seek the growth of its assets and business expertise by promoting scaling-up and localization of its overseas networks.



Establishment of PT KDB TIFA FINANCE TBK



Opening of the Yangon Branch

## Cross-Border Syndicated Loans

In 2020, KDB reported a solid gain from cross-border syndicated loans against increased uncertainty in the global economy caused by the Covid-19 pandemic through expanding high-quality assets and secondary loans, notably the financings arranged for ONGC Videsh in India, Winson Oil Holdings in Singapore, and MISC in Malaysia.

The USD 1 billion syndicated loan transaction for ONGC Videsh, a state-owned oil and natural gas corporation in India, was a meaningful deal both in terms of the fee income it generated and securing a strong foothold in one of the world's key emerging markets. KDB jointly arranged the transaction with its global partners, selling down a portion of its underwriting commitment through general syndication.

Similar to the aforementioned deals, KDB will continue to enhance its presence in the global syndicated loan markets with a focus on emerging economies in Asia, responding to the government's New Southern Policy in 2021 and raising its status to a global player in the global financial market. To this end, KDB will utilize local experts in each strategically important region and endeavor to collaborate with global financial institutions

and identify promising industry of each target country and conduct and promote an effective and differentiated approach to each financial market of the target country.

## Trade Finance

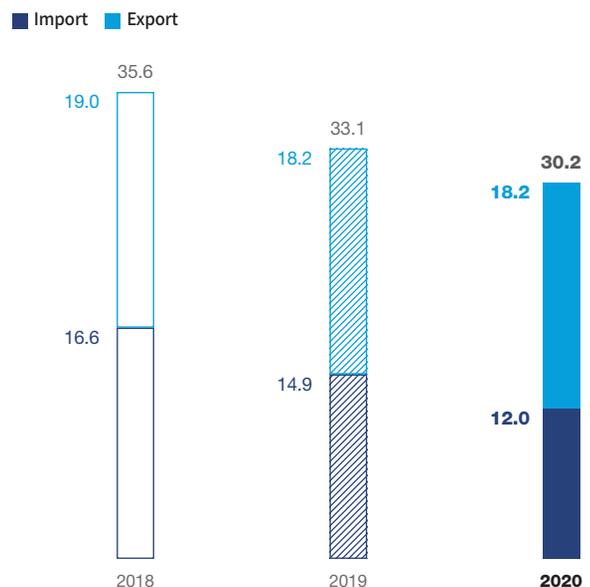
KDB offers comprehensive trade finance services to domestic companies through a wide range of products including letters of credit(LC), documents against acceptance(DA), documents against payment(DP), and open account(OA). In addition to traditional export and import financings, KDB also engages in risk participation transactions with global banks and supranational institutions' guaranteed credit line for trade finance.

Despite adverse trade conditions due to the Covid-19 pandemic in 2020, KDB achieved a total export and import financing volume of USD 30 billion for three consecutive years and KDB's market share in the domestic trade finance market ranked fourth, one notch higher than the previous year's.

KDB will expand its trade finance business in 2021 by leveraging the in-house networks with domestic importer and exporter clients and promoting collaboration with corporate partners, supporting Korea's growing trade volumes.

### Export and import financing supplied to Korean companies by year

(Unit: USD billion)



# Pension & Trust

KDB offers customized financial services for its pension & trust operations based on its accumulated experience as a leading expert in corporate banking.



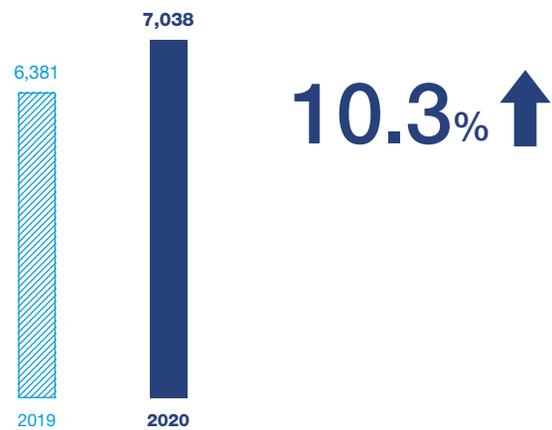
## Pension

KDB as Korea's leading corporate banking specialist runs operations of retirement pension funds as part of its efforts to provide customized financial services to its corporate clients and also offer asset management services, utilizing its long-term track records.

In 2020, KDB ranked 11<sup>th</sup> in terms of the size of the pension assets under management (AUM) among 44 domestic pension managers in Korea, amid increased uncertainty in employment due to the impact of the Covid-19 pandemic and workforce restructuring undertaken by large enterprises. KDB's pension AUM increased by 10.3% from 2019, reaching KRW 7 trillion at the end of 2020.

### Pension Assets under Management

(Unit: KRW billion)



In 2021, KDB will effectively respond to the government's demand for the improvement in the retirement pension schemes. The Bank plans to strengthen its business competitiveness by promoting cooperative marketing with relationship managers working in the Bank's branches. The Bank also seek to improve the rate of return for its customers through portfolio optimization. Furthermore, KDB will expand its range of quality products and improve the Bank's IT systems for client's convenience.

## Trust

Since establishing its money trust business in 1989, KDB has expanded its business into property trusts and custody services over the years. Through its specialized money trust and property products (e.g., real estate security trusts and monetary receivables trusts), the Bank offered a stable option to its corporate clients for managing their spare funds and facilitated funding. While undertaking the custody operations for various policy finance funds and playing its role as an agent bank, KDB has also worked on digitalizing its trust business by applying the robotic process automation (RPA).

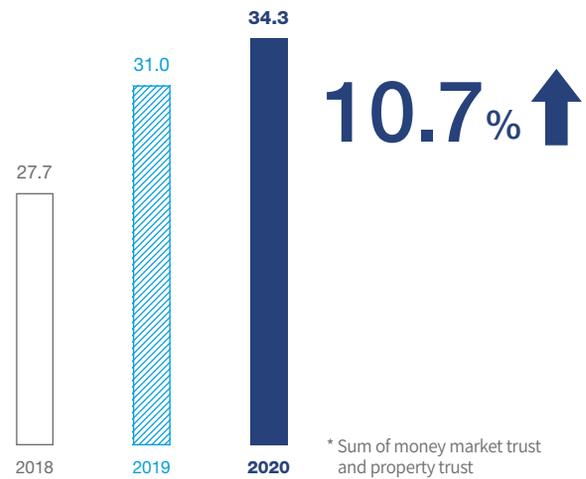
In 2020, the average balance of KDB's money market trust assets increased by KRW 0.4 trillion from the previous year, supported by its efforts to offer corporate clients with stable and diverse asset managing options including high-return foreign currency products (e.g., USD RP, USD-denominated notes) and quality investment products.

In the property trust business, the Bank's asset balance increased by KRW 2.9 trillion from the previous year, thanks to a new monetary receivables trust transactions totaling KRW 9 trillion which supported SMEs and MEs with low collateral capacity amid deteriorating business conditions caused by the Covid-19 pandemic.

In the custody business, KDB actively marketed its service to various policy finance funds, resulting in a year-on-year increase of KRW 3.5 trillion in its average custody balance. Also, as part of the bank-wide digitalization effort, the Bank completed adopting the RPA for a selected part of its operations, namely the custody and agent banking processes.

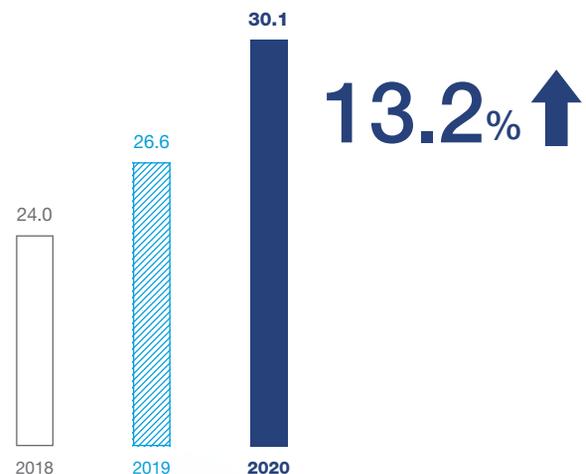
### Trust Assets Balance

(Unit: KRW trillion)



### Custody Balance

(Unit: KRW trillion)



# Research & Credit Review



**KDB is a think tank in policy finance, ensuring innovative economic growth and sustainable development, making in-depth research on inter Korean relationship in preparation for an economic cooperation in the Korean Peninsula.**

## Industry & Technology Research

KDB provides a comprehensive array of industry and technology research services including industry sector ratings and outlooks, technology reviews, and technology credit bureau evaluations. The Bank has two purposes in the research services: internally supporting the top management's decision makings and the Bank's credit operations and externally serving as a think-tank for policy finance in Korea for securing future growth engines for the country.

In 2020, since the onset of the Covid-19 outbreak, KDB analyzed the impact of the crisis on the supply and demand of major industries and its short- and long-term effects, while keeping an eye on global trends, especially the status of vaccine development. In addition, the Bank conducted research to facilitate new industries such as those related to remote services and digital transformation, deliberating on ways to strengthen competitiveness of each industry in the post-Covid-19 era.

In particular, KDB published a report of the 2020 Supply Chain Industrial Structure and Company Map targeting 13 industries including semiconductors and future automobiles, which were selected based on the multiple dynamics affecting the Korean economy such as the Korean New Deal policy, and suggested ways to strengthen the competitiveness of each of the selected industries.

The report condensedly contained KDB's accumulated know-how's in trends of markets and technology, supply chains, and corporate analysis. The report served as the key resource within the Bank in its support of Korea's industrial competitiveness and a reference for government agencies such as the Financial Services Commission and the Ministry of Economy and Finance.

For successful implementation of the government's New Deal policies and the Bank's credit decision, the Bank also published a report of In-Depth Study into the Korean New Deal Industries, covering five industries (5G, AI, future vehicles, renewable energy, and smart city development), their current status, and the ways to move them forward. It was used by various financial task force teams linked with government policies and by the Bank's top management for decision making.

In 2021, KDB will step up its research effort in innovative growth so that Korea keeps its foothold in the Fourth Industrial Revolution era while continuing its study on promoting the competitiveness of new industries and change in industrial trends caused by Covid-19.

## Credit Review

Since 2018, KDB adopted the Credit Review System for New Industries and Innovative Companies to better respond to the diverse funding needs of the country's innovative companies in their various growth stages.

The system was further strengthened in 2020 through increase in the number of dedicated teams from two to four and relocation of experienced credit officers in venture capital investment to the dedicated teams. The number of credit transactions reviewed increased significantly from 15 in 2019 to 65 in 2020 through the use of the agile credit review techniques, which enabled a more rapid and efficient review process, promptly responding to the funding needs of various new growth companies. As a result, KDB effectively and efficiently supported the funding needs of innovative companies who had received recognition for their potential for growth but had been missing out on getting timely access to capital.

In line with the government's New Southern Policy, KDB bolstered credit review capacity of its overseas branches located in Asia by dispatching credit specialists to Singapore and Hong Kong in 2020.

In 2021, KDB will establish the New Industrial Credit Review Department dedicated to new industries with strong potential for innovation and growth while promoting an innovative mindset across the Bank, and encouraging implementing more measures that are geared to facilitating the expansion of new industries.

KDB will continue its efforts to strengthen its credit review expertise by introducing digital transformation to review processes. For this end, the Bank plans to re-establish its review system by completing the development of an IT-based review system and implementing a comprehensive training program to nurture the next generation of credit specialists.

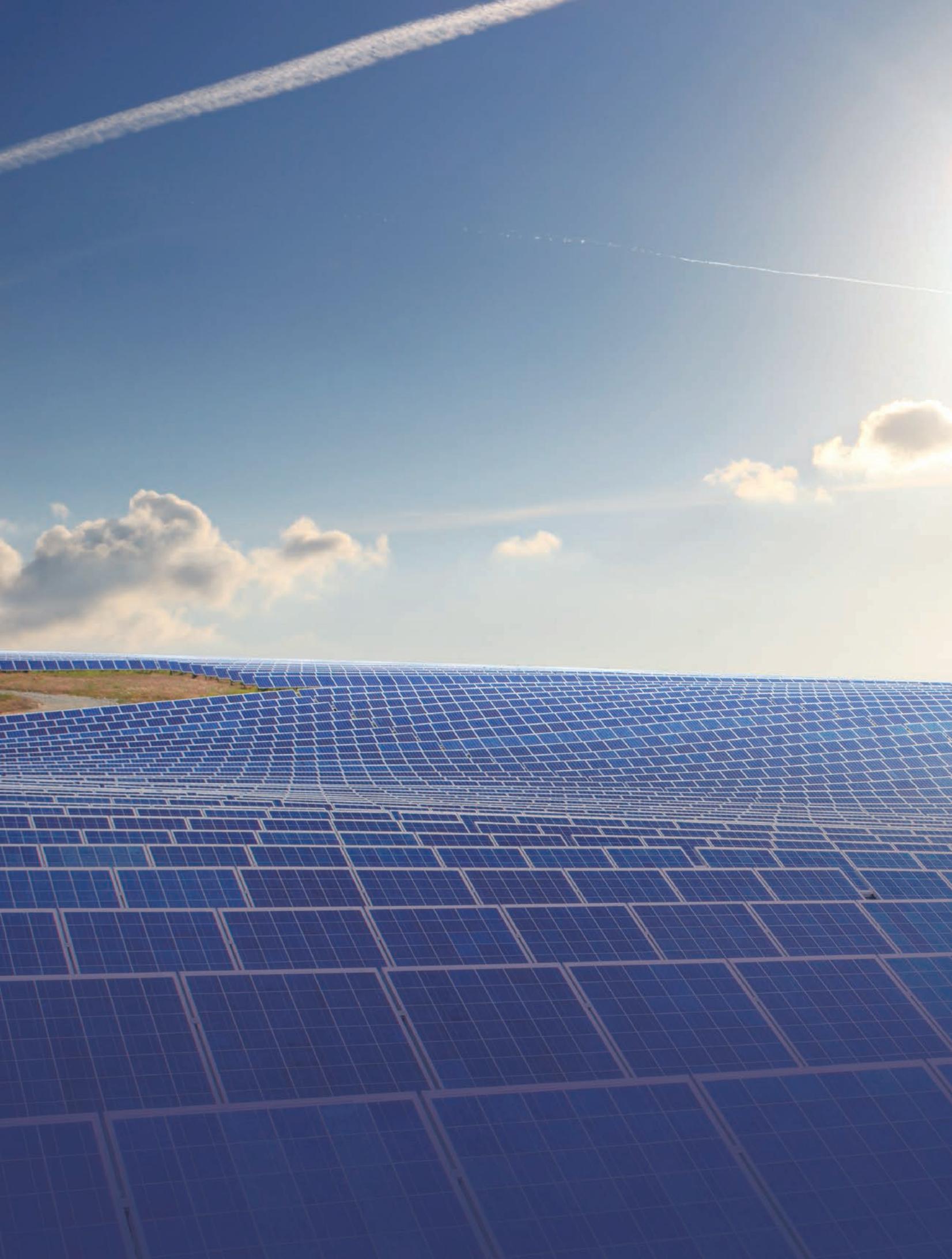
## Research on Reunification Finance

As the country's representative policy finance institution, KDB conducts in-depth research on North Korea's economy and industries in preparation for potential advancement in inter-Korean relations and resumption of inter-Korean economic cooperation. Based on its accumulated knowledge, the Bank works painstakingly on responding to future changes by building up a foundation for cooperation with relevant organizations including public institutions, think-tanks, and corporate partners.

In 2020, KDB conducted an in-depth study on North Korea's current issues, its economy and industries to support the government's policy initiatives and prepare ahead for a potential resumption of inter-Korean economic cooperation. KDB published 2020 Industries of North Korea, the country's only periodical featuring North Korean industries released every five years since 1995, and KDB North Korean Development, which is a regular publication on the economy and industries of North Korea.

In 2021, KDB will strengthen its in-depth research in preparation for an era of inter-Korean cooperation by incorporating analysis on North Korea's new economic policies. In addition, KDB will enhance cooperation both inside and outside Korea by hosting the North Korea Policy Forum and exploring ways to re-establish a research network with domestic and overseas research institutes and international financial institutions.





# SUSTAINABILITY REVIEW

In 2020, KDB continued its seamless effort to run its business in a way that is ethical, responsible, and sustainable. The Bank also accelerated its digital transformation by adopting innovative technologies such as big data, AI and robotic process automation(RPA). KDB is committed to the global trend of promoting sustainability and will become the leading advanced policy bank at the forefront of Korea's sustainable growth.

- 046 Liability Management
- 049 Risk Management
- 052 IT & Digital Transformation
- 056 Ethical Management
- 059 Human Resources Management
- 061 Corporate Social Responsibility

# Liability Management

KDB strives to secure sufficient and timely funding to carry out its policy financing, taking into account the prevailing market conditions.



## KDB Bonds

KDB issues Industrial Finance Bonds (“KDB bonds”) to procure necessary funds that will be used for the development and promotion of industries, expansion of social infrastructure, regional economic development, stabilization of financial markets, and facilitation of sustainable growth. KDB’s funding activities are in accordance with the Korea Development Bank Act. As stipulated in the Act, KDB as a state-owned policy bank is protected against the risk of insolvency by the government, and its credit risk is considered equal to that of the government under Basel III criteria. As a result, KDB bonds are issued at the lowest interest rate, next to the Korean treasury bonds.

### KRW-denominated bonds

In 2020, the domestic bond market rallied throughout the first half of the year driven by the Bank of Korea’s monetary easing in response to the recession in the real economy caused by the Covid-19 outbreak. In the second half, however, increase in government-issued Treasuries to finance the stimulus package and expectation for an economic turnaround from vaccine roll-out placed a floor to yields, reversing the trend of the first half.

KDB bonds issued in 2020 to institutional investors totaled KRW 60.5 trillion, with the outstanding balance as of year-end standing at KRW 106.7 trillion, a year-on-year increase of KRW 18.0 trillion and KRW 16.0 trillion, respectively. It is noteworthy that KDB exceeded its yearly debt target despite unfavorable supply and demand conditions in the market, securing the sufficient resources necessary to meet the unexpectedly high demands from policy financing proposals.

### Market rates on Benchmark Bonds by Maturity

As of December 31, 2020

(Unit: %)

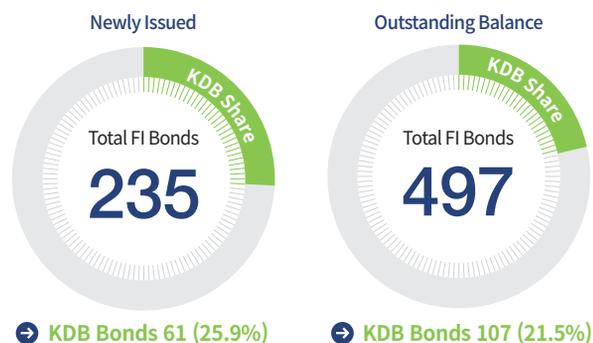
	1Y	3Y	5Y	10Y
Korea Treasury Bonds	0.657	0.970	1.335	1.722
<b>KDB bonds</b>	<b>0.895</b>	<b>1.104</b>	<b>1.505</b>	<b>1.942</b>
Bank debentures (AAA)	0.945	1.162	1.547	2.036

KDB bonds are classified as special bank debentures and KDB is the largest issuer in the domestic bond market, behind the government and the central bank. In terms of outstanding balance, KDB bonds account for the fourth largest share following government bonds, monetary stabilization bonds, and mortgage backed securities.

### Share of KDB Bonds in the Domestic Bond Market

As of December 31, 2020

(Unit: KRW trillion)



Moreover, the yields on KDB bonds are widely used by market participants such as the Korea Financial Investment Association as one of the key benchmarks alongside those on Korean treasury bonds and monetary stabilization bonds.

KDB pioneered the market for ESG bonds in the domestic market with the country's first ever green and social bonds issuances amounting to KRW 600 billion in 2018. Since then, KDB has led the market for ESG bonds in the country. Following up with a KRW 800 billion issuance in 2019, KDB raised a total of KRW 1.2 trillion from ESG bonds in 2020 which included a KRW 200 billion green bond and a KRW 1 trillion social bond. The proceeds from the KRW 1 trillion social bond were specifically used for supporting enterprises hit by the Covid-19 pandemic and those contributing to job creation.

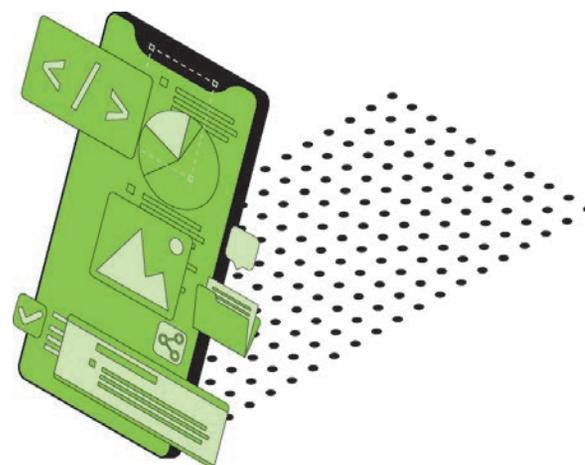
In addition, KDB strengthened the transparency of disclosure of the social and environmental impacts of its ESG bonds by obtaining an independent third party opinion on the bond prospectus, which will help enhance investor confidence in KDB's KRW-denominated ESG bonds and contribute to a qualitative growth of the Korean ESG bond market.

In 2021, KDB will seek to further reduce its funding costs and strengthen the investor base of KDB bonds through a flexible funding strategy that takes changes in KDB's assets and liabilities into consideration while diversifying its products and investors. In addition, the Bank will contribute to the advancement of the domestic ESG bond market by actively issuing and promoting voluntary disclosure practices among the other Korean issuers.

KDB will comply with existing and new external regulations such as Basel III and ensure a stable supply of capital through flexible and timely financing activities for the development and promotion of Korean industry.

#### Foreign currency-denominated bonds

2020 was an unfavorable time for all global market issuers with a significant decline in the international bond market from February to April triggered by the Covid-19. KDB nevertheless managed to raise USD 7.5 billion of foreign currency funds through preemptive and opportunistic funding activities backed by close monitoring of the market volatilities. Most importantly, KDB raised USD 500 million from the international bond market in April, marking the first re-opening funding out of Asia from the primary bond market which had been completely shut down since the WHO's declaration of Covid-19 as pandemic in February. The milestone transaction solidified



KDB as Korea's representative borrower in times of crises and was well recognized by the market, winning the "Best Quasi-Sovereign Bond" award by The Asset.

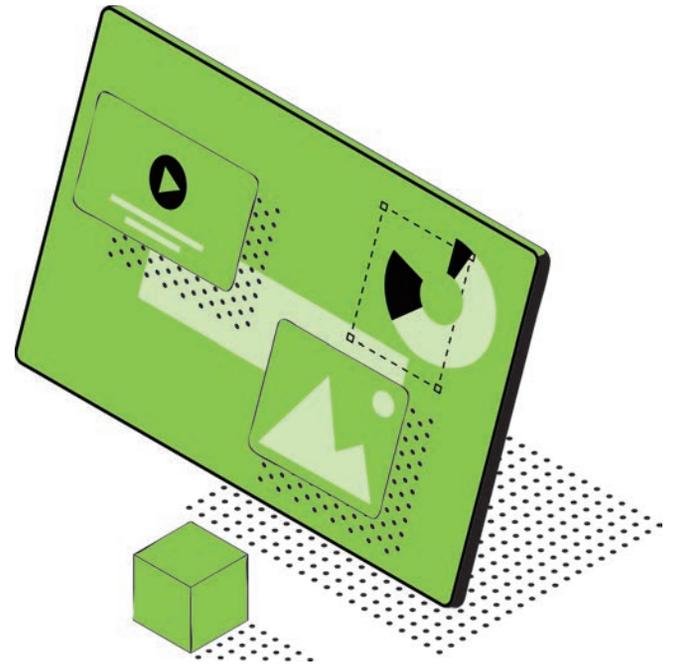
The Bank diversified its funding sources by tapping the Swiss Franc (CHF) and Kangaroo (AUD) bond markets, reducing its dependence on the USD while attracting investors from Europe and the US in addition to its strong existing Asian investor base. In tandem with the global movement toward socially responsible investment, KDB issued its inaugural foreign currency denominated Social Bond ("Covid-19 Response Social Bonds"). KDB also became the first Asian issuer to print a SOFR-linked FRN bond in a 144A market, faithfully committing to prepare in advance for a post-LIBOR era.

In 2021, KDB's funding strategy will focus on flexibility, bracing for potential volatility in the market stemming from changing monetary policies and geopolitical risks attributable to the prolonged spread of Covid-19. While continuing to serve as Korea's benchmark issuer in wide-ranging markets including the US, the Bank will also make concerted efforts to expand its investor base in view of enhancing the funding conditions for all Korean issuers.

## Deposits

KDB ensures efficient supply of policy funds by utilizing a wide range of deposit instruments to supplement funding from KDB bonds, which can be price-sensitive to market conditions. By securing sufficient amount of funds through cost-efficient deposit and money market products, KDB strives to diversify its funding risks while reducing funding costs to enhance its operational competitiveness with the ultimate goal of more effectively supporting the growth of the Korean economy.

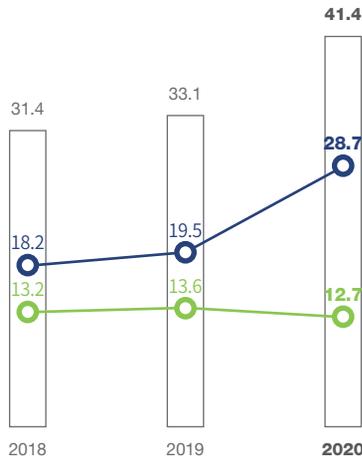
There was much uncertainty surrounding the financial market due to the Covid-19 in 2020 and, despite intensified competition among banks, KDB's total deposits rose by KRW 8.3 trillion, thanks to a new line of successful deposit products offered on line, coupled with flexible interest rate schemes available for corporate clients. In particular, the Bank attracted approximately 48,000 new accounts within six months of launching the T Benefit Savings Account, the first private label deposit product launched by a Korean bank in collaboration with a fin-tech company. The popularity of the product substantially contributed to expanding KDB's future customer base while securing a stable channel of deposits.



**KRW- denominated Deposits**

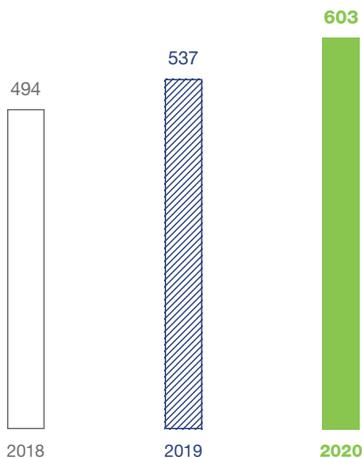
(Unit: KRW trillion)

● Corporate deposits ● Retail deposits



**Number of Retail Customers**

(Unit: 1,000 persons)



In 2021, KDB will continue to attract deposits from its clients as a means to ensure the stable supply of policy funds.

First, KDB will facilitate more deposits from SMEs and MEs and improve the current financing structure which is heavily concentrated on large companies

Second, the Bank will expand its wealth management services to high-end customers, and train more private banking specialists to further secure expertise in deposits.

Third, under intensifying competition triggered by the popularity of fin-tech platforms for attracting new deposit accounts, KDB will strengthen its partnership with fin-tech companies to expand its lineup of remote and competitive banking services, actively accommodating to a new digital era ahead.

**Liquidity Management**

KDB closely monitors market conditions and events to swiftly adapt to changes in global financial events and take preemptive risk management measures to obtain optimal level of liquidity. KDB utilizes various short-term instruments not limited to call loans, repo, MMF, CP programs, etc. to minimize and efficiently manage surplus liquidity. KDB also maintains extensive USD money market lines with various central banks and numerous reciprocal money market line agreements with global financial institutions. To complement the low interest rate money market lines with the central banks and SSAs, KDB is also an active issuer of US CPs and Euro CPs in international capital markets.

# Risk Management

**KDB maintains financial soundness and stability in its business activities through the effective management of a diverse range of risks based on KDB's Risk Management Principles**



## KDB's Risk Management Principles

- Risk must be managed across the Bank in a manner that is independent and comprehensive;
- Risk must be accurately identified, measured, and evaluated, and then properly managed;
- Risk must be maintained at a level in balance to profit;
- Risk must be diversified to prevent a buildup of assets concentrated in a specific category;
- Risk must be managed within certain limits or guidelines in order to prevent undue exposure.

## Effective Risk Management by Specialized Councils

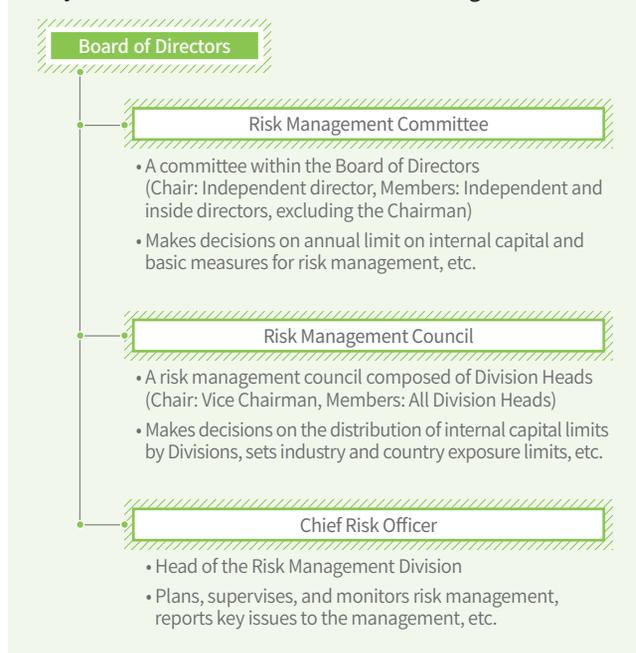
KDB operates independent risk management committee and council to ensure prompt and effective risk management decision-making. The Risk Management Committee (RMC) is KDB's highest decision-making body that examines important matters such as yearly risk management plans and total risk limits for the Bank. The RMC members are mainly comprised of independent directors with extensive experience and knowledge in finance and economic matters. Chaired by one of the independent directors, the Committee is armed with a decision-making mechanism that ensures balanced views on critical risk management agenda. All agenda items resolved by the RMC are reported to the Board of Directors.

In 2020, four RMC meetings were held with a total of 18 agenda items being presented for discussion to the committee. Major items discussed included the risk management plans for 2020 and the country exposure management plans. Other important risk management issues were also discussed, such as the results of integrated analysis on risk for the second half of 2019 and first half of 2020, and verification results for BIS risk weighted assets were also reported to the Committee.

The Risk Management Council (Council) is composed of Division Heads, and its roles and responsibilities include the monitoring of the Bank's constant risk variables and the orchestration of operations, so that risks can be effectively managed within each operation unit. Following the limits set by the RMC, the Council discusses and distributes risks among divisions, setting limits for trading losses and F/X positions. In 2020, the Council convened 6 times, discussing the establishment of major 2020 credit portfolios and the distribution of internal capital limits.

KDB's Risk Steering Committee has members drawn from heads of planning departments and supervises the prior screening of major agenda items subject to resolution by the Council. The Steering Committee convened four times in 2020.

### Key committees and councils for risk management



## KDB's Risk Management Methodologies

### Credit risk

Credit risk refers to possible losses in the event that debts cannot be collected as a result of a failure of counterparties to make repayments or to fulfill their payment obligations in other ways. While monitoring all assets that are exposed to credit risk, KDB also measures and manages credit concentration risk, which can occur as a result of excessive exposure to individual companies or corporate groups.

### Market risk

Market risk refers to possible losses to the Bank's assets resulting from fluctuations of interest rates, stock prices, F/X rates, and other variables. KDB measures and manages possible losses in trading positions, including positions in securities and derivatives held for trading, due to negative movements in market indices. Moreover, the Bank classifies the severity of market swings into three stages - precautionary, semi-crisis, and crisis stages - and operates Market Risk Contingency Plans appropriate to each of the three stages. KDB also conducts stress tests to measure the potential scale of losses based on scenarios replicating significant fluctuations in major market indices over the last three years and the financial crisis of 2008.

### Interest rate risk

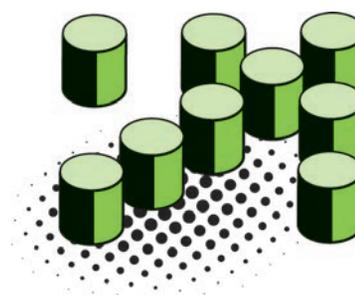
Interest rate risk refers to possible losses due to interest rate fluctuations that cause a decrease in net present value (NPV) or net interest income (NII) of rate-sensitive assets and an increase in interest expenses on rate-sensitive liabilities contained within the Bank's accounts. KDB manages interest rate risks mainly through Value at Risk (VaR), and also employs Earnings at Risk (EaR), duration gap, and repricing gap as auxiliary management indices. In late 2019, a standard for calculation of interest rate risk was replaced by the standard of the interest rate risk in the banking book (IRRBB) and accordingly, KDB has calculated and disclosed interest rate risks based on IRRBB on a quarterly basis.

### Liquidity risk

Liquidity risk is defined as the possibility of potential loss due to a temporary shortage in funds caused by a maturity mismatch or an unexpected capital outlay. Liquidity risk soars when funding rates rise, assets are sold below a normal price, or a good investment opportunity is missed. KDB uses Basel III's short-term liquidity regulation index, the liquidity coverage ratio (LCR), and a mid to long-term liquidity regulation index, the net stable funding ratio (NSFR) to manage its liquidity risks and to meet regulatory requirements.

### Operational risk

Operational risk refers to possible losses that may occur due to inadequate internal processes, system failures, employee errors, as well as external events that disrupt business operations. Through a Control Self-Assessment (CSA) program, KDB periodically assesses that the relevant staff in each department are fully aware of the potential operational risks associated with their job functions, and can properly manage those risks. The Bank established business continuity plans (BCPs) for each job function to prepare for potential disruptions due to disasters, strikes, and other emergencies. Annual mock drills are held to ensure that major operations can be resumed within a target timeframe in the event of an emergency.



## Management for Soundness of KDB's Assets

KDB categorizes the soundness of its assets “normal”, “precautionary”, “substandard”, “doubtful”, or “estimated loss” based on an evaluation of the possibility of insolvency and sets aside loan loss provisions according to the categorization of its assets. In addition, the Bank makes reasonable estimates of the probability of defaults as well as losses based on defaults, and sets aside adequate levels of loan loss provisions using the expected credit loss (ECL) impairment model in line with the International Financial Reporting Standards 9.

The Bank constantly strives to minimize insolvencies by strengthening credit approval criteria based on asset soundness category and managing portfolio concentration. If assets are classified as non-performing, KDB pursue measures to normalize business operations through business restructuring, or manage the assets through sales or write-offs.

### REVIEW OF 2020

KDB improved its risk management systems in order to seamlessly provide policy funds without serious interruption and support business activities based on solid asset soundness.

KDB supported the smooth operation of government-led financial support programs by analyzing risk impact on policy programs and establishing countermeasures, as part of its efforts to respond to the Covid-19 risk in a timely manner. The Bank realigned its business continuity plans to respond to the crisis and made preparations to ensure that core businesses remain intact even if the Bank's head office were closed. KDB conducted stress tests on integrated crises related to Covid-19 and analyzed various scenarios to estimate its impact on BIS ratio and potential insolvency.

The Bank expanded its capital allocation to secure its policy finance goals through means such as capital injection by the government to make up for decreased capital ratios after the execution of policy programs related to Covid-19. The Bank also strived to manage asset soundness by expanding allowances for bad debts preemptively in preparation for a potential increase in insolvent borrowers.

KDB also completed system development required for the early implementation of the new Basel III-based credit risk calculation standard and applied the new standard for the BIS ratio calculations in late 2020. The Bank also made reasonable improvements to risk management systems to reflect changes in internal regulation, external regulations and risk environment.

### PLANS FOR 2021

KDB will continue to improve its risk management system through 1) reorganizing current systems and introducing new ones, 2) swiftly responding to changes in the external environment, such as regulatory changes, and 3) improving its capability to respond to scenarios of increased corporate insolvency.

As a means to prepare for the post Covid-19 era, KDB will strengthen risk management to accommodate Korean New Deal initiatives, new industries, and innovative companies. The Bank will prioritize on the relevant risk management for Korean New Deal which is strongly promoted by the government as the new national economic advancement strategy.

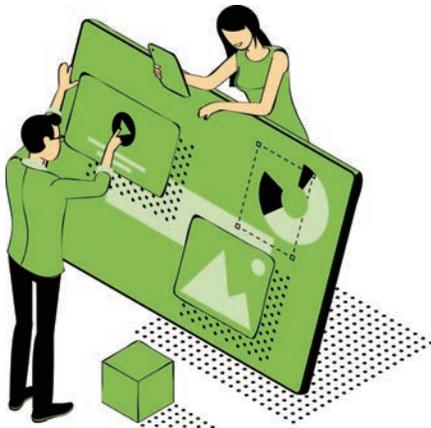
Starting from the fourth quarter of 2020, the Bank has calculated its BIS ratio by reflecting the updated Basel III credit risk guidelines and has been working on establishing a system to incorporate the changes in Basel III market and operational risks which are set to take effect from 2023. The Bank will also improve its internal control system to prepare for the adoption of large exposure regulations stipulated by Basel III. Regarding the initial margin exchange system for over-the-counter derivatives, expected to be introduced in 2021, KDB will strengthen market risk management by verifying evaluation model integrity and revising management standards.

Furthermore, the Bank will continue to strengthen asset soundness to brace for the potential insolvent companies attributable to the prolonged Covid-19 Crisis. With the Paris Agreement expected to take effect, KDB also plans to review the impact of climate change risk and establish relevant countermeasures.

KDB will focus on its efforts to disseminate a culture of risk management internally with the goal of improving the effectiveness of risk management policies as risk management is taking on a new importance within the financial industry amid the pandemic. The Bank's risk function will support top management to make practical and reasonable risk-based decision-making through effective operation of risk management bodies and timely delivery of risk analysis information.

# IT & Digital Transformation

KDB is proactively utilizing new digital technologies such as big data and AI into its financial business to strengthen competitiveness of its financial services, and at the same time is bracing for the digital transformation in the financial industry.



## IDT Center

### Beginning of the Digital Transformation

In 2020, the government implemented various policies such as the Digital New Deal and revisions of the 3-E laws (regarding the distribution and utilization of personal information and creation of new services based on such personal information) to accelerate the nation's digital transformation. Also, due to the Covid-19 crisis, the need to conduct business remotely increased significantly. Under these circumstances, financial institutions have begun fierce competition to strengthen their contactless marketing platforms, incorporating big data and AI to financial transactions.

To promptly adapt to the dramatic changes in the digital finance environment, KDB established the department dedicated to digital transformation, "the Digital Transformation Department" and has carried out a transition process to facilitate: 1) the spread of a digital mindset, 2) data-based decision making, 3) process automation and 4) remote work operation.

### 1) The spread of a digital mindset

KDB acknowledges that establishing a digital culture and instilling a digital mindset are of paramount importance. To reach its objectives, the Bank set up a Digital Transformation Council composed of department heads centering on spurring KDB's digital transformation within the Bank and running various programs such as holding internal contests to identify ideas.

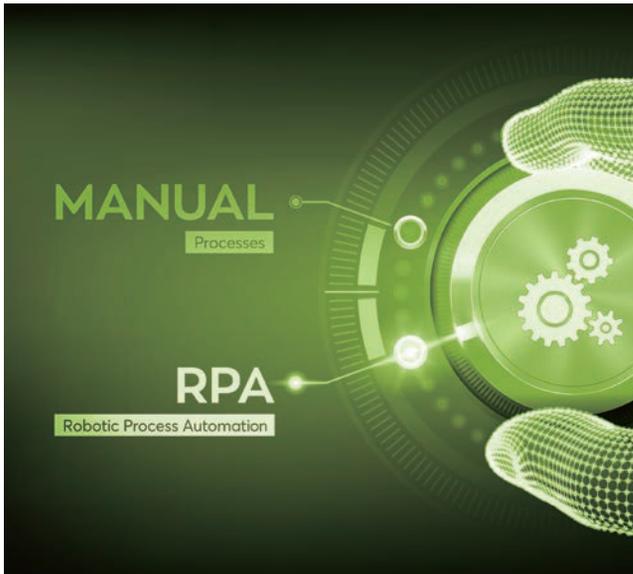


### 2) Data-based decision-making

In order to systematically manage and utilize big data within the Bank, KDB established internal data policies, along with a framework for data management and analysis. It also developed a financial model adopting artificial intelligence (AI) technology for determining corporate credit rating, and applied the model in practice.

### 3) Process automation

KDB has continuously applied Robotic Process Automation (RPA) to allow its employees to cut down on simple and repeated tasks and instead focus more on core operations such as promoting policy financing business and planning. The Bank also built AI-based knowledge management systems, improving the efficiency of internal knowledge management and data searching.



#### 4) Remote business operation

By improving its remote business channels such as Mobile Banking UI/UX and Open Banking, KDB substantially enhanced the banking experience for its retail customers. For its corporate clients, the Bank plans to establish a remote transaction service that enables them to complete their loan execution processes without physically visiting the Bank. The Bank already completed process analysis and legal reviews required for the practice and expects the process to be implemented by 2021.

#### Spurring innovation in the work culture for the New Normal 2.0 era - KDB's digital work environment

For the first time in the domestic financial sector, KDB has laid out the foundation for enhancing workplace productivity and promoted a culture of paperless reporting by providing the latest laptop computers to all employees and installing a 6<sup>th</sup> generation wireless LAN (WIFI6) within the headquarter and all of its branches. The Bank fostered the environment that enables the staff to work from anywhere and facilitated a culture of creative working.

Furthermore, KDB secured work continuity by implementing a work from home system (WFH) amidst the Covid-19 crisis by adopting virtual desktop infrastructure (VDI). In so doing, the Bank nourished a safe working environment with employees utilizing WFH even during non-emergency periods when the Covid-19 was less severe. KDB also established a video conference system, further promoting an environment of utilizing remote communication. By introducing cloud repository, the Bank also strengthened knowledge sharing and collaboration.

#### Completion of an advanced staging area for the digital era- Dual Digital Square

KDB has established an advanced IT infrastructure in KDB Digital Square, a KDB's new main data center located in Hanam city. Furthermore, the Bank's existing main data center located in Yeouido (the headoffice) has been redesigned to accommodate high-performance and large-capacity IT systems so that it can serve as a disaster recovery center. A new network cabling structure and containment system has been set in place to make cooperation between the digital square and the main data center more efficient. By designing an uninterrupted power supply system and a seismic structure for the existing data center, the Bank expects to maintain business continuity even in the event of a disaster.

Moreover, KDB began relocating its computation equipment in October 2018, which were previously scattered all over the places. The relocation work took place four times for approximately 20 months, and at long last, KDB's solid Dual IT Centers were completed in May 2020.



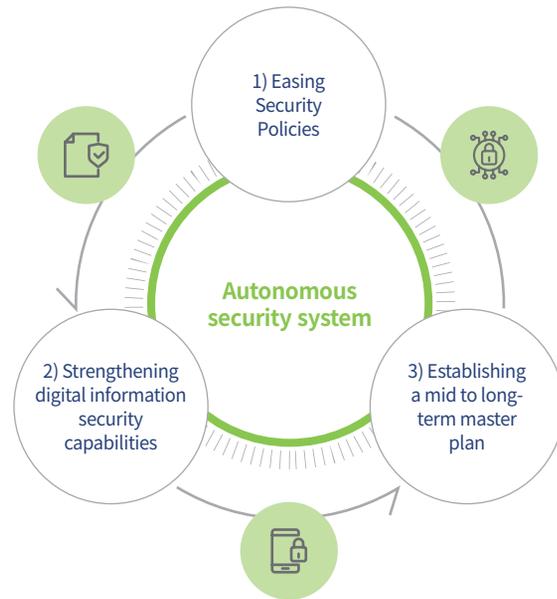
#### Strengthening digital strategies - KDB Digital Way

In 2021, KDB expects an acceleration in the digital innovation trends, such as introduction of a data-based economy and growth of remote service industries. AI technology, which is staged beyond its experimental phase, is expected to be applied to numerous industries, making it account for a larger part of people's daily lives. Against this backdrop, financial institutions are rapidly adapting to such changes, and competition among them is expected to intensify in the digital finance sector.

To brace for the upcoming challenges, KDB will concentrate its effort to strengthen the competitiveness of its financial services by applying new digital technologies such as big data and AI.

The Bank plans to establish a data-based decision-making process by applying AI models across its corporate banking operations ranging from marketing to credit rating and credit review. The Bank will also introduce digitalized remote services for its corporate clients. Specifically, the Bank is planning to introduce a remote process for its corporate finance and provide an online platform for venture investment, and also plans on providing a tablet-based digital marketing tool to support marketing activities of its relationship managers.

KDB plans on continuing its efforts to upgrade its internal processes by introducing RPA and AI chat-bots. To this end, KDB will identify and develop business models utilizing new technologies in partnership with fin-tech companies. By doing so, the Bank will strengthen its digital prowess while renewing itself as a policy finance institution capable of quickly responding to changes in the digital financial environment of the future.



## Digital Information Security

### A leading partner for digital transformation

Due to the advancement of new technologies (such as big data and AI) and the growing need for a new business practice attributable to the Covid-19 pandemic, there has been an acceleration of digital transformation in the finance sector. Under these circumstances, KDB has begun to establish a remote, minimal contact digitalized information security system by actively embracing changes.

### 1) Easing Security Policies

KDB preemptively eased its information security policies to support the digital transformation of the Bank's operations. To adopt virtual desktop infrastructure (VDI) utilizing an external Wi-Fi network, KDB proactively presented new and less strict policies to the supervisory authorities, and through continuous consultations with the authorities, the Bank successfully acquired the necessary approval to implement VDI for the first time in Korea's finance industry.



The Bank was also swift in establishing a security system for remote working environments to brace for the coming post Covid-19 era, with business activities still expected to take place in a remote basis.

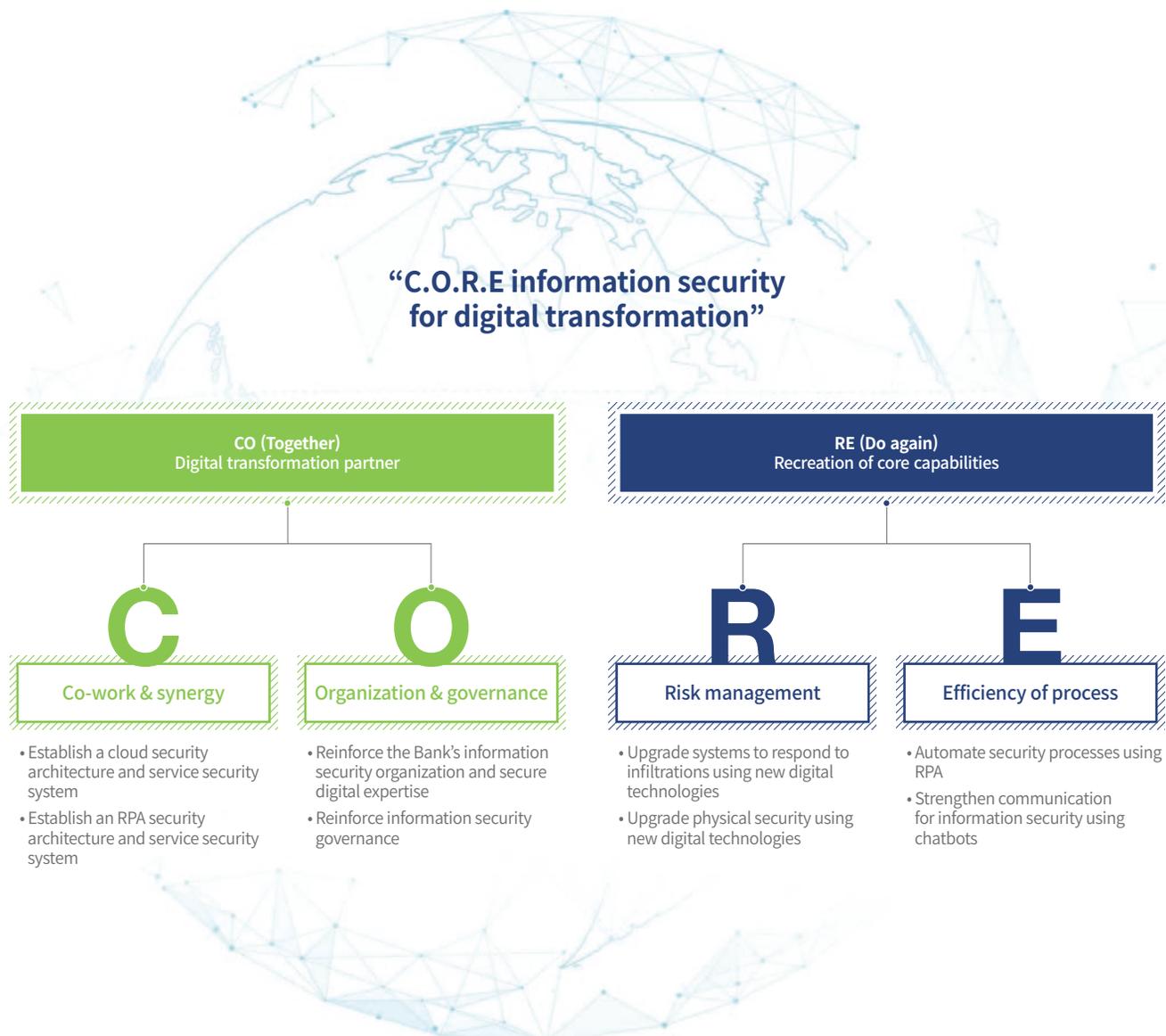
## 2) Strengthening digital information security capabilities

KDB has actively responded to new security threats, which are evolving day by day, by implementing a 24/7 surveillance to ensure a real-time response. Thanks to the successful security system, the Bank was free of security accidents for the past three years. Furthermore, the Bank provided information security training to all employees in order to deepen understanding of the importance of information security, contributing significantly to the enhancement of information security capabilities of all employees. KDB also conducted training on information security in English for local employees in New York and Singapore to meet local compliance requirements.

## 3) Establishing a mid to long-term master plan

To respond to changes in the global financial environment and achieve its digital business strategy, KDB carried out consulting on information security strategy for approximately four months. Through the consulting process the Bank established a mid to long-term 5-year master plan represented as the “C.O.R.E information security for digital transformation”. The plan focuses on cooperation, synergy, strengthening information security organizations and governance, strengthening information security risk management and making information security processes more efficient.

For the next five years, KDB will implement and complete tasks under the master plan to bring KDB’s information security to a higher level, playing a leading role and fulfilling the vision of a “Korea’s Financial Platform Leading to a Bright Future”.



# Ethical Management

KDB strives to enhance consumer rights and spread a culture of integrity both within and outside of KDB by strengthening its ethical management principles.



## Compliance Department

### REVIEW OF 2020

Against the backdrop of an unprecedented crisis in 2020, the government has placed a special emphasis on integrity, ethical management, and proactive administration in the public sector.

In response, KDB made strenuous efforts to practice active administration, maintain transparency, manage risks, and prevent corruption. The Bank established detailed rules and guidelines on holding concurrent positions and overhauled internal regulations including the Code of Conduct and the Integrity Policy. This initiative also cultivated a culture of integrity by providing a diverse range of compliance education, integrity campaigns, idea contests and quizzes to the employees. As a result of such endeavors, the Bank won the second highest rating in the integrity evaluation by the government in 2020.

## Major compliance management programs

Programs	Details
Compliance monitoring	Conducts monitoring on compliance reports, self-inspection reports from branches, and monthly compliance training outcomes
Preliminary compliance review	Conducts compliance reviews on internal regulations, terms and conditions, product disclosures, BoD agenda items, etc.
Anti-money laundering (ALM)	Conducts Suspicious Transaction Reporting (STR), monitors large cash transactions, and operates the know-your-customer (KYC) and know-your-employee (KYE) systems
Financial investment and securities account report system	Requires employees to report on their financial investment activities to prevent them from using undisclosed information
Cryptocurrency possession report system	Requires employees engaging in cryptocurrency transactions to report their possession of cryptocurrency biannually
Integrity idea contest and ethics awards for branches and employees	Encourages and incentivizes employees to identify areas vulnerable to corruption and participate in the process of establishing integrity policies
Clean Report Center/ No Gift Campaign	Prohibits solicitation and acceptance of gifts exceeding specified amounts and establishes an organizational culture of integrity
Solicitation report system	Requires employees to report on unlawful solicitation from fellow employees and people outside the Bank
Executive Pledge of Ethics	Mandates registered directors maintain integrity in job performance
Code of Conduct Pledge	Mandates new hires comply with the Code of Conduct
Report Center for Power Tripping at work	Builds a reporting system for unfair demands or treatment of fellow employees or people outside the Bank
Whistleblowing system	Ensures whistleblowers' anonymity
Report system for outside lecture requests	Requires employees to report outside lecture requests tied to their job function or influence
Compliance self-check system	Checks the compliance status of all employees biannually
Ethical training	Provides training to new employees, promoted employees, high-level management, and employees engaged in job functions vulnerable to corruption

In addition, the Bank established a human rights management system to meet the new obligations imposed on public institutions starting from 2019, and by conducting a human rights impact analysis in 2020, the Bank identified and evaluated actual and potential risk that may arise from its businesses. In response to the government's effort to uproot gapjil (abuse of power by someone against a person in a weaker position), KDB made special effort to prevent potential harm by providing 1) relief procedures with widened measures for counseling, 2) preventive measures such as operation of internal and external reporting centers for power tripping and 3) expanding the existing social media channel for anonymous reporting ("KDB Help Line").

KDB tightened qualifications for compliance officers in charge of overseas branches to ensure the branches to comply with local laws and regulations and promote thorough conduct of business related to compliance. The Bank reorganized various kinds of compliance reports in line with local laws and regulations and strengthened business communication between compliance officers working at overseas branches and the compliance department at the headquarter.

Last, KDB also improved the capacity for anti-money laundering(AML), of which the thorough compliance has been highlighted by tightened regulations of domestic and foreign financial authorities, by adding more measures to verify customers regularly and harvest a culture of reporting suspicious transactions. In order to improve the system for AML at overseas branches, KDB has engaged in a consulting service and is testing the system's current capacity.

#### PLANS FOR 2021

Social demands for ethical management in the public sector are further expected to increase in 2021, including eradication of power tripping, emphasis on integrity, and prevention of corruption. Internal control systems also have to be further upgraded in order to ensure that all internal and external regulations are fully met.

In 2021, KDB will continue to strengthen its efforts to prevent violations of internal and external regulations such as the Code of Conduct and the Improper Solicitation and Graft Act, and prevent corruption and power tripping preemptively by promoting various reporting systems. The Bank will also strengthen anti-corruption and ethical management by diversifying educational methods and conducting campaigns to spread a culture of integrity. As for human rights management,

the Bank will support the government policies by implementing complementary measures and completing relief procedures, thus fulfilling its social responsibilities commensurate to its policy bank status.

In accordance with the reform in regulations on Chinese Wall and revision in Capital Market Act, KDB plans to reflect the changes into systems related to conflict of interests and improve its internal control. The Bank will also educate and notify to make sure that relevant departments do not violate any laws and regulations.

Furthermore, starting with the implementation of AML consulting for its overseas branches, KDB will enhance response systems for AML. The Bank will implement measures for systematic management by establishing common business standards for its overseas AML function. KDB will also proactively respond to the financial sanction risk by setting up a framework related to such risk.

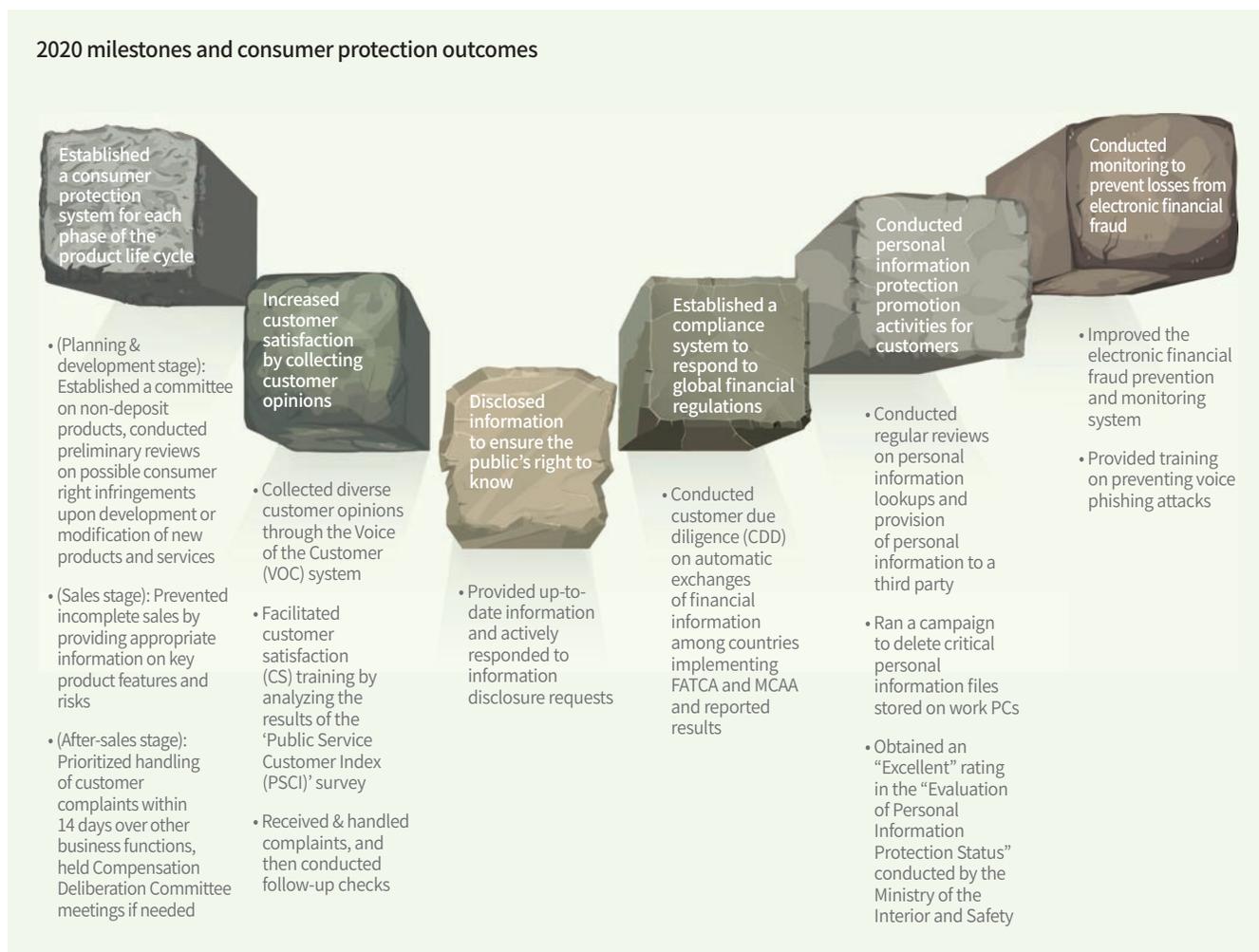
## Financial Consumer Protection

### REVIEW OF 2020

In response to the ever-strengthening standards for financial consumer protection, KDB continuously improved its consumer protection systems by establishing a process for each phase of the product life cycle - from development to sales and post-sales stages. The Bank regularly examines all phases to discover any factors that may impinge on consumer rights in order to prevent mis-selling. The Financial Consumer Protection Council of the Bank facilitates the seamless communication between product development functions and sales forces by providing up-to-date information on consumer protection issues. Furthermore, KDB enacted rules and set up the Product Committee for thorough internal control of non-deposit products. Through such efforts, KDB has earned a "Proper" ratings in the "Evaluation of Consumer Protection Status" conducted by the Financial Supervisory Service.

KDB has set up a grievance alert system to nurture customer service mindset across the Bank and improve clients' satisfaction. The Bank is also working to reduce the number of complaints by 1) conducting root cause analysis to figure out the cause of the most frequent complaints, 2) holding in-depth sessions regarding complaint handling, and 3) distributing a checklist to minimize complaint. KDB also conducts in-house customer satisfaction surveys to enhance employees' awareness.

## 2020 milestones and consumer protection outcomes



KDB has made utmost efforts to protect personal information of its customers. The Bank established detailed standards for handling personal information and checked regularly on the implementation status of such standards. KDB also managed the monitoring systems to protect its clients against various financial cyber-crimes such as voice phishing.

### PLANS FOR 2021

In 2021, KDB will continue to establish more solid policies for consumer protection and systems for both the Bank and its clients. To this end, KDB will continue to: 1) strengthen the financial consumer protection measures in all the phases of product sales, 2) observe "Consumer Protection Days", and 3) expand employee training sessions to advance their consumer protection capabilities.

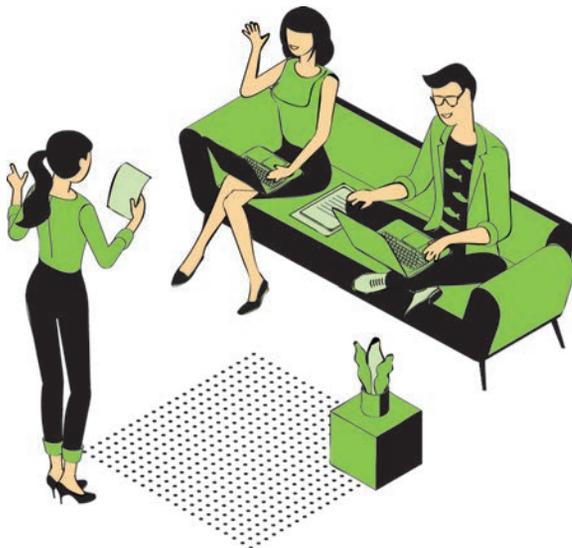
KDB will continue its systematic education to promote and spread a customer satisfaction management mindset across the Bank.

The Bank will also prepare professional training sessions for its employees to obtain an "Excellent" rating in the customer satisfaction survey for public institutions, and strengthen activities to protect employees dealing with grievance. Furthermore, KDB will improve current systems and provide education to prevent financial cyber-crimes.

Finally, KDB will strengthen its capabilities to manage personal information by improving institutions for personal information protection, implementing reporting obligations under global financial regulations and improving the way to handle financial transaction information and process for seizures.

# Human Resources Management

**KDB seeks to recruit global talents driven by passion and determination, possessing the necessary qualifications and a strong sense of ethics, and who will play a key role for the sustainable growth of Korea.**



## Competency-driven Recruitment System through Job Competency Evaluations and “Blind Recruitment”

KDB hires new employees every year in order to effectively respond to the ever-changing economic and business environment, and to strengthen its organizational competencies. The Bank ensures equal opportunity and fairness in its recruitment process by adopting “blind recruitment”. Recruitment is driven above all by job competencies, emphasizing on candidates’ basic capabilities and organizational fit within the financial industry.

In 2020, KDB hired 114 new employees, all of whom had gone through a multi-dimensional evaluation process composed of three stages that incorporate the National Competency

Standards (NSC). The Bank increased the proportion of new employees with digital backgrounds, including computer science and big data to foster a pool of interdisciplinary talent essential for pursuing a bank-wide digital transformation.

## Programs to Foster Digital Talent

KDB is making extensive efforts to recruit and nurture interdisciplinary talent who will lead the digitalization of finance, and is spurring a bank-wide digitalization effort by providing coding classes and special lectures on digital science to its employees. The Bank is also managing intensive courses in collaboration with specialized education institutions including colleges to nurture digital talent.

In addition, KDB offers a wide range of opportunities for employees to expand their knowledge both inside and outside of their current job functions. The Bank offers personalized career development programs and in-house training courses on key areas (such as loans, deposits and foreign exchange) that correspond to each employee’s job descriptions and level of proficiency. In particular, by offering online courses through the KDB e-Campus or via other online training providers, the Bank enables its employees to learn anytime and anywhere, unrestricted by time and space.

Furthermore, the Bank runs a wide range of programs outside Korea to develop global talent. It offers programs aimed at training regional specialists targeting countries with strong potential for growth, such as Indonesia and Vietnam, where the Bank is planning to expand its overseas business operations.





## Strengthening Job Competencies

The Bank segments jobs into 172 categories, with the aim of maximizing organizational capacity through enhancing individual competency. KDB supports employees' advancement by providing a wide range of personalized career development programs (CDPs) which breaks down into exploration, development, and master phases. Employees in the exploration phase can improve their skills in their current job position while also gaining experience from other related areas. Subsequently, more support is given to employees to help them further develop their expertise as they move towards the master phase.

For specialized job positions requiring higher levels of expertise, positions are filled through a competitive in-house recruitment process. In 2020, KDB recruited staff for positions in project finance, regional development, shipping and aviation finance, M&A, private equity, VC, DCM, credit review, consulting, and portfolio management.

KDB also operates an open position system which emphasizes the importance of expertise and imbues KDB's organizational culture with added vitality. In 2020, KDB held both in-house and external recruitments to hire qualified experts in fund management and biopharmaceutical industry, and is continuing its efforts to secure distinguished specialists in more fields.

## HR Management to Respond to Covid-19

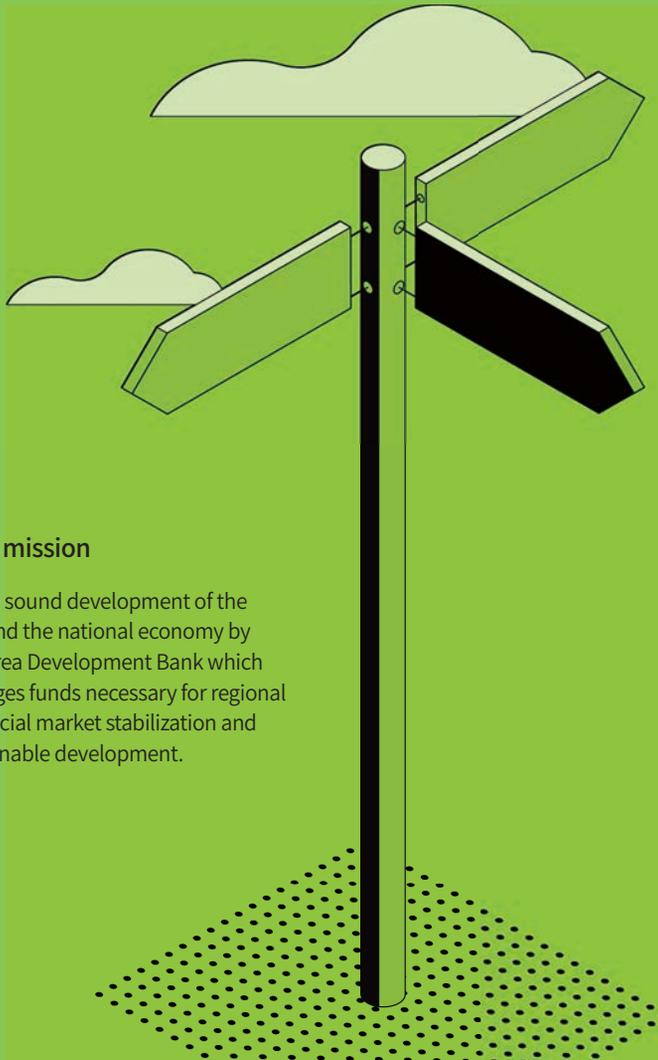
KDB has provided support to its employees in various ways in response to the Covid-19 crisis. It enhanced the infrastructure for working from home and established relevant guidelines so that business can be conducted in a remote manner. The Bank also established a continuous learning system via mobile channels as part of its efforts to digitalize the training programs.

Also, KDB actively supported its employees infected with Covid-19 by giving them official leaves while promoting a safe working environment through policies such as childcare leave and flex-time work hours. Furthermore, the Bank complied with the government's quarantine guidelines thoroughly throughout the entire hiring process, keeping applicants and new employees safe from the pandemic.



# Corporate Social Responsibility

KDB is well aware of its responsibility in contributing to the sustainable growth of local communities. It strives to make a positive influence on society through various social contribution activities.



## KDB's Founding mission

To contribute to the sound development of the financial industry and the national economy by establishing the Korea Development Bank which supplies and manages funds necessary for regional development, financial market stabilization and promotion of sustainable development.

KDB's corporate social responsibility (CSR) activities can be categorized into three types as follows:

### Socially Responsible Financing

Support important public values, such as job creation, industrial and economic development through KDB's financial activities

# 01

### Community Healing

Promote and maintain a healthy society by extending a helping hand to various groups through a range of non-financial activities

# 02

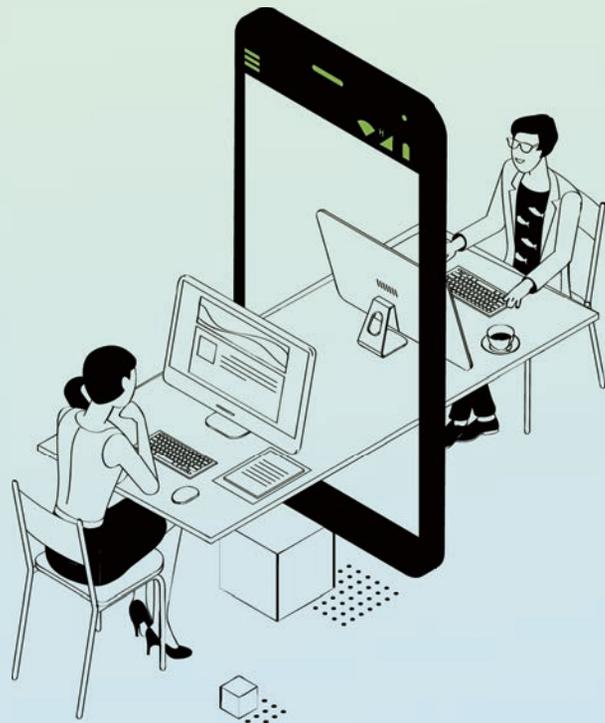
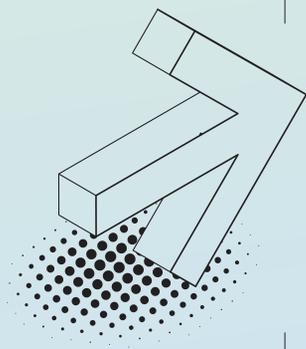
### Knowledge Sharing

Share knowledge and experience accumulated in the process of Korea's economic development with developing countries, establishing cooperative relationships and promoting mutual growth.

# 03

## Socially Responsible Financing

KDB maintains a keen interest in fostering future growth engines, pursuing balanced growth across regions, expanding public infrastructure, and improving the environment, thereby providing socially responsible financial products and services.



### 2020 Summary for socially responsible financing

(Unit: KRW billion)

Objectives of funds	Amount supplied in 2020	The number of projects supported in 2020
Fostering the growth of SMEs and MEs	4,088	1,925
Revitalizing the local economies and pursuing balanced development	381	96
Repairing and expanding SOC	2,400	77
Nurturing eco-friendly industries	1,982	311
Contributing to improving industrial safety	1,043	186

## Case 1.

## Environmental and Social Risk Management

Emergence and spread of Covid-19 demonstrated how vulnerable businesses are to risk events and what it means to be resilient and sustainable in an ever-changing world. Post Covid-19 scenarios are redefining approaches to tackling non-financial risks, specifically in understanding community exposure to health events, needs for decreasing interruption by humans on natural habitats, and improving science-based risk management measures. Recognizing how environmental and social (E&S) risk management and sustainable finance have a role to play as part of the long-term recovery efforts, KDB is committed to continue enhancing its sustainability practices.

KDB's approach to tackling E&S risks in project-related transactions follow the Equator Principles (EPs), the finance industry's gold standard for E&S risk management. The process starts by categorizing projects based on the significance of their potential E&S risks and impacts. In the course of E&S due diligence, KDB reviews client's compliance with the EPs requirements, such as identifying potential E&S impacts and incorporating measures to avoid, minimize, mitigate, and/or compensate for the adverse impacts into project design. KDB ensures that financing documentation includes covenants linked to EPs compliance and reviews the client's E&S monitoring reports over the life of the loan.

### KDB's E&S risk management process



With growing institutional capacity in E&S risk management, KDB is expanding its outreach activities to raise awareness of the financial industry's role in sustainable development. In 2020, KDB stepped up to take on several leadership roles at the Equator Principles Association, a group of more than 110 Equator Principles Financial Institutions (EPFIs) from 37 countries. Specifically, during the period between the official release (November 2019) and launch (October 2020) of Equator Principles 4, KDB contributed in making a smooth transition process. Relevant work includes overseeing the development and update of the EPs guidance documents, and responding to requests of EPFIs to help maintain consistency and robustness of EPs application.

## Case 2.

Year 2021 will be a critical juncture in KDB's sustainability practices, as it plans to strengthen governance around emerging E&S risks and opportunities. Specifically, the Bank will establish a new department dedicated to tackling sustainability challenges, taking on the primary role of mainstreaming sustainability into the institutional agenda and expanding the portfolio of green financial products and services. These actions aim to bring the concept of "being a responsible bank" closer to the heart of KDB's institutional culture and act as the driving force behind continued growth.

## Issuance of USD-denominated Social Bonds (Covid-19 Response Bonds)

Upon growing demand for financial support to economic sectors adversely affected by the Covid-19 crisis, in October 2020 KDB issued its inaugural Social Bond for USD 500 million with a tenor of 3 years (0.50% p.a.). Proceeds were used for providing financial support to eligible social projects falling under: (1) Loans to SMEs and/or Small Offices & Home Offices (SOHOs) in "regions severely damaged by the pandemic" within the special disaster zones as designated by the government or areas within a province or a city where the number of accumulated Covid-19 cases equal or exceed 1,000 and (2) Loans to SMEs and/or SOHOs in "the most adversely affected industries" such as wholesale and retail, transportation, tourism, and accommodation, among others.

### Allocation of the proceeds from Social Bonds

(Unit: USD million)

Project Category	Loan Amount	No. of Borrower	Loan Amount per Borrower (USD thousand)
Eligible Social Project 1	586	861	680
Eligible Social Project 2	93	173	537
Total	679	1,034	657

## Case 3.

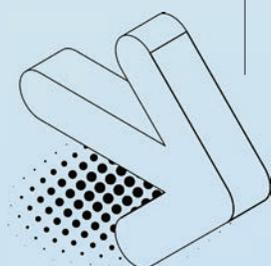
## Issuance of foreign currency-denominated Green Bonds

Since the issuance of the inaugural green bond in 2017, KDB has continued its commitment to help finance environmentally sustainable and socially responsible businesses through consequent offerings of green bonds. So far, KDB has issued four green bonds in the international market, raising a total of USD 1.9 billion, the proceeds of which were allocated (to be allocated) to projects related to renewable energy and/or clean transportation.

### Allocation of the Proceeds from KDB Green Bond

(Unit: USD million)

Issue	Size	Use of Proceeds	Allocated Amount to Eligible Assets
2021	USD 300mn	Renewable Energy & Clean Transportation	To be allocated
2021	USD 700mn	Renewable Energy & Clean Transportation	USD 476mm
2019	EUR 500mn	Renewable Energy	USD 571mm
2017	USD 300mn	Renewable Energy	USD 572mm



## Case 4.

## Issuance of KRW-denominated Social Bonds

In May 2020, KDB issued a KRW 1 trillion social bond in two tranches, one for KRW 800 billion with a tenor of two years (1.09% p.a.) and the other for KRW 200 billion with a tenor of five years (1.39% p.a.). The Bank fulfilled its social responsibility by providing financial support to companies with low credit ratings adversely affected by the Covid-19 crisis and companies which contributed to job creation.

As the leading policy bank in Korea, KDB will continue to explore and implement various ways to fulfill its social responsibility by providing finance solutions to respond to national crises and support the government's policy to promote social values.

### Social Impacts

(Unit: KRW billion)

Standard business code	Total amount issued	Allocated amount (as of December, 2020)	Areas supported	
			Job creation (companies that created jobs)	Basic service (companies with low credit rating)
KR310204GA51	400	400	195	205
KR310203GA52	200	200	92	108
KR310207GA58	400	400	400	-

## Case 5.

## Issuance of KRW-denominated Green Bonds

In September 2020, KDB issued a green bond with a maturity of 3 years, worth KRW 200 billion (1.0% p.a.) to support low-carbon green projects involving renewable energy (e.g., solar power generation) and eco-friendly transportation (e.g., eco-friendly ships and railways). Ever since issuing its inaugural KRW-denominated green bond (KRW 300 billion) and social bond (KRW 300 billion) in 2018, the Bank has frequently issued ESG bonds and played a key role as an ESG market maker in the Korean market. Also, KDB completed an external verification on its post-issuance reports to improve the bond's transparency and investor confidence while preventing ESG washing\*. By doing so, the Bank established its position as a market leader in KRW-denominated ESG bonds, contributing to the qualitative growth of the ESG bond market in Korea.

\* A phenomenon where funds are classified as ESG bonds even though the funds raised from ESG bonds are not used for their intended purpose.

### Allocation of the proceeds from Green Bonds

(Unit: KRW 100 million)

Standard business code	Total amount issued	Allocation (as of December, 2020)	Areas supported		
			Renewable energy (solar power energy)	Eco-friendly transportation	
				Railway	Eco-friendly ship
KR310215GA90	2,000	2,000	687	556	757

## Case 6.

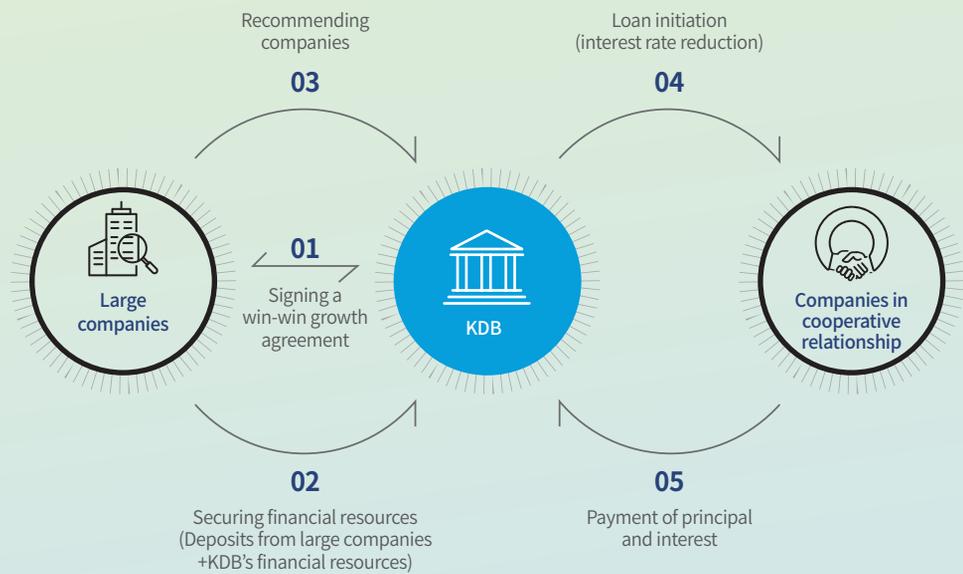
## Strengthening the social responsibility of policy finance

KDB also managed a wide range of financial programs in 2020 to promote socially responsible financing and a balanced growth across the society.

### Expansion of the Mutual Growth Fund

The Mutual Growth Fund was launched in May 2011 to provide loans to SMEs and MEs at a preferential rate by mixing KDB's financial resources and deposits from large companies with whom KDB signed an agreement to promote mutual growth with SME partners. As of end of 2020, 19 funds were in operation, with total amount under management standing at KRW 11 trillion, which included a KRW 150 billion LG Chemical-KDB mutual growth fund and a KRW 175 billion Hyundai Motors-KDB mutual growth fund, both newly added in 2020.

### Mutual Growth Fund Overview & summary



(Unit: KRW billion)

	2017	2018	2019	2020
The number of funds	12	13	17	19
Fund size	601	733	772	1,153
Disbursement	426	509	484	726
No. of beneficiaries	214	256	238	301

### Special Loan Programs for social enterprises and job creation

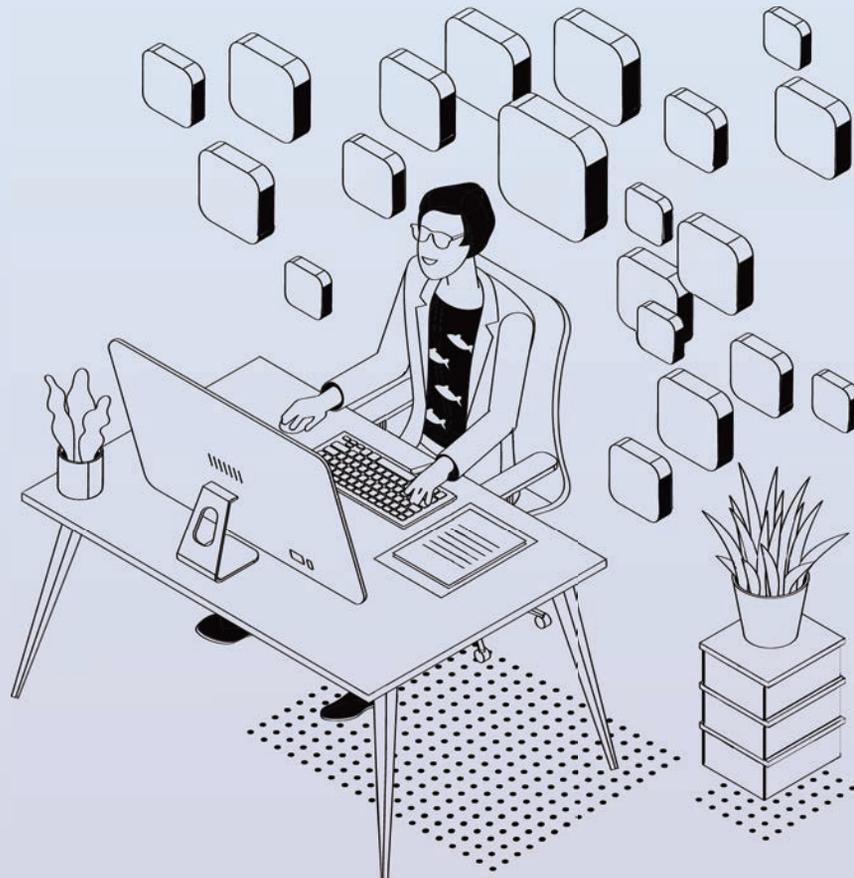
Through managing special loans for social enterprises and job creation, KDB strengthened support for facilitating employment by SMEs and MEs and provided additional resources to social enterprises.

#### Special loan programs

<b>Socially responsible businesses</b>	Supports social enterprises and eco-friendly companies
<b>Job-creating companies</b>	Supports job creation and stronger job security
<b>Regional economies</b>	Supports companies that are located in or have relocated to regional areas

# Community Healing

KDB has carried out community services based on four key themes – (1) neighborhood, (2) education, (3) culture, and (4) nation. In 2020, as a means of preventing the spread of Covid-19, the Bank provided its community services in a remote basis, making donations and delivering daily necessities and disinfectant products, among others, while avoiding on-site volunteer activities.



## Neighborhood

### Support for people living in welfare blind spots

KDB runs a program for the underprivileged by identifying vulnerable groups in welfare blind spots that desperately need financial support, but are not entitled to receive such benefits. In 2020, through the program, the Bank made targeted support to victims of crime designated by the policy authority and to artists adversely affected by Covid-19.

### Kimchi sharing

Every year since 2008, KDB and the Seoul City Women's Society have worked together to deliver kimchi to neighbors in need, especially people who live alone. In 2020, KDB provided kimchi to 1,200 marginalized households in Seoul and welfare facilities. To prevent the spread of Covid-19, instead of delivering self-made kimchi, kimchi was purchased from social enterprises.

### Regular sharing events

In partnership with the Yeongdeungpo Senior Welfare Center, KDB visits elderly people living alone to deliver rice and other daily necessities, as well as goods needed to stay warm during the winter. The Bank also take part in a wide range of volunteer activities including the provision of free meals, financial donations, holding special activities on major national holidays such as lunar new year's day or Korean thanksgiving, as well as fundraising and volunteering activities involving all employees at the end of each year.

### Blood donation campaign

KDB runs a blood donation campaign encouraging all employees to participate, with the aim of helping pediatric patients with leukemia. In 2020, instead of holding conventional blood donation campaigns, the Bank carried out a certificate delivery campaign to prevent the spread of Covid-19.

### “Flower bucket challenge” campaign

KDB delivered flower baskets and gifts to welfare facilities and volunteers at the frontlines of Korea's quarantine efforts while also extending a helping hand to the floral industry hit by the Covid-19 crisis.

### Employee donations

KDB collects the last four digits from employees' monthly paycheck, less than KRW10,000 per employee, and donates the sum in the form of scholarships and financial support to low-income and single-parent households.



## Education

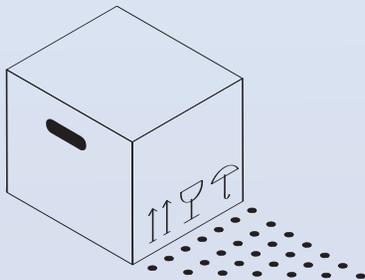
KDB provided a career development program for teenagers from low-income families facing difficulties choosing their career path. The Bank also supported various symposiums and conferences that study topics related to overcoming the Covid-19 pandemic and promoting the development of finance in Korea.

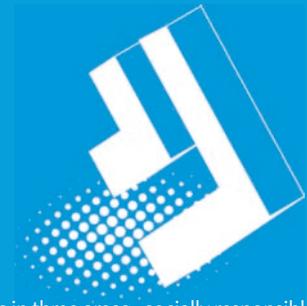
## Culture

KDB's diverse Mecenat activities bring culture, arts, and sports closer to the public. The Bank also sponsors a wide range of arts and cultural events while making opportunities for less popular forms of art. In 2020, the Bank sponsored the Joint Concert, where artists with disabilities held a concert together with an orchestra, creating opportunities for such artist to perform on stage.

## Nation

2020 marked the 15<sup>th</sup> anniversary of KDB's "One-Company-for-One-Village" campaign. Through the campaign, the Bank hosted events to promote the purchase of local produce. KDB also runs the "One-Company-for-One-Platoon" campaign, providing financial support to the Korean armed forces.





## KDB Foundation

Since its establishment in 2007, the KDB Foundation runs projects in three areas - socially responsible finance, community service, and talent development. The foundation aims to identify blind spots in the country's welfare system and establish a policy foundation through preemptive and strategic intervention. A total of 10 projects are currently in progress reflecting KDB's commitment to sustainable finance.

The Youth Start-up Support Project and the Social Enterprise Support Project are making both direct and indirect contributions to Korea's job market. The Youth Start-up Support Project, which consists of KDB Start-up Program and KDB Start-up Education Program, aims to build a start-up ecosystem for new growth industry by discovering and fostering young entrepreneurs.

In 2020, a total of 701 teams applied for the KDB Startup Program, a substantial rise from 455 in 2019, with 25 teams making it to the semi-final round. The selected teams received professional support and training, including mentoring and opportunities to get access to venture capital. Seven teams passed the final round and received a total of KRW 180 million in seed capital, together with other follow-up support.

The KDB Start-up Education Program is being offered as part of a regular university course, with a total of 1,088 college students from 16 universities participating in the program to date. The program aims to spread a start-up culture among Korea's college students while functioning as a stepping stone for identifying start-ups in their early stages.

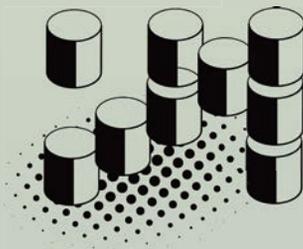
Through the Youth Start-up Support Project, 156 start-up teams were selected from 2013 to 2020. Out of the 131 teams that applied for the project as of 2019, 103 teams managed to successfully start their own ventures, creating 1,480 jobs and KRW 79 billion in revenues. KDB also provided a mid- to long-term follow-up support, allowing the ventures to participate in IR activities and incubation programs in connection with KDB's NextRound and NextOne platforms.

The KDB Social Enterprise Support Project was established with the goal of discovering competent social enterprises, providing employment opportunities to the socially vulnerable, and building up relevant infrastructure. In 2020 alone, the project has provided support to 10 social enterprises. The project not only provided financial support but also has helped the enterprises build a sustainable business model by providing consulting composed of professional mentor groups. Unlike other public private support initiatives, the project beneficiaries are allowed to purchase production facilities with the funds they receive, enabling them to directly receive infrastructure support. With the help of the mentoring program, companies can secure steady revenue streams through new product development, HACCP certification, registration of patents, and expansion of online and offline sales channels. Total of 56 social enterprises have received funding from 2015 to 2020, and participants to the program contributed to the creation of 127 jobs for the vulnerable, including those with disabilities, while also realizing increase in sales.



# Knowledge Sharing

KDB willingly shares its development finance experience, accumulated over many years as the leading policy bank of Korea, with other developing countries.



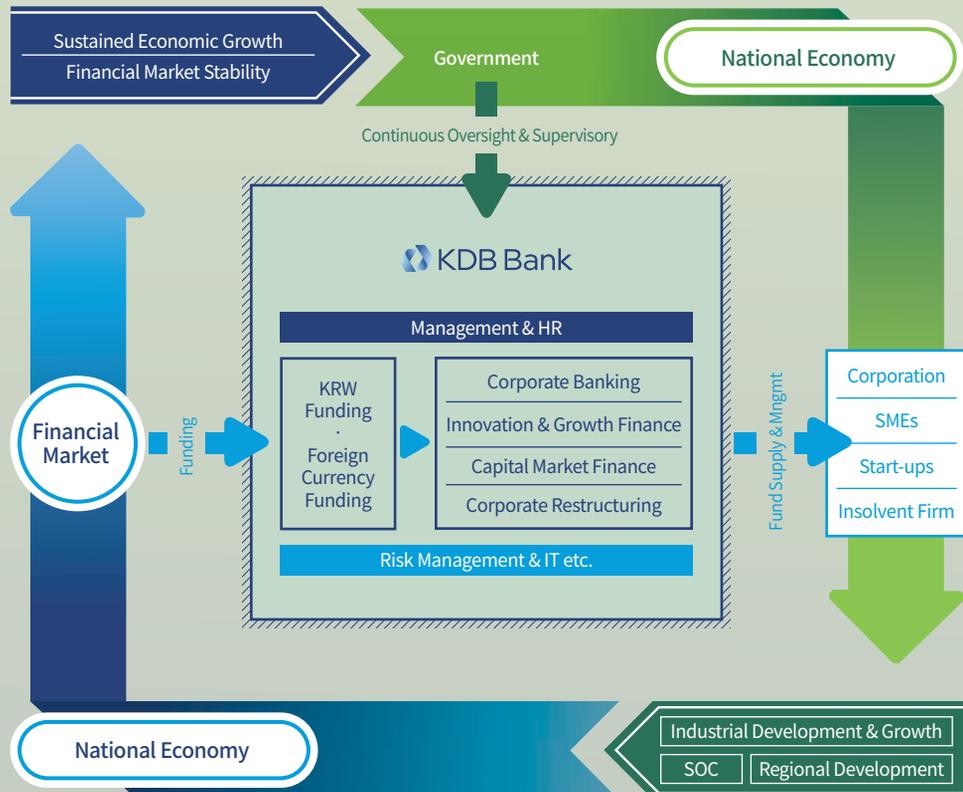
## KDB Experience Sharing Program

KDB was initially established with the objective of reconstructing the Korean economy from the ravages of war, and has since driven Korea's sustainable growth by developing and nurturing key industries and providing funds to stabilize the financial markets as a development bank. The Bank established cooperative relationships with developing countries and promoted mutual growth by sharing its business experience and know-how on development finance, which it has accumulated in the process of Korea's economic development.

In 2020, KDB established the "KDB Experience Sharing Program" which provides an overview on development finance and changes in KDB's roles in response to government policies over the Korean history. The program has been utilized as a tool for providing customized development finance consultation to government agencies and financial institutions in developing countries. The program enabled various cooperative projects by sharing KDB's development finance know-how through online lectures.

For 2021, KDB will continue to strengthen cooperation with international financial organizations and expand cooperative projects on development finance, incorporating the needs of governments and financial institutions in the developing countries. In addition, it will deepen and further develop its development finance model by strengthening the research on areas of interest for developing countries such as the role of development finance amid changing environments and ways of supporting SMEs.

### KDB Development Finance Model



# FINANCIAL REVIEW

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# Management's Discussion & Analysis

The 2020 financial statements prepared by KDB conform to Korean International Financial Reporting Standards (K-IFRS). K-IFRS refers to Korea's adoption of the standards and interpretations released by the International Accounting Standards Board (IASB). The 2020 financial statements of KDB cover financial performance from January 1 to December 31 of the year, and the financial figures in this Management's Discussion & Analysis (MD&A), unless specified, otherwise, are based on consolidated financial statements.

## 2020 Review

In 2020, the global economy witnessed unprecedented contraction due to the Covid-19 pandemic. World output fell 3.3% year-on-year according to the International Monetary Fund (IMF), worse than the -0.6% growth during the 2009 Global Financial Crisis, reflecting the serious nature of the pandemic. Due to the worldwide quarantine measures including lockdowns and social distancing, trade and commerce was restricted, driving down the total global trade volume. The service sector, in particular, was hit hardest by Covid-19.

Amidst the global pandemic, the Korean economy also showed a negative growth of -1.0%. Overall consumption fell 2.3% year-on-year primarily due to a sharp decrease in consumer demand and overall contraction of the trade volume. Inflation rate for the year recorded 0.5% compared to 0.4% in the previous year. Current account surplus rose to USD 75.3 billion in 2020 from USD 59.7 billion in 2019, mostly due to decrease in imports with both exports and imports showing a decline from the previous year.

The combined net income of the Korean banking industry in 2020 was KRW 12.3 trillion compared to KRW 13.9 trillion in 2019, based on preliminary figures published by the Financial Supervisory Service. This was mainly attributable to increases in impairment losses and selling, general and administrative expenses. With growing expectations that the Covid-19 crisis will not end in the near future, banks in general adopted a more conservative approach in calculating their loan loss provisions.

In 2020, KDB played a major role in stabilizing the market as one of the key policy banks of Korea. The Bank proactively participated in the government's stimulus package worth over KRW 175 trillion by managing the Capital Market Stabilization Program, among others, with KDB's share amounting to KRW 59.9 trillion or one-third of the total stimulus package. The Bank also launched special loan products especially designed to support companies affected by the Covid-19 crisis and provided financial support worth KRW 57.2 trillion to SMEs and MEs.

Moreover, KDB greatly contributed to the formation of a positive ecosystem for innovative start-ups in Korea. Since its inauguration in 2016, the "KDB NextRound" continues to be a success as an investment platform linking promising start-ups with potential investors and venture capital companies at home and abroad. The Bank further expanded on the investment platform by launching "NextRise" in 2019, which is a start-up fair and "KDB NextONE" in 2020, a platform for nurturing start-ups.

The Bank also continued its efforts to promote its overseas operations and strengthen IB business in the international markets. KDB expanded its overseas network by establishing a new subsidiary, PT KDB Tifa Finance Tbk, in Indonesia and focused on key strategic areas of Southeast Asia. The Bank also strengthened its role in the international markets by actively identifying and participating in major PF transactions and providing M&A finance.

KDB, as Korea's representative financial institution with its strong capital adequacy, has been evaluated and recognized by the major international credit rating agencies. In 2020, KDB maintained credit ratings of Aa2 from Moody's, AA from S&P and AA- from Fitch, and its BIS capital ratio stood at 15.96%.

## 2021 Outlook

The Covid-19 crisis is expected to continue in 2021, but the global economy is expected to show signs of recovery with the help of stimulus packages rolled out by major economies like the US and Europe. However, a global turnaround may be hampered by several risk factors including delay in production and distribution of the Covid-19 vaccines, limited policy options due to steep rise in government debt and delayed improvement in employment conditions.

According to the IMF's World Economic Outlook (2021), world output is expected to increase by 6.0% year-on-year in 2021. The growth rate of advanced economies is projected to grow 5.1% from the previous year, with the US expecting to show a higher growth rate of 6.4% while Eurozone (4.4%) and Japan (3.3%) are projected to show a slower rate. Major emerging markets, such as China (+8.4%) and India (+12.5%), are expected to show fast pace recoveries.

The Bank of Korea's forecast for Korea's growth outlook is 3.0% while the IMF's projection is 3.6%. The Korean economy is expected to show a modest recovery thanks mostly to increase in investments and exports, but consumer spending is expected to be slower in recovery. Such forecasts are subject to scrutiny since the effect and longevity of the Covid-19 crisis is hard to predict, and as is the case with most other countries, Korea's recovery will heavily depend on the success of the Covid-19 vaccine and the overall recovery of the global economy.

To overcome the challenges of 2021, KDB has set its business objective at "Global KDB, leading innovation and the future of Korea" with the goal of encouraging the growth of new industries, driving the shift in industrial paradigm for the future of Korea, as well as invigorating the economy through Covid-19 crisis management. In preparing for future economic transitions, the Bank will usher in a low carbon economy by actively supporting the K-New Deal through launching public sector-led New Deal Funds and expanding green financing. The Bank will also support innovative future industries by identifying and nurturing companies with creative potential and promoting a dynamic venture ecosystem within the country.

Looking ahead to the post Covid-19 era, KDB will continue operating its Capital Market Stabilization Program and lead the stabilization of Korea's financial markets. The Bank will launch financial support programs to minimize default risk of corporate clients from rapid surge in their debt due to the pandemic and provide tailored solutions to distressed companies and facilitate their recovery.

Similar to last year, KDB expects a volatile and unpredictable financial environment in 2021. As Korea's leading policy bank, KDB will continue to carry out its market stabilization role based on its strong credit ratings, globally competitive financial expertise, and thorough risk management.

## Income Analysis

### Summary Statement of Income

(Unit: KRW billion)

	2020	2019	Change	
			Amount	%
Net operating revenue	<b>3,870.1</b>	2,546.1	1,324.0	52.0%
Net interest income	<b>1,566.6</b>	1,378.8	187.8	13.6%
Non-interest income	<b>2,303.5</b>	1,167.3	1,136.2	97.3%
Provision for credit losses	<b>1,313.5</b>	(162.6)	1,476.1	-
G&A expenses	<b>1,454.1</b>	1,526.6	(72.5)	(4.7%)
Operating income	<b>1,102.5</b>	1,182.1	(79.6)	(6.7%)
Non-operating income	<b>1,745.8</b>	(862.3)	2,608.1	-
Income tax expenses	<b>717.2</b>	213.7	503.5	235.6%
Profit for the period from continuing operations	<b>2,131.1</b>	106.2	2,024.9	1,906.7%
Profit from discontinued operations	<b>(169.8)</b>	173.0	(342.8)	-
Net profit	<b>1,961.3</b>	279.1	1,682.2	602.7%

\* In 2020, KDB classified KDB Life Insurance Co., Ltd. as assets and liabilities held for sale, and profit or loss on KDB Life Insurance Co., Ltd. as profit or loss from discontinued operations. The difference in Statement of Income for 2019 from the previous Financial Statements is due to the classification.

KDB recorded a net profit of KRW 1.9 trillion in 2020, KRW 1.7 trillion more than the previous year. Net operating revenue increased by 1.3 trillion year-on-year. Net interest income increased by 13.6% from last year due to an increase in interest bearing assets. Non-interest income also increased by 97% mainly due to a decrease in cost of construction business. Operating income for year 2020 slightly decreased by about KRW 80 billion mainly due to a sharp increase in provision for credit loss by KRW 1.4 trillion year-on-year in accordance with the Bank adopting a conservative approach in estimating the probability of default amid the Covid-19 pandemic. Non-operating income recorded KRW 1,746 billion compared to the loss of KRW 862 billion in the previous year. This was due to gains in share of profit of investments in associates.

### Interest Income and NIM

(Unit: KRW billion)

	2020	2019	Change	
			Amount	%
Interest-earning assets (Annual average balance)	<b>187,406</b>	160,340	27,066	16.88
Yield rate (%)	<b>2.28</b>	3.07		(0.79%p)
Interest-bearing liabilities (Annual average balance)	<b>204,601</b>	177,487	27,114	15.28
Cost rate (%)	<b>1.59</b>	2.30		(0.71%p)
NIM (%)	<b>0.55</b>	0.52		0.03%p

\* Non-consolidated basis

Interest-earning assets and interest-bearing liabilities in 2020 increased by 16.9% and 15.3% from the previous year respectively, to KRW 187 trillion and KRW 205 trillion, while the yield rate and cost rate decreased by 0.79%p and 0.71%p to stand at 2.28% and 1.59% each. As a result, the net interest margin for the year increased by 0.03%p to 0.55%.

## Financial Statement

### Summarized Statement of Financial Position

(Unit: KRW billion)

	2020	2019	Change	
			Amount	%
<b>ASSETS</b>	<b>304,996.5</b>	268,839.7	36,156.8	13.4%
Cash & due from banks	11,794.2	7,761.2	4,033.0	52.0%
Securities	76,532.4	78,179.8	(1,647.4)	(2.1%)
Loans	164,585.8	149,926.9	14,658.9	9.8%
Other assets	52,084.1	32,971.7	19,112.4	58.0%
<b>LIABILITIES</b>	<b>264,007.0</b>	233,762.6	30,244.4	12.9%
Deposits	46,961.4	36,315.3	10,646.1	29.3%
Borrowings	24,542.8	24,968.4	(425.6)	(1.7%)
Bonds	143,329.3	125,206.8	18,122.5	14.5%
Other liabilities	49,173.5	47,272.1	1,901.4	4.0%
<b>EQUITY</b>	<b>40,989.5</b>	35,077.1	5,912.4	16.9%
Issued capital	20,765.6	18,663.1	2,102.5	11.3%
Capital surplus	1,055.9	1,000.6	55.3	5.5%
Retained earnings	12,347.1	10,658.8	1,688.3	15.8%
Capital adjustments	278.1	278.0	0.1	0.0%
Accumulated other comprehensive income	2,053.5	40.9	2,012.6	4,920.8%
Non-controlling interests	4,489.3	4,435.6	53.7	1.2%

As of end of 2020, KDB's assets amounted to KRW 305 trillion, up 13.4% compared to the previous year. This was mainly attributable to an increase in loan outstanding, which rose by 9.8% to KRW 165 trillion. The result reflected the Bank's effort to overcome the Covid-19 pandemic by providing more liquidity to the economy.

KDB's liabilities rose by 12.9% year-on-year to record KRW 264 trillion, mainly attributable to increases in issuance of bonds to raise funds. The bond outstanding amount stood at KRW 143 trillion at year-end, up 14.5% year-on-year. KDB issued more bonds during the year to provide more loans amid the Covid-19 crisis.

KDB's total equity stood at KRW 41 trillion, up 16.9% compared to the previous year. During the year, KDB received capital injection of KRW 2.1 trillion from the government to fulfill the government's Covid-19 financial support program worth KRW 19.9 trillion. The drastic increase in accumulated other comprehensive income is due to valuation gain on HMM's perpetual bond classified as securities measured at FVOCI.

## Loans

(Unit: KRW billion)

	2020	2019	Change	
			Amount	%
Corporate loans	<b>142,431</b>	126,971	15,460	12.2
Large enterprises	<b>115,155</b>	102,155	13,000	12.7
SMEs	<b>27,276</b>	24,816	2,460	9.9
Household loans	<b>282</b>	367	(85)	(23.2)
Public and others	<b>930</b>	1,008	(78)	(7.7)
<b>Total loans</b>	<b>143,643</b>	128,346	15,297	11.9

\* Non-consolidated basis

Total loan outstanding balance as of the end of 2020 recorded KRW 144 trillion, up 11.9% from the previous year. Corporate loans, which accounted for 99% of the total loans, rose by 12.2% year-on-year to KRW 142 trillion, attributable to a 12.7% increase in loans to large enterprises.

## Funding

(Unit: KRW billion)

	2020	2019	Change	
			Amount	%
Deposits	<b>46,961</b>	36,315	10,646	29.3%
Borrowings	<b>24,543</b>	24,968	(425)	(1.7%)
Bonds	<b>143,329</b>	125,207	18,122	14.5%

Compared to last year, KDB's deposits increased by 29.3% year-on-year, while borrowings decreased by 1.7%. Bond outstanding amounted to KRW 143 trillion, a 14.5 % increase from the previous year.

## Asset Quality

(Unit: KRW billion)

	2020	2019	Change	
			Amount	%
Total credit	<b>143,643</b>	128,346	15,297	11.9
Normal	<b>134,667</b>	118,176	16,491	14.0
Precautionary	<b>5,415</b>	6,688	(1,273)	(19.0)
Sub-standard	<b>2,297</b>	1,985	312	15.7
Doubtful	<b>333</b>	221	112	50.7
Estimated loss	<b>931</b>	1,276	(345)	(27.0)
Sub-standard and below loans (NPL)	<b>3,561</b>	3,482	79	2.3
NPL Ratio	<b>2.48%</b>	2.71%		(0.23)%p
Loan loss reserve	<b>4,309</b>	3,668	641	17.5
NPL coverage ratio	<b>121.01%</b>	105.3%		15.7%p

\* Non-consolidated basis

Total credit (loan outstanding) as of the end of 2020 amounted to KRW 144 trillion, up KRW 15 trillion or 11.9% year-on-year. NPLs moderately increased by 2.3% from the previous year, while NPL Ratio fell from 2.71% in 2019 to 2.48% in 2020.

Due to the Covid-19 pandemic, KDB adopted a conservative approach in calculating its provision for credit loss. Thus, in 2020, loan loss reserve stood at KRW 4.3 trillion, increasing by KRW 0.6 trillion or 17.5%. The sharp increase in loan loss reserve resulted in rise of the NPL coverage ratio by 15.7%p to 121.01%.

## Capital Management

### Capital Adequacy Ratio and Tier 1 Ratio

(Unit: %)

	2020	2019	Change (%p)
Capital adequacy ratio	15.96	14.05	1.91
Tier 1 ratio	14.26	12.13	2.13

\* The BIS capital adequacy ratio of KDB is well maintained above the minimum requirement of 8%.

KDB's BIS capital adequacy ratio and Tier 1 ratio are calculated in accordance with BASEL III standards. As of end of 2020, the respective ratios stood at 15.96% and 14.26%, up 1.91%p and 2.13%p each from the previous year. The Bank's BIS capital recorded KRW 41 trillion showing an increase of KRW 6 trillion from the previous year, partly due to the capital injection by the government. Risk-weighted assets slightly increased to KRW 252.6 trillion from KRW 249.1 trillion in 2019.

# Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Shareholders  
Korea Development Bank

## Opinion

We have audited the accompanying consolidated financial statements of Korea Development Bank and its subsidiaries (collectively, the "Group"), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS").

## Basis for Opinion

We conducted our audit in accordance with Korean Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Emphasis of Matter

We draw attention to Note 2. (5) of the consolidated financial statements. As described in Note 2. (5), the pandemic of Covid-19 in 2020 has a negative impact on the global economy and may have negative impacts on the financial position and financial performance of the Group. Our opinion is not modified in respect of this matter.

## Other Matter

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

## Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Korean IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Korean Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Korean Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Seoul, Korea  
March 29, 2021

This report is effective as of March 29, 2021, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

## Korea Development Bank and Subsidiaries

**Consolidated Statements of Financial Position**

December 31, 2020 and 2019

<i>(In millions of won)</i>	<u>Notes</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
<b>Assets</b>			
Cash and due from banks	4,41,49,50,53	₩ 11,794,237	7,761,244
Securities measured at FVTPL	5,49,50,53	10,262,829	13,291,845
Securities measured at FVOCI	6,41,49,50,53	34,920,659	31,992,665
Securities measured at amortized cost	7,41,49,50,53	2,120,469	5,551,600
Loans measured at FVTPL	8,49,50,53	1,434,514	605,077
Loans measured at amortized cost	9,43,49,50,53	163,151,289	149,321,851
Derivative financial assets	10,49,50,51,53	8,322,250	5,406,004
Investments in associates	11,52	29,228,487	27,343,738
Property and equipment, net	12,52	1,967,320	2,535,271
Investment property, net	13,52	460,737	525,009
Intangible assets, net	14,52	707,940	883,450
Deferred tax assets	39	780,569	955,669
Current tax assets		38,066	86,722
Other assets	15,49,50,53	10,939,005	12,062,635
Assets held for sale	16	28,868,107	10,516,884
<b>Total assets</b>		<b>₩ 304,996,478</b>	<b>268,839,664</b>
<b>Liabilities</b>			
Financial liabilities measured at FVTPL	17,49,50,53	₩ 1,694,957	2,465,541
Deposits	18,49,50,53	46,961,355	36,315,343
Borrowings	19,49,50,53	24,542,788	24,968,407
Debentures	20,49,50,53	143,329,298	125,206,809
Derivative financial liabilities	10,49,50,51,53	6,166,011	4,184,604
Policy reserves	21	-	16,763,825
Defined benefit liabilities	22	251,494	303,414
Provisions	23	966,706	997,644
Deferred tax liabilities	39	4,395,128	3,177,800
Current tax liabilities		70,898	189,664
Other liabilities	24,49,50,53	11,477,150	13,206,875
Liabilities held for sale	16	24,151,170	5,982,675
<b>Total liabilities</b>		<b>264,006,955</b>	<b>233,762,601</b>
<b>Equity</b>			
Issued capital	25	₩ 20,765,729	18,663,099
Capital surplus	25	1,055,888	1,000,599
Capital adjustment	25	278,051	278,039
Accumulated other comprehensive income	25	2,053,511	40,936
Retained earnings	25	12,347,088	10,658,792
<small>(Regulatory reserve for credit losses of ₩1,175,456 million and ₩1,257,673 million as of December 31, 2020 and 2019, respectively)</small>			
<small>(Required reversal of regulatory reserve for credit losses of ₩672,712 million and ₩82,217 million as of December 31, 2020 and 2019, respectively)</small>			
<small>(Planned reversal of regulatory reserve for credit losses of ₩672,712 million and ₩82,217 million as of December 31, 2020 and 2019, respectively)</small>			
<b>Total equity attributable to owners of the parent</b>		<b>36,500,267</b>	<b>30,641,465</b>
<b>Non-controlling interests</b>	46	4,489,256	4,435,598
<b>Total equity</b>		<b>40,989,523</b>	<b>35,077,063</b>
<b>Total liabilities and equity</b>		<b>₩ 304,996,478</b>	<b>268,839,664</b>

## Korea Development Bank and Subsidiaries

**Consolidated Statements of Comprehensive Income**

Years ended December 31, 2020 and 2019

<i>(In millions of won, except earnings per share information)</i>	<b>Notes</b>	<b>2020</b>	<b>2019</b>
<b>Continuing operations:</b>			
Interest income	26 ₩	4,876,178	5,567,136
Interest expense	26	(3,309,613)	(4,188,355)
<b>Net interest income</b>		<b>1,566,565</b>	<b>1,378,781</b>
Net fees and commission income	27	360,514	419,151
Dividend income	28	285,583	287,211
Net gain on securities measured at FVTPL	29	93,387	375,555
Net gain (loss) on financial instruments designated at FVTPL	30	33,026	(6,760)
Net gain on securities measured at FVOCI	31	86,681	99,051
Net gain (loss) on securities measured at amortized cost	32	(4,381)	319
Net gain (loss) on derivatives	33	479,889	(301,125)
Net foreign currency transaction loss	34	(196,177)	(45,336)
Other operating income (expense), net	35	1,165,008	339,239
<b>Non-interest income, net</b>		<b>2,303,530</b>	<b>1,167,305</b>
<b>Provision for (reversal of) credit losses</b>	36	<b>1,313,463</b>	<b>(162,563)</b>
<b>General and administrative expenses</b>	37	<b>1,454,088</b>	<b>1,526,552</b>
<b>Operating income</b>		<b>1,102,544</b>	<b>1,182,097</b>
Net gain (loss) related to investments in associates	11	1,899,247	(816,764)
Other non-operating income	38	97,602	309,869
Other non-operating expense	38	(251,044)	(355,373)
<b>Non-operating income (expense), net</b>		<b>1,745,805</b>	<b>(862,268)</b>
<b>Profit before income taxes</b>		<b>2,848,349</b>	<b>319,829</b>
<b>Income tax expenses</b>	39	<b>717,220</b>	<b>213,664</b>
<b>Profit for the year from continuing operations</b>		<b>2,131,129</b>	<b>106,165</b>
<b>Discontinued operations:</b>			
<b>Profit (loss) from discontinued operations</b>	16	<b>(169,782)</b>	<b>172,982</b>
<b>Profit for the year</b>	25 ₩	<b>1,961,347</b>	<b>279,147</b>

(Profit for the year adjusted for regulatory reserve for credit losses: ₩2,634,059 million and ₩361,364 million for the years ended December 31, 2020 and 2019, respectively)

Years ended December 31, 2020 and 2019

<i>(In millions of won, except earnings per share information)</i>	<u>Notes</u>	<u>2020</u>	<u>2019</u>
<b>Other comprehensive income for the year, net of tax</b>	25		
<b>Items that are or may be reclassified subsequently to profit or loss:</b>			
Net gain on securities measured at FVOCI	₩	1,737	14,590
Share of other comprehensive income (loss) of associates		(21,200)	17,912
Exchange differences on translation of foreign operations		(207,798)	(13,703)
Valuation gain (loss) on cash flow hedge		(1,495)	538
Net gain on hedges of net investments in foreign operations		31,492	4,015
Others		(66,608)	25,687
		(263,872)	49,039
<b>Items will not be reclassified to profit or loss:</b>			
Remeasurements of defined benefit liabilities		39,124	(39,745)
Fair value changes on financial liabilities designated at fair value due to credit risk		(1,188)	(7,759)
Net gain on securities measured at FVOCI		2,127,151	15,017
Share of other comprehensive loss of associates		(2,902)	(3,193)
		2,162,185	(35,680)
		1,898,313	13,359
<b>Total comprehensive income for the year</b>	₩	3,859,660	292,506
<b>Profit attributable to:</b>			
Owners of the parent	25 ₩	1,845,056	275,466
Non-controlling interests		116,291	3,681
Profit for the year	₩	1,961,347	279,147
<b>Total comprehensive income attributable to:</b>			
Owners of the parent	₩	3,812,849	312,009
Non-controlling interests		46,811	(19,503)
Total comprehensive income for the year	₩	3,859,660	292,506
<b>Earnings per share:</b>			
Basic and diluted earnings per share (in won)	40 ₩	468	74
<b>Earnings per share from continuing operations:</b>			
Basic and diluted earnings per share (in won)	40 ₩	510	9

See accompanying notes to the consolidated financial statements.

## Korea Development Bank and Subsidiaries

**Consolidated Statements of Changes in Equity**

Years ended December 31, 2020 and 2019

(In millions of won)	Attributable to owners of the parent							Non-controlling interests	Total equity
	Issued capital	Capital surplus	Capital adjustment	Accumulated other comprehensive income	Retained earnings	Total			
<b>Balance at January 1, 2019</b>	₩ 18,108,099	813,820	316,429	24,710	10,518,889	29,781,947	4,471,499	34,253,446	
<b>Changes in accounting policy</b>	-	-	-	-	(65)	(65)	(42)	(107)	
<b>Restated balance at January 1, 2019</b>	18,108,099	813,820	316,429	24,710	10,518,824	29,781,882	4,471,457	34,253,339	
Profit for the year	-	-	-	-	275,466	275,466	3,681	279,147	
Net gain (loss) on securities measured at FVOCI	-	-	-	(2,762)	20,317	17,555	12,052	29,607	
Share of other comprehensive income (loss) of associates	-	-	-	16,527	-	16,527	(1,808)	14,719	
Exchange differences on translation of foreign operations	-	-	-	8,506	-	8,506	(22,209)	(13,703)	
Valuation gain (loss) on cash flow hedge	-	-	-	680	-	680	(142)	538	
Net gain on hedges of net investments in foreign operations	-	-	-	4,015	-	4,015	-	4,015	
Remeasurements of defined benefit liabilities	-	-	-	(14,659)	-	(14,659)	(25,086)	(39,745)	
Fair value changes on financial liabilities designated at fair value due to credit risk	-	-	-	(7,759)	-	(7,759)	-	(7,759)	
Others	-	-	-	11,678	-	11,678	14,009	25,687	
<b>Total comprehensive income for the year</b>	-	-	-	16,226	295,783	312,009	(19,503)	292,506	
Dividends	-	-	-	-	(144,865)	(144,865)	-	(144,865)	
Paid-in capital increase	555,000	(2,673)	-	-	-	552,327	-	552,327	
Acquisition on / disposal of interest in subsidiaries while maintain control	-	189,452	(38,390)	-	(10,950)	140,112	(16,356)	123,756	
<b>Transaction with owners</b>	555,000	186,779	(38,390)	-	(155,815)	547,574	(16,356)	531,218	
<b>Balance at December 31, 2019</b>	₩ 18,663,099	1,000,599	278,039	40,936	10,658,792	30,641,465	4,435,598	35,077,063	
<b>Balance at January 1, 2020</b>	₩ 18,663,099	1,000,599	278,039	40,936	10,658,792	30,641,465	4,435,598	35,077,063	
<b>Changes in accounting policy</b>	-	-	-	9,847	(9,847)	-	6,333	6,333	
<b>Restated balance at January 1, 2020</b>	18,663,099	1,000,599	278,039	50,783	10,648,945	30,641,465	4,441,931	35,083,396	
Profit for the year	-	-	-	-	1,845,056	1,845,056	116,291	1,961,347	
Net gain (loss) on securities measured at FVOCI	-	-	-	2,163,279	(34,935)	2,128,344	544	2,128,888	
Share of other comprehensive loss of associates	-	-	-	(14,405)	-	(14,405)	(9,697)	(24,102)	
Exchange differences on translation of foreign operations	-	-	-	(167,856)	-	(167,856)	(39,942)	(207,798)	
Valuation loss on cash flow hedge	-	-	-	(1,247)	-	(1,247)	(248)	(1,495)	
Net gain on hedges of net investments in foreign operations	-	-	-	31,492	-	31,492	-	31,492	
Remeasurements of defined benefit liabilities	-	-	-	14,251	-	14,251	24,873	39,124	
Fair value changes on financial liabilities designated at fair value due to credit risk	-	-	-	(1,188)	-	(1,188)	-	(1,188)	
Others	-	-	-	(21,598)	-	(21,598)	(45,010)	(66,608)	
<b>Total comprehensive income for the year</b>	-	-	-	2,002,728	1,810,121	3,812,849	46,811	3,859,660	
Dividends	-	-	-	-	(111,978)	(111,978)	-	(111,978)	
Paid-in capital increase	2,102,630	(10,105)	-	-	-	2,092,525	-	2,092,525	
Acquisition on / disposal of interest in subsidiaries while maintain control	-	65,394	12	-	-	65,406	514	65,920	
<b>Transaction with owners</b>	2,102,630	55,289	12	-	(111,978)	2,045,953	514	2,046,467	
<b>Balance at December 31, 2020</b>	₩ 20,765,729	1,055,888	278,051	2,053,511	12,347,088	36,500,267	4,489,256	40,989,523	

See accompanying notes to the consolidated financial statements.

## Korea Development Bank and Subsidiaries

**Consolidated Statements of Cash Flows**

Years ended December 31, 2020 and 2019

<i>(In millions of won)</i>	<u>Notes</u>	<u>2020</u>	<u>2019</u>
<b>Cash flows from operating activities</b>			
Profit for the year	₩	1,961,347	279,147
Adjustments for:			
Income tax expense	39	678,000	95,815
Interest income	26	(4,876,178)	(6,081,209)
Interest expense	26	3,309,613	4,210,671
Dividend income	28	(285,583)	(300,162)
Loss on valuation of securities measured at FVTPL		(67,521)	(352,951)
Loss (gain) on valuation of financial instruments designated at fair value through profit or loss		(29,187)	6,781
Net gain on securities measured at FVOCI		(126,304)	(118,184)
Net loss (gain) on securities measured at amortized cost		10,760	(584)
Gain on valuation of loans measured at FVTPL	8	(649,267)	(42,982)
Gain on valuation of derivatives		(984,667)	(425,857)
Net loss on fair value hedged items	33	25,346	645,768
Loss (gain) on foreign exchange translation	34	164,040	(18,529)
Loss (gain) on disposal of investments in associates		25,359	(7,218)
Impairment loss on investments in associates	11	34,282	105,007
Share of loss (gain) of associates		(1,931,968)	711,294
Provision for loan losses allowance	9,36	1,231,062	193,286
Provision for due from banks	36	166	42
Reversal of provision for payment guarantees	23,36	(25,365)	(255,114)
Increase of provision for unused commitments	23,36	66,850	39,095
Increase (reversal) of provision for financial guarantee provision	23,36	26,327	(76,426)
Increase (reversal) of lawsuit provision	23	384	(14)
Increase (reversal) of provision for restoration	23	(839)	258
Increase of other provisions	23	73,729	127,207
Increase of provision for other assets	36	14,423	307,680
Defined benefit costs	22	95,303	103,993
Depreciation of property and equipment	12	197,426	194,570
Net loss on property and equipment		105,834	86,251
Depreciation of investment property	13	10,495	10,222
Net loss (gain) on investment property		8,758	(15,846)
Amortization of intangible assets	14	159,396	196,698
Net loss (gain) on intangible assets		59,114	(96,955)
Net loss on assets held for sale	38	5,308	7,210
Net loss (gain) on share capital repayable on demand	35	(13,539)	89,950
Loss (gain) on redemption of debentures	35	136	(12)
		<u>(2,688,307)</u>	<u>(660,245)</u>
Changes in operating assets and liabilities:			
Due from banks		(1,770,753)	(1,044,534)
Securities measured at FVTPL		69,437	496,726
Loans measured at FVTPL		(180,170)	376,437
Loans measured at amortized cost		(16,072,882)	(9,939,553)
Derivative financial instruments		43,433	(56,662)
Other assets		(1,423,151)	1,769,475
Financial liabilities designated at FVTPL		76,378	-
Deposits		10,670,790	2,339,724
Policy reserves		484,782	438,491
Defined benefit liabilities		(92,827)	(294,027)
Provisions		(140,355)	397,022
Other liabilities		(211,981)	2,280,684
		<u>(8,547,299)</u>	<u>(3,236,217)</u>
Income taxes paid		(351,216)	(287,598)
Interest received		5,078,304	6,110,641
Interest paid		(3,653,450)	(4,165,663)
Dividends received		580,611	578,418
<b>Net cash used in operating activities</b>	₩	<u>(7,620,010)</u>	<u>(1,381,517)</u>

*(Continued)*

Years ended December 31, 2020 and 2019

<i>(In millions of won)</i>	<b>Notes</b>	<b>2020</b>	<b>2019</b>
<b>Cash flows from investing activities</b>			
Net, increase in securities measured at FVTPL	₩	(1,389,326)	(197,029)
Disposal of securities measured at FVOCI		51,033,727	24,806,162
Acquisition of securities measured at FVOCI	6	(58,105,098)	(26,126,057)
Redemption of securities measured at amortized cost		1,367,263	937,578
Acquisition of securities measured at amortized cost	7	(1,957,404)	(747,812)
Disposal of property and equipment		281,085	69,361
Acquisition of property and equipment	12	(72,734)	(208,850)
Disposal of investment property		166	-
Acquisition of investment property	13	(2,327)	(87,533)
Disposal of intangible assets		5,304	19,471
Acquisition of intangible assets	14	(37,722)	(100,774)
Disposal of assets and liabilities held for sale		67,699	63,546
Disposal of investment in associates		723,414	928,043
Acquisition of investments in associates		(1,232,808)	(1,292,332)
Net cash flows by the change of subsidiaries		(542,458)	102,636
<b>Net cash used in investing activities</b>		<b>(9,861,219)</b>	<b>(1,833,590)</b>
<b>Cash flows from financing activities</b>			
Increase in financial liabilities designated at FVTPL		170,000	282,834
Decrease in financial liabilities designated at FVTPL		(989,417)	-
Proceeds from borrowings		45,827,695	35,610,506
Repayment of borrowings		(45,922,964)	(35,974,505)
Proceeds from issuance of debentures		118,233,416	101,858,078
Repayment of debentures		(99,644,885)	(100,142,991)
Repayment of lease liabilities		(167,232)	(156,569)
Paid-in capital increase		2,092,525	552,327
Dividends paid		(111,978)	(144,865)
Decrease of non-controlling interests		(69,110)	(49,108)
<b>Net cash provided by financing activities</b>		<b>19,418,050</b>	<b>1,835,107</b>
<b>Effects from changes in foreign currency exchange rate for cash and cash equivalents held</b>		<b>(200,324)</b>	<b>204,372</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>1,736,497</b>	<b>(1,175,628)</b>
<b>Cash and cash equivalents included in assets held for sale</b>		<b>(350,709)</b>	<b>(1,082,314)</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>6,783,466</b>	<b>9,041,408</b>
<b>Cash and cash equivalents at end of the year</b>	47 ₩	<b>8,169,254</b>	<b>6,783,466</b>

See accompanying notes to the consolidated financial statements.

## Korea Development Bank and Subsidiaries

**Notes to the Consolidated Financial Statements**

December 31, 2020 and 2019

**1. Reporting Entity**

The accompanying consolidated financial statements comprise Korea Development Bank (“KDB” or the “Bank”) and its subsidiaries (collectively the “Group”). General information of the Bank and its subsidiaries is stated below.

**(1) Controlling company**

KDB was established on April 1, 1954, in accordance with *the Korea Development Bank Act* to finance and manage major industrial projects, in order to expedite industrial development and enhance the national economy.

The Bank is engaged in the banking industry under *the Korea Development Bank Act* and other applicable statutes, and in the fiduciary in accordance with *the Financial Investment Services and Capital Markets Act*.

Korea Finance Corporation (KoFC), the former ultimate parent company, and KDB Financial Group Inc. (KDBFG), the former immediate parent company, were established by spin-offs of divisions of the Bank as of October 28, 2009. KoFC and KDBFG were merged into the Bank, effective as of December 31, 2014. Issued capital is ₩20,765,729 million with 4,153,145,768 shares of issued and outstanding as of December 31, 2020 and the government of the Republic of Korea owns 100% of the Bank’s shares.

The Bank’s head office is located in 14, Eunhaeng-ro, Yeouido-dong, Yeongdeungpo-gu, Seoul and its service network as of December 31, 2020, is as follows:

	Domestic		Overseas			Total
	Head Office	Branches	Branches	Subsidiaries	Representative offices	
KDB	1	69	9	6	9	94

**(2) Consolidated subsidiaries**

The Group’s equity ownership in its consolidated direct and indirect subsidiaries as of December 31, 2020 and 2019 are summarized as follows:

Investor	Investee	Country	Industry	Fiscal year end	Ownership (%)	
					2020	2019
KDB	<b>Subsidiaries:</b>					
	KDB Asia (HK) Ltd.	Hong Kong	Finance	December	100.00	100.00
	KDB Ireland Ltd.	Ireland	Finance	December	100.00	100.00
	KDB Bank Uzbekistan Ltd.	Uzbekistan	Finance	December	86.32	86.32
	KDB Bank Europe Ltd.	Hungary	Finance	December	100.00	100.00
	Banco KDB Do Brazil S. A.	Brazil	Finance	December	100.00	100.00
	KDB Indonesia Ltd.	Indonesia	Finance	December	84.65	-
	KDB Capital Corporation	Korea	Specialized Credit Finance	December	99.92	99.92
	KDB Biz Co., Ltd.	Korea	Service	December	100.00	100.00
	KDB Investment Co., Ltd.	Korea	Financial investment	December	100.00	100.00
	KDB Infrastructure Investment Asset Management Co., Ltd.	Korea	Asset management	December	84.16	84.16
	Daewoo Shipbuilding & Marine Engineering Co., Ltd. (*1)	Korea	Manufacturing	December	55.68	55.72
	Shinhan Heavy Industries Co., Ltd. (*10)	Korea	Manufacturing	December	-	89.22
	Samwoo Heavy Industry Co., Ltd. (*2) (*5)	Korea	Manufacturing	December	100.00	100.00
	Daehan Shipbuilding Co., Ltd. (*2) (*5)	Korea	Manufacturing	December	70.04	70.04
	Korea Infrastructure Fund	Korea	Financial investment	December	85.00	85.00
	Korea Education Fund (*3)	Korea	Financial investment	Half-yearly	50.00	50.00
	Korea BTL Fund I (*3)	Korea	Financial investment	Half-yearly	41.67	41.67

December 31, 2020 and 2019

**1. Reporting Entity, Continued**

Investor	Investee	Country	Industry	Fiscal year end	Ownership (%)		
					2020	2019	
KDB	Korea Railroad Fund I (*3)	Korea	Financial investment	Half-yearly	50.00	50.00	
	Principals and interests guaranteed trusts (*4)	Korea	Financial investment	December	-	-	
	Principals guaranteed trusts (*4)	Korea	Financial investment	December	-	-	
	KDB Venture M&A Private Equity Fund (*10)	Korea	Financial investment	December	-	57.56	
	KDB Consus Value Private Equity Fund	Korea	Financial investment	December	68.20	68.20	
	Components & Materials M&A Private Equity Fund	Korea	Financial investment	December	83.33	83.33	
	KDB Investment PEF NO.1 (*9)	Korea	Financial investment	December	99.46	99.46	
	KDB Value Private Equity Fund VII (*5)	Korea	Financial investment	December	55.00	55.00	
	KDB Sigma Private Equity Fund II (*5)	Korea	Financial investment	December	73.33	73.33	
	KDB Asia Private Equity Fund (*5)	Korea	Financial investment	December	65.00	65.00	
	KDB-IAP OBOR Private Equity Fund (*5) (*7)	Korea	Financial investment	December	44.69	44.69	
	KDB Small Medium Mezzanine PEF (*5)	Korea	Financial investment	December	73.34	73.33	
	Corporate Liquidity Assistance Agency Co.,Ltd.	Korea	Financial investment	December	100.00	-	
	K-Five 7th Securitization Specialty Co., Ltd. and 5 others (*6)	Korea	Financial investment	December	-	-	
	KIAMCO Road Investment Private Fund Special Asset Trust 2 and 25 beneficiary certificates	Korea	Financial investment	December	-	-	
	<b>Sub-subsidiaries:</b>						
	KDB Capital Corporation	Vietnam Int'l Leasing Co., Ltd.	Vietnam	Finance	December	81.65	81.65
		Special money trust of Apache Golf Bond with Warrant	Korea	Financial investment	December	100.00	100.00
		DB curious Private Equity Fund L. P. (*10)	Korea	Financial investment	December	-	98.74
		ST Capital the Third New Technology Combination (*10)	Korea	Financial investment	December	-	81.97
Fine Infrastructure No.4		Korea	Financial investment	December	99.34	-	
Tiger Alternative Specialized Investment Trust No.21		Korea	Financial investment	December	98.67	-	
YK Bluesky No.1 (*6)		Korea	Financial investment	December	-	-	
Curious DB Harmony Corporate Recovery Private Equity Fund		Korea	Financial investment	December	98.82	-	
KDBC Synergy Mezzanine New Tech Fund No.1		Korea	Financial investment	December	90.50	-	
Curious rainbow Private Equity Fund for corporate financial stability		Korea	Financial investment	December	98.08	98.08	

## Korea Development Bank and Subsidiaries

**Notes to the Consolidated Financial Statements**

December 31, 2020 and 2019

**1. Reporting Entity, Continued**

Investor	Investee	Country	Industry	Fiscal year end	Ownership (%)	
					2020	2019
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	DSME Shangdong Co., Ltd.	China	Parts of watercraft manufacturing	December	100.00	100.00
	DK Maritime S. A.	Panama	Shipping industry	December	100.00	100.00
	DSME Information Consulting Co., Ltd.	Korea	IT Service	December	100.00	100.00
	DSME Kazakhstan LLP	Kazakhstan	Ship repairing	December	100.00	100.00
KDB Consus Value Private Equity Fund	KDB Life Insurance Co., Ltd. (*1), (*8)	Korea	Finance	December	92.73	92.73
KDB Value Private Equity Fund VI	Daewoo Engineering & Construction Co., Ltd. (*8)	Korea	Construction	December	51.34	51.34

December 31, 2020 and 2019

## 1. **Reporting Entity, Continued**

- (\*1) The Group reclassified the disposal group of Daewoo Shipbuilding & Marine Engineering Co., Ltd. and KDB Life Insurance Co., Ltd. to assets held for sale as described in Note 16.
- (\*2) The Group consolidates directly the investee which was a subsidiary of Daewoo Shipbuilding & Marine Engineering Co., Ltd., because it has power over the investee to control the financial and operating policies of the entity as a principal creditor bank for the subsidiary.
- (\*3) The investees are financed by the Bank and managed by KDB Infrastructure Investment Asset Management Co., Ltd. They are included in the scope of consolidation even though the Bank holds less than half of the voting rights because the Bank is exposed to variable returns, and has the ability to affect those returns through its power over the investee.
- (\*4) The trusts are included in the scope of consolidation because the Bank has power over the trusts to control the financial and operating policies of the entity, and is exposed to variable returns through the contract for preservation of principal and interest or principal only.
- (\*5) Indirect ownership through subsidiaries is included.
- (\*6) The investees are established for the investor's business, or are structured entities that the investor has rights to obtain the majority of the benefits of the investee or retains the majority of the risks related to the investee. The investees are included in the scope of consolidation because the investor has power over the investees to control the financial and operating policies of the entity, exposure or rights to variable returns from its involvement with the investees and the ability to use its power over the investees to affect those returns.
- (\*7) Those entities have been consolidated even though the investor's ownership is not over 50%, because the investor, as an executive partner, has power over the investees to control the financial and operating policies of the entity, exposure or rights to variable returns from its involvement with the investees and the ability to use its power over the investees to affect those returns.
- (\*8) The parent company of the sub-subsidiary is a SPE, which is not separately disclosed in the consolidated financial statements.
- (\*9) For the year ended December 31, 2019, KDB Value PEF VI was liquidated and KDB Investment PEF No.1 is acquired. Through this transaction, the shares of Daewoo Engineering & Construction Co., Ltd. held by KDB Value PEF VI as sub-subsidiary were transferred to KDB Investment PEF No.1 whereby the Group maintained its control over Daewoo Engineering & Construction Co., Ltd. The Group considered the transfer as a transaction between subsidiaries under common control and does not recognized gain or loss on the transfer in the separate financial statements.
- (\*10) The investees are excluded from the scope of consolidation as of December 31, 2020.

### (3) Changes in subsidiaries

Subsidiaries that are newly included in the consolidated financial statements and those that are excluded from the consolidated financial statements as of December 31, 2020 are as follows:

- (i) Subsidiaries newly included in scope of consolidation as of December 31, 2020

Reason	Subsidiaries
New investment	KDB Indonesia Ltd., Corporate Liquidity Assistance Agency Co., Ltd.

- (ii) Subsidiaries excluded from scope of consolidation as of December 31, 2020

Reason	Subsidiaries
Liquidation	K-Five 6th Securitization Specialty Co., Ltd., Multiasset Ocean Value-up PEF No. 2, U-BEST 4th Securitization Specialty Co., Ltd., Multi-Asset KDB Shipping Private Fund SPO-1, Idea Bridge Opportunity Private 1, KDB Venture M&A Private Equity Fund
Loss of control	Shinhan Heavy Industries Co., Ltd.

# Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

(In millions of won)

### 1. Reporting Entity, Continued

#### (4) Financial information of subsidiaries

Financial information of subsidiaries included in the consolidated financial statements as of and for the years ended December 31, 2020 and 2019 are as follows:

	2020					
	Assets	Liabilities	Equity	Operating revenue	Net profit (loss)	Total comprehensive income (loss)
KDB Asia (HK) Ltd.	₩ 2,693,398	2,222,031	471,367	132,319	12,603	(18,151)
KDB Ireland Ltd.	468,754	369,654	99,100	23,062	4,572	(1,828)
KDB Bank Uzbekistan Ltd.	628,874	562,988	65,886	24,028	8,401	(4,776)
KDB Bank Europe Ltd.	1,191,023	1,079,628	111,395	55,804	(15,780)	(26,355)
Banco KDB Do Brazil S. A.	315,666	257,100	58,566	96,007	1,917	(19,812)
KDB Indonesia Ltd.	87,891	57,455	30,436	12,345	1,831	1,831
KDB Capital Corporation	6,607,724	5,518,888	1,088,836	431,722	173,681	171,657
KDB Infrastructure Investment Asset Management Co., Ltd.	59,818	10,715	49,103	35,072	17,972	17,951
KDB Biz Co., Ltd.	8,207	5,907	2,300	25,468	1,149	603
KDB Investment Co., Ltd.	77,601	2,997	74,604	9,420	3,042	3,054
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	10,320,775	6,451,804	3,868,971	7,030,175	86,573	114,107
Samwoo Heavy Industry Co., Ltd.	253,735	231,394	22,341	135,932	1,037	1,104
Daehan Shipbuilding Co., Ltd.	636,255	790,594	(154,339)	765,204	(5,518)	(5,704)
Korea Infrastructure Fund	2,777	12	2,765	191	(22)	(22)
Korea Education Fund	108,656	7	108,649	7,275	6,994	6,994
Korea BTL Fund I	395,038	259	394,779	14,120	6,822	6,822
Korea Railroad Fund I	190,706	9	190,697	9,681	9,201	9,201
Principals and interests guaranteed trusts	311,865	237,136	74,729	44,381	38,924	38,924
Principals guaranteed trusts	257,367	251,050	6,317	6,245	122	122
KDB Consus Value Private Equity Fund	19,548,528	19,015,550	532,978	8	(140,754)	(172,013)
Components & Materials M&A Private Equity Fund	1,076	1,827	(751)	2	(13)	(13)
KDB Investment PEF No.1	9,701,074	7,233,393	2,467,681	8,361,795	58,745	23,799
KDB Value Private Equity Fund VII	27,294	82	27,212	763	(154)	(154)
KDB Sigma Private Equity Fund II	39,432	1	39,431	51,694	51,465	52,715
KDB Asia Private Equity Fund	46,847	175	46,672	-	4,910	(5,606)
KDB-IAP OBOR Private Equity Fund	119,687	49,307	70,380	-	(23,969)	(28,026)
KDB Small Medium Mezzanine PEF	120,692	377	120,315	9,416	(4,740)	(5,655)
Corporate Liquidity Assistance Agency Co.,Ltd.	2,992,986	1,990,277	1,002,709	20,419	2,709	2,709
K-Five 7th Securitization Specialty Co., Ltd. and 5 others	474,796	588,095	(113,299)	23,498	(7,715)	(7,715)
KIAMCO Road Investment Private Fund Special Asset Trust 2 and 25 beneficiary certificates	2,273,553	2,619	2,270,934	188,707	113,572	112,122

December 31, 2020 and 2019

**1. Reporting Entity, Continued**

	<b>2019</b>					
	Assets	Liabilities	Equity	Operating revenue	Net profit (loss)	Total comprehensive income (loss)
KDB Asia (HK) Ltd.	₩ 2,777,476	2,287,958	489,518	123,138	18,871	30,694
KDB Ireland Ltd.	436,368	335,440	100,928	31,404	6,818	14,164
KDB Bank Uzbekistan Ltd.	466,389	395,726	70,663	29,555	11,291	5,403
KDB Bank Europe Ltd.	1,274,243	1,188,166	86,077	68,749	7,584	4,532
Banco KDB Do Brazil S. A.	304,220	225,841	78,379	76,423	6,099	5,933
KDB Capital Corporation	5,884,821	4,924,781	960,040	454,281	104,141	104,287
KDB Infrastructure Investment Asset Management Co., Ltd.	57,428	11,676	45,752	35,291	19,478	19,422
KDB Biz Co., Ltd.	5,135	3,438	1,697	12,966	197	197
KDB Investment Co., Ltd.	74,223	2,673	71,550	4,556	1,737	1,675
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	11,276,079	7,521,182	3,754,897	8,358,745	(46,485)	(85,325)
Shinhan Heavy Industries Co., Ltd.	310,463	328,024	(17,561)	235,832	(59,495)	(58,749)
Samwoo Heavy Industry Co., Ltd.	270,365	249,128	21,237	155,997	(11,542)	(12,036)
Daehan Shipbuilding Co., Ltd.	637,978	786,612	(148,634)	642,586	(31,747)	(32,901)
Korea Infrastructure Fund	5,526	5	5,521	663	595	595
Korea Education Fund	114,228	6	114,222	7,173	6,871	6,871
Korea BTL Fund I	433,060	284	432,776	40,240	38,966	38,966
Korea Railroad Fund I	197,732	9	197,723	10,965	10,459	10,459
Principals and interests guaranteed trusts	272,718	236,913	35,805	32,359	25,501	25,501
Principals guaranteed trusts	263,508	257,314	6,194	7,060	4	4
KDB Venture M&A Private Equity Fund	120	7,910	(7,790)	-	-	-
KDB Consus Value Private Equity Fund	19,192,695	18,449,320	743,375	3,653,764	(157,839)	(33,496)
Components & Materials M&A Private Equity Fund	1,081	1,819	(738)	5	(62)	(62)
KDB Investment PEF No.1	10,246,043	7,849,961	2,396,082	8,847,952	47,432	31,369
KDB Value Private Equity Fund VII	41,729	163	41,566	32,913	21,502	21,502
KDB Sigma Private Equity Fund II	197,849	497	197,352	3,228	8,008	7,980
KDB Asia Private Equity Fund	30,112	191	29,921	-	(3,986)	2,401
KDB-IAP OBOR Private Equity Fund	151,973	51,756	100,217	-	7,371	10,749
KDB Small Medium Mezzanine PEF	75,726	756	74,970	5,018	4,754	4,880
K-Five 6th Securitization Specialty Co., Ltd. and 7 others	659,218	764,797	(105,579)	33,010	(4,652)	(4,652)
KIAMCO Road Investment Private Fund Special Asset Trust 2 and 28 beneficiary certificates	2,331,721	2,766	2,328,955	191,783	193,558	210,278

Korea Development Bank and Subsidiaries

# Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

## 2. Basis of Preparation

### (1) Application of accounting standards

These consolidated financial statements have been prepared in accordance with the Korean International Financial Reporting Standards (K-IFRS) enacted by the *Act on External Audit of Stock Companies*.

### (2) Changes and disclosures of accounting policies

#### (i) *New and amended standards and interpretations adopted*

The Group newly applied the following amended and enacted standards for the annual period beginning on January 1, 2020. The nature and the impact of each new standard or amendment are described below:

#### *Amendments to K-IFRS 1001 'Presentation of Financial Statements' and K-IFRS 1008 'Accounting Policies, Changes in Accounting Estimates and Errors' – Definition of Materiality*

The amendments clarify the explanation of the definition of material and amended K-IFRS 1001 and K-IFRS 1008 in accordance with the clarified definitions. Materiality is assessed by reference to omission or misstatement of material information as well as effects of immaterial information, and to the nature of the users when determining the information to be disclosed by the Group. The amendment does not have a significant impact on the consolidated financial statements.

#### *Amendments to K-IFRS 1103 'Business Combination' – Definition of a Business*

To consider the integration of the required activities and assets as a business, the amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs and excludes economic benefits from the lower costs. An entity can apply a concentration test, an optional test, where substantially all of the fair value of gross assets acquired is concentrated in a single asset or a group of similar assets, the assets required would not represent a business. The amendment does not have a significant impact on the consolidated financial statements.

#### *Amendments to K-IFRS 1109 'Financial Instruments', K-IFRS 1039 'Financial Instruments: Recognition and Measurement' and K-IFRS 1107 'Financial Instruments: Disclosure' – Interest Rate Benchmark Reform*

The amendments allow to apply the exceptions when forward-looking analysis is performed in relation to the application of hedge accounting while uncertainties arising from interest rate benchmark reform exist. The exceptions require the Group assumes that the interest rate benchmark on which the hedged items and the hedging instruments are based on is not altered as a result of interest rate benchmark reform, when determining whether the expected cash flows are highly probable, whether an economic relationship between the hedged item and the hedging instrument exists, and when assessing the hedging relationship is highly effective. The amendments do not have significant impact on the consolidated financial statements.

#### *Amendments to K-IFRS 1116 'Lease – Practical expedient for COVID-19-Related Rent Exemption, Concessions, Suspension'*

As a practical expedient, a lessee may elect not to assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the rent concession the same way it would account for the change applying this standard of the change were not a lease modification. These amendments should be applied for annual periods beginning on or after June 1, 2020, and earlier application of permitted. The Group does not expect that these amendments have a significant impact on the consolidated financial statements.

December 31, 2020 and 2019

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## 2. **Basis of Preparation, Continued**

### *(ii) New standards and interpretations issued but not effective*

The following new standards, interpretations and amendments to existing standards have been issued but not effective for annual periods beginning after January 1, 2020, and the Group has not early adopted them. The Group is currently in progress of analyzing the potential impact on the financial statements resulting from the application of these standards, interpretations and amendments.

#### *Amendments to K-IFRS 1103 'Business Combinations' - Reference to the Conceptual Framework*

The amendments update a reference of definition of assets and liabilities to qualify for recognition in revised Conceptual Framework for Financial Reporting. However, the amendments add an exception for the recognition of liabilities and contingent liabilities within the scope of K-IFRS 1037 'Provisions, Contingent Liabilities and Contingent Assets', and K-IFRS 2121 'Levies'. The amendments also confirm that contingent assets should not be recognized at the acquisition date. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Group does not expect that these amendments have a significant impact on the consolidated financial statements.

#### *Amendments to K-IFRS 1109 'Financial Instruments', K-IFRS 1039 'Financial Instruments: Recognition and Measurement', K-IFRS 1107 'Financial Instruments: Disclosure', K-IFRS 1104 'Insurance Contracts' and K-IFRS 1116 'Lease' - Interest Rate Benchmark Reform*

In relation to interest rate benchmark reform, the amendments provide a practical expedient allowing entities to change the effective interest rate instead of changing the carrying amount and apply hedge accounting without discontinuance although the interest rate benchmark is replaced in hedging relationship. The amendments should be applied for annual periods beginning on or after January 1, 2021, and earlier application is permitted. The Group is currently in progress of analyzing the potential impact on the financial statements resulting from the application of these amendments.

#### *Amendments to K-IFRS 1016 'Property, Plant and Equipment' - Proceeds before intended use*

The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while the entity is preparing the asset for its intended use. Instead, the entity will recognize and disclose the proceeds from selling such items, and the costs of producing those items, as profit or loss. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Group does not expect that these amendments have a significant impact on the consolidated financial statements.

#### *Amendments to K-IFRS 'Provisions, Contingent Liabilities and Contingent Assets' - Onerous Contracts: Cost of Fulfilling a Contract*

The amendments clarify that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts when assessing whether the contract is onerous. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Group does not expect that these amendments have a significant impact on the consolidated financial statements.

#### *Amendments to K-IFRS 1001 'Presentation of Financial Statements' - Classification of Liabilities as Current or Non-current*

The amendments clarify that liabilities are classified as either current or non-current, depending on the substantive rights that exist at the end of the reporting period. Classification is unaffected by the likelihood that an entity will exercise right to defer settlement of the liability or the management's expectations thereof. Also, the settlement of liability includes the transfer of the entity's own equity instruments; however, it would be excluded if an option to settle the liability by the transfer of the entity's own equity instruments is recognized separately from the liability as an equity component of a compound financial instrument. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Group does not expect that these amendments have a significant impact on the consolidated financial statements.

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**2. Basis of Preparation, Continued**

Annual improvements to K-IFRS 2018-2020

Annual improvements of K-IFRS 2018-2020 Cycle should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Group does not expect that these amendments have a significant impact on the consolidated financial statements.

- K-IFRS 1109 'Financial Instruments' – Fees related to the 10% test for derecognition of financial liabilities  
The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.
- K-IFRS 1101 'First time Adoption of Korean International Financial Reporting Standards' – Subsidiaries that are first-time adopters
- Korean IFRS No.1116 Leases – Lease incentives
- Korean IFRS No.1041 Agriculture – Measuring fair value

**(3) Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the consolidated statement of financial position:

- Derivative financial instruments measured at fair value
- Financial instruments measured at fair value through profit or loss
- Available-for-sale financial instruments measured at fair value
- Fair value hedged financial instruments with changes in fair value, due to hedged risks, recognized in profit or loss
- Liabilities for defined benefit plans, which are recognized as net of the total present value of defined benefit obligations less the fair value of plan assets

**(4) Functional and presentation currency**

In preparing the Group's consolidated financial statements, transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. The Group's consolidated financial statements are presented in Korean won, which is also the Group's functional currency. The following entities of the Group have different functional currency from the presentation currency:

Functional currency	Subsidiaries
USD	KDB Asia Ltd. KDB Ireland Ltd. KDB Asia Private Equity Fund KDB-IAP OBOR Private Equity Fund Multi-Asset KDB Shipping Private Fund SNT-1 Multi-Asset KDB Shipping Private Fund DA-3 Multi-Asset KDB Shipping Private Fund KLC-1 Multi-Asset KDB Ocean Value-up Private Fund 6th
UZS	KDB Bank Uzbekistan Ltd.
HUF	KDB Bank Europe Ltd.
BRL	Banco KDB Do Brazil S. A.
IDR	KDB Indonesia Ltd.

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## **2. Basis of Preparation, Continued**

### **(5) Use of estimates and judgments**

The preparation of the consolidated financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Management's estimates may differ from actual outcomes if management's estimates and assumptions based on management's best judgment at the reporting date are different from the actual environment.

Estimates and underlying assumptions are evaluated on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

#### ***(i) Fair value of financial instruments***

Financial instruments measured at fair value through profit or loss and other comprehensive income, and derivative instruments are recognized and measured at fair value. If the market for a financial instrument is not active, fair value is determined either by using a valuation technique or independent third-party valuation service. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, referencing to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

Financial instruments, which are not actively traded in the market and those with less transparent market prices, will have less objective fair values and require broad judgment on liquidity, concentration, uncertainty in market factors and assumptions in price determination and other risks.

Diverse valuation techniques are used to determine the fair value of financial instruments, from generally accepted market valuation models to internally developed valuation models that incorporate various types of assumptions and variables.

#### ***(ii) Credit losses allowance***

The Group tests impairment and recognizes loss allowances on financial assets classified at amortized cost, debt instruments measured at fair value through other comprehensive income and recognizes provisions for payment guarantee, financial guarantee and unused commitments. Accuracy of allowances and provisions for credit losses is dependent upon estimation of expected cash flows of the borrower for individually assessed allowances of loans, and upon assumptions and methodology used for collectively assessed allowances for groups of loans, guarantees and unused loan commitments.

The pandemic of COVID-19 in 2020 has a negative impact on the global economy despite of the Korean government's financial and economic stabilization packages. It may have a negative impact on the financial position and financial performance of the Group due to the increase of the expected credit losses on specific portfolios and the potential losses on financial assets. The detail of credit risk exposures by industry affected by the pandemic of COVID-19 as of December 31, 2020 is disclosed in Note 53. (2) and the exposures by industries could be changed according to economic fluctuations.

Taking these circumstances into account comprehensively, the Group recalculated the forward-looking information used to estimate the expected credit loss in accordance with K-IFRS 1109 'Financial Instruments' as at December 31, 2020. During the twelve-month period since the end of the previous year, there have been changes in the forward-looking information that affects expected credit losses, and it is predicted that major economic factors such as the 2020 unemployment rate and economic growth rate will deteriorate due to the impact of COVID-19. To reflect these changes, the Group recalculated the forward-looking information by means of increasing the probability of recession used in generating future economic scenarios and will continue to monitor the forward-looking information on a quarterly basis.

#### ***(iii) Deferred taxes***

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted

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# Notes to the Consolidated Financial Statements

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available to allow all or part of the deferred tax asset to be utilized. Actual income taxes in the future may not be identical to the recognized deferred tax assets and liabilities.

***(iv) Defined benefit liabilities***

The Group operates a defined benefit plan. Defined benefit liability is calculated by annual actuarial valuations as of the reporting date. In order to perform the actuarial valuations, assumptions for discount rates, future salary increases and others are required to be estimated. Defined benefit plans contain significant uncertainties in estimations due to its long-term nature.

**(6) Approval date for the consolidated financial statements**

The consolidated financial statements were authorized for issue by the Board of Directors on March 25, 2021, which will be submitted for approval to the shareholders' meeting to be held on March 30, 2021.

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### **3. Significant Accounting Policies**

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

#### **(1) Basis of consolidation**

##### ***(i) Subsidiaries and business combinations***

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power of the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which controls ceases.

If a subsidiary of the Group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

For acquisitions meeting the definition of a business combination, the acquisition method of accounting is used. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Any goodwill arising from initial consolidation is tested for impairment at least once a year and whenever events or changes in circumstances indicate the need for impairment. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date in fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed and the amount of any non-controlling interests in the acquire. Costs related to acquisition are recognized as expenses when occurred.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the net assets acquired, the difference is recognized directly in the consolidated statement of comprehensive income.

Intra-group balances, income and expenses, unrealized gain and loss and dividends resulting from intra-group transactions are fully eliminated

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it recognizes any investment retained at fair value and any surplus or deficit in profit or loss.

## Korea Development Bank and Subsidiaries

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**3. Significant Accounting Policies, Continued*****(ii) Investments in associates***

Associates are all entities over which the Group has significant influence but not control. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. When the investors' share on the fair value of the associates' identifiable assets and liabilities exceeds acquisition cost of the associates' interest, the excess portion is recognized as the current profit for the year of acquisition.

The Group's share of its associates' post-acquisition profits or loss is recognized in the statement of comprehensive income, and its share of post-acquisition movements in reserves is recognized in reserves. When the Group's share of loss in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further loss, unless it has incurred obligations or made payments on behalf of the associates. The carrying amount of equity method investments and the long-term interest that partially consists of investors' net investment are included in interest in the associate.

Unrealized gain and loss on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

***(iii) Acquisitions from entities under common control***

The assets and liabilities acquired are recognized at the carrying amounts recognized previously in the Group controlling shareholder's consolidated financial statements. The difference between cash paid and acquired net assets are recorded in equity.

***(iv) Non-controlling interests***

Non-controlling interests in a subsidiary are accounted for separately from the parent's ownership interests in a subsidiary. Each component of net profit or loss and other comprehensive income is attributed to the owners of the parent and non-controlling interest holders, even when the allocation reduces the non-controlling interests balance below zero.

***(v) Changes in the parent company's ownership interest***

Changes in the parent company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. The difference between the consideration and the adjustments made to non-controlling interests is recognized directly in equity attributable to the owners of the parent company.

**(2) Operating segments**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise corporate assets (primarily the Group's headquarters), head office expenses, and income tax assets and liabilities. The Group recognizes the CEO as the chief operating decision maker.

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### **3. Significant Accounting Policies, Continued**

#### **(3) Foreign exchange**

##### ***(i) Foreign currency transactions***

Transactions in foreign currencies are translated to the functional currency of company entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognized in profit or loss, except for differences arising on the translation of available for sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or in a qualifying cash flow hedge, which are recognized in other comprehensive income. Exchange rate effect of the gain (or loss) from non-monetary item is categorized according to whether the gain (or loss) is recognized as other comprehensive income or as profit or loss.

##### ***(ii) Foreign operations***

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

Unless the functional currency of foreign operations is in a state of hyperinflation, assets and liabilities of foreign operations are translated at the closing exchange rate at the end of the reporting period. Revenues and expenses on the statement of comprehensive income are translated at the exchange rates of the date of transaction. Foreign currency differences that arise from translation are recognized as other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation, and any adjustments in fair value to the carrying amounts of assets and liabilities due to such acquisition, are treated as assets and liabilities of the foreign operation. Therefore, such are expressed in the functional currency of the foreign operations and, alongside other assets and liabilities of the foreign operation, translated at the closing exchange rate.

In the case of the disposal of a foreign operation, cumulative amounts of exchange difference regarding the foreign operation, recognized separately from other comprehensive income, are re-categorized from assets to profit or loss as of the moment the disposal profit or loss is recognized.

##### ***(iii) Foreign exchange of net investment in foreign operations***

Monetary items receivable from or payable to a foreign operation, with none or little possibility of being settled in the foreseeable future, are considered a part of the net investment in the foreign operation. Therefore, the exchange difference is recognized as comprehensive income or loss in the consolidated financial statement, and re-categorized to profit or loss as of the disposal of the related net investment.

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### 3. Significant Accounting Policies, Continued

#### **(4) Recognition and measurement of financial instruments**

##### ***(i) Initial recognition***

The Group recognizes a financial asset or a financial liability in its consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets is recognized and derecognized using trade date accounting.

The Group classifies financial assets as financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, or financial assets at amortized cost on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The Group classifies financial liabilities as financial liabilities at fair value through profit or loss, or financial liabilities at amortized cost.

At initial recognition, a financial asset or financial liability is measured at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

##### ***(ii) Subsequent measurement***

After initial recognition, financial instruments are measured at amortized cost or fair value based on classification at initial recognition.

##### *Amortized cost*

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

##### *Fair value*

Fair values, which the Group primarily uses for the measurement of financial instruments, are the published price quotations based on market prices or dealer price quotations of financial instruments traded in an active market where available. These are the best evidence of fair value. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, an entity in the same industry, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If the market for a financial instrument is not active, fair value is determined either by using a valuation technique or independent third-party valuation service. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, referencing to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

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### **3. Significant Accounting Policies, Continued**

The Group uses valuation models that are commonly used by market participants and customized for the Group to determine fair values of common over-the-counter (OTC) derivatives such as options, interest rate swaps and currency swaps which are based on the inputs observable in markets. For more complex instruments, the Group uses internally developed models, which are usually based on valuation methods and techniques generally used within the industry, or a value measured by an independent external valuation institution as the fair values if all or some of the inputs to the valuation models are not market observable and therefore it is necessary to estimate fair value based on certain assumptions.

If the valuation technique does not reflect all factors which market participants would consider in setting a price, the fair value is adjusted to reflect those factors. Those factors include counterparty credit risk, bid-ask spread, liquidity risk and others.

The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with economic methodologies applied for pricing financial instruments. Periodically, the Group calibrates the valuation technique and tests its validity using prices of observable current market transactions of the same instrument or based on other relevant observable market data.

#### ***(iii) Derecognition***

Derecognition is the removal of a previously recognized financial asset or financial liability from the statement of financial position. The Group derecognizes a financial asset or a financial liability when, and only when:

##### ***Derecognition of financial assets***

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or the financial assets have been transferred and substantially all the risks and rewards of ownership of the financial assets are also transferred, or all the risks and rewards of ownership of the financial assets are neither substantially transferred nor retained and the Group has not retained control. If the Group neither transfers nor disposes of substantially all the risks and rewards of ownership of the financial assets, the Group continues to recognize the financial asset to the extent of its continuing involvement in the financial asset.

If the Group transfers the contractual rights to receive the cash flows of the financial asset, but retains substantially all the risks and rewards of ownership of the financial asset, the Group continues to recognize the transferred asset in its entirety and recognize a financial liability for the consideration received.

##### ***Derecognition of financial liabilities***

Financial liabilities are derecognized from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expires.

#### ***(iv) Offsetting***

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liability simultaneously.

### **(5) Cash and cash equivalents**

Cash and cash equivalents comprise balances with original maturities of three months or less than three months' maturity from the date of acquisition that are subject to an insignificant risk of changes in their fair value, including cash on hand, deposits held at call with banks and other highly liquid short-term investments with original maturities of three months or less.

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**Notes to the Consolidated Financial Statements**December 31, 2020 and 2019

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**3. Significant Accounting Policies, Continued****(6) Non-derivative financial assets*****(i) Financial assets at fair value through profit or loss***

Any non-derivative financial asset classified as held for trading or not classified as financial assets at fair value through other comprehensive income or financial assets measured at amortized cost is categorized under financial assets at fair value through profit or loss.

The Group may designate certain financial assets upon initial recognition as at fair value through profit or loss when the designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

After initial recognition, a financial asset at fair value through profit or loss is measured at fair value and gains or losses arising from a change in the fair value are recognized in profit or loss. Interest income and dividend income from financial assets at fair value through profit or loss are also recognized in profit or loss.

***(ii) Financial assets at fair value through other comprehensive income***

The Group classifies financial assets as financial assets at fair value through other comprehensive income if they meet the following conditions: 1) debt instruments that are a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and consistent with representing solely payments of principal and interest on the principal amount outstanding or 2) equity instruments, not held for trading with the objective of generating a profit from short-term fluctuations in price or dealer's margin, designated as financial assets at fair value through other comprehensive income.

After initial recognition, a financial asset at fair value through other comprehensive income is measured at fair value. Gain and loss from changes in fair value, other than dividend income and interest income amortized using effective interest method and exchange differences arising on monetary items which are recognized directly in income as interest income or expense, are recognized as other comprehensive income in equity.

At disposal of financial assets at fair value through other comprehensive income, cumulative gain or loss is recognized as profit or loss for the reporting period. However, cumulative gain or loss of equity instrument designated as fair value through other comprehensive income are not recycled to profit or loss at disposal.

Financial assets at fair value through other comprehensive income denominated in foreign currencies are translated at the closing rate. Exchange differences resulting from changes in amortized cost are recognized in profit or loss, and other changes are recognized as equity.

***(iii) Financial assets measured at amortized cost***

A financial asset, which are held within the business model whose objective is to hold assets in order to collect contractual cash flows and consistent with representing solely payments of principal and interest on the principal amount outstanding, are classified as a financial asset at amortized cost. Financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method after initial recognition and interest income is recognized using the effective interest method.

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### **3. Significant Accounting Policies, Continued**

#### **(7) Expected Credit Loss of Financial Assets**

The Group measures expected credit loss and recognizes loss allowance at the end of the reporting period for financial assets measured at amortized cost and fair value through other comprehensive income with the exception of financial asset measured at fair value through profit or loss.

The expected credit loss (“ECL”) is the weighted average amount of possible outcomes within a certain range, reflecting the time value of money, estimates on the past, current and future situations, and information accessible without excessive cost of effort.

The Group uses the following three measurement techniques in accordance with K-IFRS:

- General approach: for financial assets and off-balance-sheet unused credit line that are not applied below two approaches
- Simplified approach: for receivables, contract assets and lease receivables
- Credit-impaired approach: for purchased or originated credit-impaired financial assets

The general approach is applied differently depending on the significance of the increase of the credit risk. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, an entity shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses. If the credit risk on that financial instrument has increased significantly since initial recognition, an entity shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses at each reporting date.

The Group applies the simplified approach to 1) trade receivables and contract assets that do not have a significant financing component or 2) trade receivables, contract assets and lease receivables upon determining the Group’s accounting policies as the application of the simplified approach. The approach requires expected lifetime losses to be recognized from initial recognition of the financial assets. Under credit-impaired approach, the Group shall only recognize the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets.

The following non-exhaustive list of information may be relevant in assessing changes in credit risk:

- Significant changes in internal price indicators of credit risk as a result of a change in credit risk since inception
- Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated or issued at the reporting date
- An actual or expected significant change in the financial instrument’s external credit rating.
- An actual or expected internal credit rating downgrade for the borrower or decrease in behavioural scoring used to assess credit risk internally
- An actual or expected significant change in the operating results of the borrower
- Past due information

#### ***(i) Forward-looking information***

The Group uses forward-looking information, when it determines whether the credit risk has increased significantly since initial recognition and measures expected credit losses.

The Group assumes the risk component has a certain correlation with the business cycle, and calculates the expected credit loss by reflecting the forward-looking information with macroeconomic variables on the measurement inputs.

Forward looking information used in calculation of expected credit loss is derived after comprehensive consideration of a variety of factors including scenario in management planning, worst-case scenario used for stress testing, third party forecast, and others.

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### 3. Significant Accounting Policies, Continued

#### *(ii) Measuring expected credit losses on financial assets at amortized cost*

The amount of the loss on financial assets at amortized cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The Group estimates expected future cash flows for financial assets that are individually significant (individual assessment of impairment).

For financial assets that are not individually significant, the Group collectively estimates expected credit loss by grouping loans with homogeneous credit risk profile (collective assessment of impairment).

#### *Individual assessment of impairment*

Individual assessment of impairment losses is calculated using management's best estimate on present value of expected future cashflows. The Group uses all the available information including operating cash flow of the borrower and net realizable value of any collateral held.

#### *Collective assessment of impairment*

Collective assessment of loss allowance involves historical loss experience along with incorporation of forward-looking information. Such process incorporates factors such as type of collateral, product and borrowers, credit rating, size of portfolio and recovery period and applies probability of default on a group of assets and loss given default by type of recovery method. Also, the expected credit loss model involves certain assumption to determine input based on loss experience and forward-looking information. These models and assumptions are periodically reviewed to reduce gap between loss estimate and actual loss experience.

The expected credit loss for financial assets measured at amortized cost is recognized as the loss allowance, and when the financial asset is determined to be irrecoverable, the carrying amount and loss allowance are decreased. If financial assets previously written off are recovered, the loss allowance is increased and the difference is recognized in the current profit or loss.

#### *(iii) Measuring expected credit losses on financial assets at fair value through other comprehensive income*

Measuring method of expected credit losses on financial assets at fair value through other comprehensive income is equal to the method of financial assets at amortized cost, except for changes in loss allowances that are recognized as other comprehensive income. Amounts recognized in other comprehensive income for sale or repayment of financial assets at fair value through other comprehensive income are reclassified to profit or loss.

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### 3. Significant Accounting Policies, Continued

#### **(8) Derivative financial instruments including hedge accounting**

Derivative financial instruments are initially recognised at fair value upon agreement of the contract and re-estimated at fair value subsequently. The recognition of profit or loss due to changes in fair value of derivative instruments is as stated below:

##### *(i) Hedge accounting*

Derivative financial instruments are accounted differently depending on whether hedge accounting is applied, and therefore, are classified into trading purpose derivatives and hedging purpose derivatives.

Upon the transaction of hedging purpose derivatives, two different types of hedge accounting are applied; a fair value hedge, and a cash flow hedge. A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. A cash flow hedge is a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and (ii) could affect profit or loss.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge, and the method that will be used to assess the effectiveness of the hedging relationship.

##### *Fair value hedge*

For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognised in profit or loss in the statement of comprehensive income. Meanwhile, the change in the fair value of the hedged item, attributable to the risk hedged, is recorded as part of the carrying value of the hedged item and is also recognised in profit or loss in the statement of comprehensive income. When the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged item recorded at amortized cost, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge using the EIR.

##### *Cash flow hedge*

For designated and qualifying cash flow hedges, the effective portion of gain or loss on the hedging instruments is initially recognised directly in equity. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the statement of comprehensive income. When the hedged cash flow affects the profit or loss in statement of comprehensive income, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line in profit or loss in the statement of comprehensive income. When a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged forecasted transaction is ultimately recognised in the statement of comprehensive income. When a forecasted transaction is no longer expected to occur, the cumulative gain and loss that was reported in equity is immediately transferred to profit or loss in the statement of comprehensive income.

##### *Hedges of net investments in foreign operations*

The Group designates non-derivative financial instruments as hedging instruments for foreign currency risk arising from net investments in foreign operations and recognises the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge in other comprehensive income. The cumulative amounts recognised in other comprehensive income relating to both the foreign exchange differences arising on translation of the results and financial position of the foreign operation and the gain or loss on the hedging instrument that is determined to be an effective hedge of the net investment are reclassified from equity to profit or loss as a reclassification adjustment when the Group disposes of the foreign operation.

##### *(ii) Trading purpose derivatives*

For trading purpose derivatives transaction, changes in the fair value of derivatives are recognised in net income.

#### **(9) Day one profit or loss recognition**

For financial instruments classified as level 3 on the fair value level hierarchy measured using assess variables not observable in the market, the difference between the fair value at initial recognition and the transaction price, which is equivalent to Day one profit or loss, is amortized by using the straight-line method over time.

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**3. Significant Accounting Policies, Continued****(10) Property and equipment**

The Group's property and equipment is recognized at the carrying amount as historical costs less accumulated depreciation and accumulated impairment in value. Historical costs include the expenditures directly related to the acquisition of assets.

Subsequent costs are recognized in the carrying amount of assets or, if appropriate, as separate assets if the probabilities future economic benefits associated with the assets will flow into the Group and the costs can be measured reliably; the carrying amount of the replaced part is derecognized. Furthermore, any other repairs or maintenances are charged to profit or loss as incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to the amount of residual value less acquisition cost over the following estimated useful lives:

Type	Useful lives (years)
Buildings	12 ~ 60
Structure	10 ~ 51
Leasehold improvements	4
Vehicles	4
Equipment	4 ~ 8
Other properties	2 ~ 40

Property and equipment are impaired when its carrying amount exceeds the recoverable amount. The Group assesses residual value and economic life of its assets at each reporting date and adjusts its useful life when necessary. Any gain or loss arising from the disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in non-operating income (expense) in the consolidated statement of comprehensive income.

December 31, 2020 and 2019

### 3. Significant Accounting Policies, Continued

#### (11) Investment property

The Group classifies property held for the purpose of rental income or benefits from capital appreciation as investment property. Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, the cost model is applied. Subsequent to initial recognition, an item of investment property is carried at its cost less any accumulated depreciation and any accumulated impairment loss.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the statement of comprehensive income in the period of de-recognition. Reclassification to or from other account is made if there is a change in use of corresponding investment property.

Depreciation of investment property is calculated using the straight line method over their estimated useful lives as follows:

Type	Useful lives (years)
Buildings	20 ~ 50
Structure	10 ~ 40

#### (12) Intangible assets

An intangible asset is recognized only when its cost can be measured reliably, and the probabilities future economic benefits from the asset will flow into the Group are high. Separately acquired intangible assets are recognized at the acquisition cost, and subsequently, the cost less accumulated depreciation and accumulated impairment is recognized as the carrying amount.

Intangible assets with finite lives are amortized over the 4-year to 30-year period of useful economic lives using the straight line method. At the end of each reporting period, the Group reviews intangible assets for any evidence that indicate impairment, and upon the presence of such evidence, the Group estimates the amount recoverable and recognizes the loss accordingly. Intangible assets are derecognized either when they have been disposed of or when the intangible assets are permanently withdrawn from use and no future economic benefit is expected from its disposal.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually. Furthermore, the Group reviews such intangible assets to determine whether it is appropriate to consider these assets to have indefinite useful lives. If in the case the Group concludes an asset is not qualified to be classified as non-finite, prospective measures are taken to consider such an asset as finite.

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

Korea Development Bank and Subsidiaries

# Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

### 3. Significant Accounting Policies, Continued

#### (13) Leases

##### (i) *Lessee accounting*

The Group recognizes a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments at the commencement date of the lease. The Group elected not to apply the requirements to the short-term leases and low value assets.

##### *Right-of-use asset*

The right-of-use asset is measured at its cost less subsequent accumulated depreciation and accumulated impairment loss with adjustments reflected arising from remeasurements of the lease liability. The cost of the right-of-use asset comprise the amount of the initial measurement of the lease liability, any initial direct costs incurred by the lessee and any lease payments made at or before the commencement date, less any lease incentive received. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis from the commencement date of the lease.

##### *Lease liabilities*

At the commencement date, the lease liability is measured at present value of the lease payments that are not paid at that date. Lease payments include fixed payments (including in-substance fixed payments), less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognized as an expense in the period in which the event or condition that triggers those payments occurs.

When measuring the present value, the lease payments are discounted using the interest rate implicit in the lease. If such implicit rate cannot be readily determined, the Group uses the Group's incremental borrowing rate. The lease liability is subsequently increased by the amount of interest expenses recognized on the lease liability and reduced by the lease payments made.

Lease liabilities are remeasured when the future lease payments are changed due to the following:

- Changes in an index or a rate;
- Changes in amounts expected to be payable by the lessee under residual value guarantees;
- Changes in the assessment of whether a purchase option or an option to renew is reasonably certain to be exercised; or
- Changes in the assessment of whether it is reasonably certain that an option to terminate the lease will not be exercised.

##### *Leases of low-value assets and short-term leases*

The Group applies the recognition exemption for leases of low-value assets (e.g., office supplies and IT equipment) and short-term leases (i.e., leases with a lease term of 12 months or less). In these cases, lease payments are charged to profit or loss on a straight-line basis over the period of lease.

December 31, 2020 and 2019

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### 3. **Significant Accounting Policies, Continued**

#### ***(ii) Lessor accounting***

The classification of leases is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor.

#### ***Finance lease***

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases, and the Group presents them as a receivable at an amount equal to the net investment in the lease. Also, initial direct cost that includes directly and additionally incurred commission fee, legal expenses, and internal accrued costs are included in finance lease receivables. The Group accounts for lease payment by apportioning into finance lease receivables and interest revenue, and interest revenue is recognized using the EIR method on uncollected finance lease net investment.

#### ***Operating lease***

A lease is classified as operating lease if it does not transfer substantially all the risks and rewards incidental to ownership, and the related asset is presented as acquisition cost less accumulated depreciation. Moreover, the minimum lease payment excluding guaranteed residual value is recognized as revenue on a straight line basis over the lease term. Initial direct costs incurred by lessors in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset and recognized as an expense over the lease term, and the depreciation policy for depreciable leased assets shall be consistent with the lessors' normal depreciation policy for similar assets.

#### **(14) Impairment of non-financial assets**

The Group tests for any evidence of impairment in assets and reviews whether the impairment has taken place by estimating the recoverable amount, at the end of each reporting period. The Group estimates the recoverable amount of each asset or a whole cash-generating unit unless it is possible to estimate the amount of the asset in that unit. The recoverable amount is the higher of the fair value less cost and value in use, of an asset. The Group recognizes the difference between the carrying amount and the recoverable amount of the asset as an impairment loss if the carrying amount exceeds the recoverable amount.

Any goodwill arising on the acquisition of a business is allocated to each cash-generating unit that is expected to gain the benefits of the synergy effect. Impairment on cash-generating unit deducts other assets in proportion to their carrying amounts after deducting the carrying amount of goodwill allocated in that unit. Impairment loss on goodwill cannot be reversed once it is recognized.

Except for impairment losses in respect of goodwill that are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

Korea Development Bank and Subsidiaries

# Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

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### 3. Significant Accounting Policies, Continued

#### **(15) Assets held for sale**

Non-current assets (or disposal groups) that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal groups) must be available for immediate sale in its present condition and its sale must be highly probable. The assets (or disposal groups) that are classified as assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal groups) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized.

Non-current assets that are classified as held for sale or part of a disposal group classified as held for sale are not depreciated (or amortized).

#### **(16) Non-derivative financial liabilities**

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liability. The Group recognizes these financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

##### ***(i) Financial liabilities at fair value through profit or loss***

Financial liabilities at fair value through profit or loss in the current year include financial liabilities held for trading and financial liabilities designated at FVTPL upon initial recognition. Financial liabilities and derivatives are classified as financial instruments held for trading if they are acquired for the purpose of repurchasing in the near future. Financial liabilities are classified as financial liabilities at FVTPL upon initial recognition, if the profit or loss from the liabilities indicates to be more purpose-appropriate to be recognized as profit or loss. Financial liabilities at FVTPL are designated at fair value in subsequent measurements, and any related un-realized profit or loss is recognized as profit or loss.

December 31, 2020 and 2019

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### **3. Significant Accounting Policies, Continued**

#### ***(ii) Financial liabilities measured at amortized cost***

Financial liabilities measured at amortized cost are recognized at fair value less cost less transaction cost upon initial recognition, and subsequently at amortized costs. The difference between the proceeds (net of transaction cost) and the redemption value is recognized in the statement of comprehensive income over the periods of the liabilities using the EIR.

Fees paid on the establishment of a loan facility are recognized as transaction costs of the loan, if the probability that some or all of the facility will be drawn down is high. The amount is deferred until the financial liability would be withdrawn. If, however, there is not enough evidence to conclude a draw-down of some or all of the facility will occur, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

#### ***(iii) De-recognition of financial liabilities***

A financial liability is de-recognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

### **(17) Employee benefits**

#### ***(i) Short-term employee benefits***

Short-term employee benefits are employee benefits that are due to be settled wholly before 12 months after the end of the reporting period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

#### ***(ii) Retirement benefits: defined contribution plans***

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate fund. The Group is no longer responsible for any foreseeable future liability after a certain amount or percentage of money is set aside for defined contribution plans. If the pension plan allows for early retirement, payments are recognized as employee benefits. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

#### ***(iii) Retirement benefits: defined benefit plans***

The Group classifies all the pensions as defined benefit plans except defined contribution plans. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and have terms to maturity similar to the terms of the related pension liability.

Remeasurements of the net defined benefit liabilities (assets), which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income.

## Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

**3. Significant Accounting Policies, Continued****(18) Provisions**

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**(19) Financial guarantees**

Financial guarantee contracts are contracts that require the issuer (the Group) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the original or changed terms of a debt instrument. Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given.

Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of:

- The amount determined in accordance with K-IFRS 1109 '*Financial Instruments*' and
- The initial amount recognized, less, when appropriate, cumulative amortization recognized in accordance with K-IFRS 1115 '*Revenue from Contracts with Customers*'.

**(20) Securities under resale or repurchase agreements**

Securities purchased under agreements to resell are recorded as other loans and receivables and the related interest from these securities is recorded as interest income; Securities sold under agreements to repurchase are recorded as borrowings, and the related interest from these securities is recorded as interest expense.

**(21) Policy reserves for insurance contracts**

In accordance with the *Insurance Business Act* and related insurance standards, the Group is required to maintain policy reserves, which consist of premium reserve, unearned premium reserve, reserve for outstanding claims, reserve for participating policyholders' dividends, excess participating policyholders' dividend reserve and reserve for loss on participating insurance policies, as a liability which is measured in accordance with the *Manual for Calculation of Premium and Policy Reserves* as approved by the Financial Supervisory Commission. Details are as follows:

**(i) Premium reserve**

Premium reserve represents an amount calculated based on a net premium valuation, which is the greater of an amount calculated by using the standard interest rate and standard risk rate issued by the Financial Supervisory Service (FSS), and an amount calculated using an internally generated rate derived by the Group. If the reserve is at zero or less, the amount is to be recorded at nil.

**(ii) Unearned premium reserve**

Unearned premium reserve represents an amount allocated for certain premiums whose initial payment date falls within the current reporting period and future payments, if any, fall subsequent to the end of the reporting period.

**(iii) Guaranteed benefit reserve**

Guaranteed benefit reserve guarantees a certain level of the insurance claims considering expected loss in the future. The Group's guaranteed benefit reserve consists of the following:

- Guaranteed minimum accumulation benefit: reserves that guarantee financial resources for the pension benefit amount that equals to the predetermined value in the contract.
- Guaranteed minimum death benefit: reserves that guarantee death benefit amount that equals to the predetermined value in the contract.
- Guaranteed minimum withdrawal benefit: reserves that guarantee the interim withdrawals amount that equals to the predetermined value in the contract during the period for interim withdrawals.
- Guaranteed lifetime withdrawal benefit: reserves that guarantee the interim withdrawals amount that equals to the predetermined value in the contract during lifetime.
- Other guaranteed benefits: guaranteed benefit reserves other than those listed above for a guarantee of insurance proceeds in excess of a certain level.

December 31, 2020 and 2019

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### 3. **Significant Accounting Policies, Continued**

#### *(iv) Reserve for outstanding claims*

Reserve for outstanding claims represents a reserve based on estimate of loss for insured events that have occurred prior to the reporting date but have not yet been settled or determined, including:

- Outstanding losses: losses that have been reported to the insurer but are still in the process of settlement (in cases where a claim is partially paid, the remnant is reported).
- Incurred but not reported (IBNR): an estimate of the amount based on historical information of an insurer's liability for claim-generating events that have taken place but have not yet been reported to the insurer.
- Reserve for lapsed insurance contracts: reserve for insurance cancellation refund for lapsed insurance contracts due to non-payment of insurance premium that still can be revived or deferred within a certain period.
- Outstanding claims: legitimate claims, such as compensation, refund, dividend that an insurer has not yet paid to policy holder.

#### *(v) Reserve for participating policyholders' dividends*

The reserve for participating policyholders' dividends is classified into interest dividend reserve, mortality dividend reserve, interest rate difference guarantee reserve and long-term duration dividend reserve.

#### *(vi) Excess participating policyholders' dividend reserve*

Pursuant to relevant laws and contracts, the Group may provide an excess participating policyholder dividend reserve based on the operating results of related insurance products. The reserve may be used to pay participating policyholder dividends or additional dividends.

#### **(22) Equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or loss from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

Non-controlling interests refer to equity in a subsidiary not attributable, directly or indirectly, to a parent. Non-controlling interests consist of the minority interest net income calculated under K-IFRS 1103 'Business Combinations' at the date of the initial combination, and minority interest of changes in equity after the business combination.

#### **(23) Government subsidy**

Government subsidy without repayment obligation, which is used for the acquisition of certain assets, is accounted for as a deduction from the acquisition cost of the acquired assets. Such subsidy amount is offset against the depreciation or amortization of the acquired assets during such assets' useful life.

#### **(24) Interest income and expense**

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest method measures the amortized costs of financial instruments and allocates the interest income or expense during the related period.

Upon the calculation of the effective interest rate, the Group estimates future cash flows by taking into consideration all contractual terms of the financial instrument, but not future credit loss. The calculation also reflects any fees or points paid or received, transaction costs and any related premiums or discounts. In the case that the cash flow and expected duration of a financial instrument cannot be estimated reliably, the effective interest rate is calculated by the contractual cash flow during the contract period.

Once an impairment loss has been recognized on a financial asset or a group of similar assets, subsequent interest income is recognized on the interest rate that was used to discount future cash flow for measuring the impairment loss.

# Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

### 3. Significant Accounting Policies, Continued

#### (25) Fees and commission income

Fees and commission income and expense are classified as follows according to related regulations:

##### (i) *Fees and commission from financial instruments*

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. It includes those related to evaluation of the borrowers' financial status, guarantee, collateral, other agreements and related evaluation as well as business transaction, rewards for activities, such as document preparation and recording and setup fees incurred during issuance of financial liabilities. However, when financial instruments are classified as financial instruments at fair value through profit or loss, fees and commission are recognized as revenue upon initial recognition.

##### (ii) *Fees and commission from services*

Fees and commission income charged in exchange for services to be performed during a certain period of time such as asset management fees, consignment fees and assurance service fees are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan and K-IFRS 1109 'Financial Instrument' is not applied for the commitment, the related loan commitment fees are recognized as revenue proportionally to time over the commitment period.

##### (iii) *Fees and commission from significant transaction*

Fees and commission from significant transactions, such as trading stocks and other securities, negotiation and mediation activities for third parties, for instance business transfer and takeover, are recognized when transactions are completed.

#### (26) Dividend income

Dividend income is recognized upon the establishment of the Group's right to receive the payment.

#### (27) Income tax expense

Income tax expense comprises current and deferred income tax. Current income tax and deferred income tax are recognized in profit or loss except to the extent that the tax arises from a transaction or event, which is recognized in other comprehensive income or directly in equity, or a business combination.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the reporting period when the assets are realized or the liabilities settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred income tax assets and liabilities reflects the income tax effects that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Subsidiaries calculate income tax based on their tax laws and report the amount as current income tax liability.

The Group recognizes deferred income tax liabilities for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes deferred income tax assets for all deductible temporary differences arising from investments in associates, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred income tax asset is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are offset only if the Group has a legally enforceable right to offset the related current income tax assets and liabilities, and the assets and liabilities relate to income tax levied by the same tax authority and are intended to be settled on a net basis.

December 31, 2020 and 2019

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### 3. **Significant Accounting Policies, Continued**

#### **(28) Accounting for trust accounts**

The Group, for the purpose of financial reporting, differentiates trust assets from identifiable assets according to the *Financial Investment Services and Capital Markets Act*. Furthermore, the Group receives trust fees from the application, management and disposal of trust assets, and appropriates such amounts for fees from trust accounts.

Meanwhile, in the case the fee from an unspecified principal or interests guaranteed money in trust does not meet the principal or interest amount, even after appropriating deficit with trust fees and special reserve, the Group fills in the remaining deficit in the trust account and appropriates such amounts for losses on trust accounts.

#### **(29) Regulatory reserve for credit losses**

When the total sum of allowance for possible credit losses under K-IFRS is lower than the amount prescribed in Article 29(1) of the *Regulations on Supervision of Banking Business*, the Group records the difference as a regulatory reserve for credit losses at the end of each reporting period.

In the case that the existing regulatory reserve for credit losses exceeds the amount needed to be set aside at the reporting date, the surplus may be reversed. Furthermore, in the case that undisposed deficit exists, a regulatory reserve for credit losses is saved from the time the undisposed deficit is disposed.

#### **(30) Earnings per share**

The Group represents its diluted and basic earnings per common share in the consolidated statement of comprehensive income. Basic earnings per share is calculated by dividing net profit attributable to shareholders of the Group by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share is calculated by adjusting net profit attributable to common shareholders of the Group, considering dilution effects from all potential common shares, and the weighted average number of common shares outstanding.

#### **(31) Correction of errors**

Prior period errors shall be corrected by retrospective restatement in the first set of financial statements authorised for issue after their discovery except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.

# Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

(In millions of won)

### 4. Cash and Due from Banks

(1) Cash and due from banks as of December 31, 2020 and 2019 are as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Cash	₩ 481,957	306,152
Due from banks in Korean won:		
Due from Bank of Korea	4,140,277	1,824,441
Other due from banks in Korean won	1,459,803	1,338,157
	<u>5,600,080</u>	<u>3,162,598</u>
Due from banks in foreign currencies / off-shores	5,712,200	4,292,494
	₩ <u>11,794,237</u>	<u>7,761,244</u>

(2) Restricted due from banks as of December 31, 2020 and 2019 are as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Reserve deposit	₩ 3,052,883	1,885,915
Deposit of monetary stabilization account	1,300,000	150,000
Others	24,882	636,084
	₩ <u>4,377,765</u>	<u>2,671,999</u>

December 31, 2020 and 2019

(In millions of won)

**5. Securities Measured at FVTPL**

(1) Details of securities in financial assets at fair value through profit or loss as of December 31, 2020 and 2019 are as follows:

		<b>December 31, 2020</b>		
		Face value	Acquisition cost	Fair value (Carrying amounts)
Securities denominated in Korean won:				
	₩	-	1,805,913	1,608,553
Stocks		-	1,143,494	1,256,376
Equity investments		-	4,609,771	4,660,556
Beneficiary certificates		1,109,950	1,116,707	1,103,304
Government and public bonds		58,900	59,052	59,325
Financial bonds		459,649	457,167	525,734
Corporate bonds		35,000	34,794	34,790
Commercial paper		431,875	346,999	378,354
Others		<u>2,095,374</u>	<u>9,573,897</u>	<u>9,626,992</u>
Securities denominated in foreign currencies/off-shores:				
		-	7,491	6,875
Stocks		-	33,975	21,371
Equity investments		-	541,129	547,905
Beneficiary certificates		56,399	57,330	59,686
Debt securities		<u>56,399</u>	<u>639,925</u>	<u>635,837</u>
	₩	<u>2,151,773</u>	<u>10,213,822</u>	<u>10,262,829</u>
		<b>December 31, 2019</b>		
		Face value	Acquisition cost	Fair value (Carrying amounts)
Securities denominated in Korean won:				
	₩	-	1,616,251	1,494,228
Stocks		-	1,048,104	1,078,996
Equity investments		-	5,105,646	5,008,421
Beneficiary certificates		1,450,000	1,450,337	1,445,558
Government and public bonds		1,744,741	1,739,381	1,746,258
Financial bonds		825,295	805,329	836,307
Corporate bonds		45,000	44,422	44,399
Commercial paper		473,398	412,689	443,805
Others		<u>4,538,434</u>	<u>12,222,159</u>	<u>12,097,972</u>
Securities denominated in foreign currencies/off-shores:				
		-	3,885	3,958
Stocks		-	28,431	24,408
Equity investments		-	523,598	520,283
Beneficiary certificates		631,659	632,714	645,224
Debt securities		<u>631,659</u>	<u>1,188,628</u>	<u>1,193,873</u>
	₩	<u>5,170,093</u>	<u>13,410,787</u>	<u>13,291,845</u>

## Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

(In millions of won)

**5. Securities Measured at FVTPL, Continued**

(2) Equity securities with disposal restrictions in financial assets at fair value through profit or loss as of December 31, 2020 and 2019 are as follows:

Company	December 31, 2020		
	Number of shares	Carrying amount	Restricted period
National Happiness Fund Co., Ltd.	34,066	₩ 66,934	Undecided
Shinhan Metal Co., Ltd.	7,692	-	Until December 31, 2021
	<u>41,758</u>	<u>₩ 66,934</u>	
Company	December 31, 2019		
	Number of shares	Carrying amount	Restricted period
National Happiness Fund Co., Ltd.	34,066	₩ 73,320	Undecided
Shinhan Metal Co., Ltd.	7,692	-	Undecided
	<u>41,758</u>	<u>₩ 73,320</u>	

December 31, 2020 and 2019

(In millions of won)

**6. Securities Measured at FVOCI**

(1) Details of securities measured at FVOCI as of December 31, 2020 and 2019 are as follows:

		<b>December 31, 2020</b>		
		Face value	Acquisition cost	Fair value (Carrying amounts)
Securities denominated in Korean won:				
Stocks and equity investments	₩	-	9,981,260	10,072,534
Government and public bonds		1,900,000	1,929,183	1,923,942
Financial bonds		4,230,000	4,236,741	4,237,990
Corporate bonds		7,529,684	7,531,543	7,517,545
Others		1,940,385	1,937,036	4,602,818
		<u>15,600,069</u>	<u>25,615,763</u>	<u>28,354,829</u>
Securities denominated in foreign currencies/off-shores:				
Stocks		-	6,068	1,187
Debt securities		6,075,435	6,180,134	6,274,837
		<u>6,075,435</u>	<u>6,186,202</u>	<u>6,276,024</u>
Loaned securities		290,000	289,641	289,806
	₩	<u>21,965,504</u>	<u>32,091,606</u>	<u>34,920,659</u>
		<b>December 31, 2019</b>		
		Face value	Acquisition cost	Fair value (Carrying amounts)
Securities denominated in Korean won:				
Stocks and equity investments	₩	-	10,010,625	10,113,791
Government and public bonds		4,952,075	4,257,816	4,338,314
Financial bonds		2,890,000	2,897,780	2,898,724
Corporate bonds		6,379,576	6,402,229	6,435,275
Others		1,443,052	1,448,953	1,143,149
		<u>15,664,703</u>	<u>25,017,403</u>	<u>24,929,253</u>
Securities denominated in foreign currencies/off-shores:				
Stocks		-	4,665	1,643
Debt securities		6,542,442	6,623,922	6,978,134
Others		43,574	43,564	43,576
		<u>6,586,016</u>	<u>6,672,151</u>	<u>7,023,353</u>
Loaned securities		40,000	40,005	40,059
	₩	<u>22,290,719</u>	<u>31,729,559</u>	<u>31,992,665</u>

Equity instruments that are held by acquisition due to conversion from debt instruments, investment in kind and investment in ventures and SMEs are designated as measured at FVOCI. The realized pre-tax income and loss on disposal of equity securities for the years ended December 31, 2020 and 2019 are the amount of ₩48,186 million of loss and ₩28,023 million of gain, respectively, which is directly recognized in retained earnings.

# Korea Development Bank and Subsidiaries

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(In millions of won)

### 6. Securities Measured at FVOCI, Continued

(2) Changes in securities measured at FVOCI for the years ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Beginning balance	₩ 31,992,665	30,277,386
Acquisition	58,105,098	26,126,057
Disposal	(50,940,708)	(24,641,676)
Change due to amortization	(47,692)	(6,416)
Change in fair value	3,039,746	40,785
Reclassification (*1)	(6,794,338)	(38,779)
Foreign exchange differences	(447,826)	192,910
Others (*2)	13,714	42,398
Ending balance	₩ <u>34,920,659</u>	<u>31,992,665</u>

(\*1) The amount arising from the effect that securities measured at FVOCI held by KDB Life Insurance Co., Ltd. are transferred to assets-held for sale is included.

(\*2) For the year ended December 31, 2020, others represent the increase in securities measured at FVOCI including shares of SOLUM CO., LTD. acquired through exercise of conversion rights of the convertible bonds, shares of POSCO PLANTEC CO., LTD. and High Gain Antenna Co., Ltd. acquired pursuant to decision of the Council of Financial Creditors under the Corporate Restructuring Promotion Act, and shares of Barun Electronics Co., Ltd., STEELLIFE Co., C-PRO ELECTRONICS CO., LTD., Dong-A Tanker Co. SEOKJIN E&T CO., LTD., Sung Chang Inter Fashion Co. Ltd. and others acquired in accordance with the rehabilitation plan under the Debtor Rehabilitation and Bankruptcy Act. For the year ended December 31, 2019, others represent the increase in securities measured at FVOCI including shares of Ecopro BM Co., Ltd., Kuk-II Paper MFG Co., Ltd., TRUWIN Co., Ltd., Solid, Inc. and others acquired through exercise of conversion rights of the convertible bonds.

December 31, 2020 and 2019

(In millions of won)

**6. Securities Measured at FVOCI, Continued**

(3) Equity securities with disposal restrictions in securities measured at FVOCI as of December 31, 2020 and 2019 are as follows:

Company	December 31, 2020		
	Number of shares	Carrying amount	Restricted period
UAMCO., Ltd.	113,050 ₩	150,244	Undecided
High Gain Antenna Co.,Ltd.	18,138	-	Undecided
ENGINE TECH CO.,LTD.	500,000	1	Undecided
Taihan Electric Wire Co., Ltd. (*1)	15,892,055	21,772	Undecided
POSCO PLANTEC CO.,LTD	1,838,744	2,468	Until June 9, 2021
CREA IN Co., Ltd.	14,383	140	Until December 21, 2021
Kumho Tire Co., Inc.	21,339,320	80,769	Until July 6, 2023 (*)
	<u>39,715,690 ₩</u>	<u>255,394</u>	
Company	December 31, 2019		
	Number of shares	Carrying amount	Restricted period
UAMCO., Ltd.	85,050 ₩	122,850	Undecided
ENGINE TECH CO.,LTD.	500,000	77	Undecided
Taihan Electric Wire Co., Ltd. (*1)	15,892,055	9,790	Undecided
CREA IN Co., Ltd.	14,383	56	Until December 21, 2021
Kumho Tire Co., Inc.	21,339,320	89,518	Until July 6, 2023 (*)
	<u>37,830,808 ₩</u>	<u>222,291</u>	

(\*) From July 6, 2021, 50% of the shares may be sold every year.



December 31, 2020 and 2019

(In millions of won)

**7. Securities Measured at Amortized Cost**

(1) Securities measured at amortized cost as of December 31, 2020 and 2019 are as follows:

		<b>December 31, 2020</b>	
		Amortized cost	Fair value
Securities denominated in Korean won:			
Government and public bonds	₩	665,183	665,183
Financial bonds		120,089	120,089
Corporate bonds		1,336,739	1,332,528
		<u>2,122,011</u>	<u>2,117,800</u>
Securities denominated in foreign currencies:			
Corporate bonds		2,705	2,678
		<u>2,124,716</u>	<u>2,120,478</u>
Less:			
Loss allowance		(4,247)	
	₩	<u>2,120,469</u>	
		<b>December 31, 2019</b>	
		Amortized cost	Fair value
Securities denominated in Korean won:			
Government and public bonds	₩	1,525,169	1,578,384
Financial bonds		1,290,408	1,291,538
Corporate bonds		1,301,954	1,359,535
Others		2	2
		<u>4,117,533</u>	<u>4,229,459</u>
Securities denominated in foreign currencies:			
Corporate bonds		1,436,633	1,468,650
		<u>5,554,166</u>	<u>5,698,109</u>
Less:			
Loss allowance		(2,566)	
	₩	<u>5,551,600</u>	

(2) Changes in securities measured at amortized cost for the years ended December 31, 2020 and 2019 are as follows:

		<b>2020</b>	<b>2019</b>
Beginning balance	₩	5,551,600	5,691,616
Acquisition		1,957,404	747,812
Redemption		(1,373,805)	(936,626)
Change due to amortization		(4,388)	5,504
Impairment loss		(4,218)	(368)
Foreign exchange differences		(1,036)	43,486
Reclassification, etc. (*)		(4,005,088)	176
Ending balance	₩	<u>2,120,469</u>	<u>5,551,600</u>

(\*) The amount arising from the effect that securities measured at amortized cost held by KDB Life Insurance Co., Ltd. are transferred to assets-held for sale is included.

# Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

(In millions of won)

**8. Loans Measured at FVTPL**

(1) Loans measured at FVTPL as of December 31, 2020 and 2019 are as follows:

		<b>December 31, 2020</b>	
		Amortized cost	Fair value (Carrying amounts)
Loans in Korean won:			
Privately placed corporate bonds	₩	795,871	1,429,258
Loans in foreign currencies:			
Privately placed corporate bonds		5,440	5,256
	₩	801,311	1,434,514
		<b>December 31, 2019</b>	
		Amortized cost	Fair value (Carrying amounts)
Loans in Korean won:			
Privately placed corporate bonds	₩	600,845	604,380
Others		866	697
	₩	601,711	605,077

(2) Gains (losses) related to loans measured at FVTPL for the years ended December 31, 2020 and 2019 are as follows:

		<b>2020</b>	<b>2019</b>
Transaction gains (losses) on loans measured at FVTPL			
Transaction gains	₩	4,568	23,456
Transaction losses		(29,155)	(27,231)
		(24,587)	(3,775)
Valuation gains (losses) on loans measured at FVTPL			
Valuation gains		676,776	59,719
Valuation losses		(27,509)	(16,798)
		649,267	42,921
	₩	624,680	39,146

December 31, 2020 and 2019

(In millions of won)

**9. Loans Measured at Amortized Cost**

(1) Loans measured at amortized cost and allowance for loan losses as of December 31, 2020 and 2019 are as follows:

	<b>December 31, 2020</b>	
	Amortized cost	Fair value
Loans in Korean won:		
Loans for working capital	₩ 62,257,692	60,678,018
Loans for facility development	54,897,048	54,311,725
Loans for households	354,439	353,405
Inter-bank loans	2,670,389	2,548,865
Others	1,744	-
	<u>120,181,312</u>	<u>117,892,013</u>
Loans in foreign currencies:		
Loans	19,178,966	18,799,178
Inter-bank loans	1,405,661	1,405,233
Off-shore loans	14,417,420	14,107,277
	<u>35,002,047</u>	<u>34,311,688</u>
Other loans:		
Bills bought in foreign currency	2,200,873	2,199,989
Advances for customers on acceptances and guarantees	39,649	4,966
Privately placed corporate bonds	2,107,036	2,154,257
Credit card loans	138,903	138,001
Others	6,666,641	6,529,642
	<u>11,153,102</u>	<u>11,026,855</u>
	<u>166,336,461</u>	<u>163,230,556</u>
Less:		
Allowance for loan losses	(3,167,078)	
Present value discount	(15,906)	
Deferred loan origination costs and fees	(2,188)	
	<u>₩ 163,151,289</u>	

# Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

(In millions of won)

### 9. Loans Measured at Amortized Cost, Continued

	December 31, 2019	
	Amortized cost	Fair value
Loans in Korean won:		
Loans for working capital	₩ 53,819,927	53,955,925
Loans for facility development	49,267,067	49,756,842
Loans for households	1,530,825	1,523,860
Inter-bank loans	2,300,258	2,273,821
Others	29,514	29,358
	<u>106,947,591</u>	<u>107,539,806</u>
Loans in foreign currencies:		
Loans	17,578,569	18,845,338
Inter-bank loans	2,528,386	2,998,415
Off-shore loans	14,227,196	14,427,038
	<u>34,334,151</u>	<u>36,270,791</u>
Other loans:		
Bills bought in foreign currency	1,967,950	1,962,596
Advances for customers on acceptances and guarantees	170,424	16,050
Privately placed corporate bonds	1,559,308	1,330,455
Credit card loans	140,185	139,671
Others	6,688,399	6,776,216
	<u>10,526,266</u>	<u>10,224,988</u>
	<u>151,808,008</u>	<u>154,035,585</u>
Less:		
Allowance for loan losses	(2,465,546)	
Present value discount	(15,832)	
Deferred loan origination costs and fees	(4,779)	
	<u>₩ 149,321,851</u>	

(2) Changes in allowance for loan losses for the years ended December 31, 2020 and 2019 are as follows:

	2020			
	12-month expected credit loss	Lifetime expected credit losses		Total
		Non credit- impaired	Credit- impaired	
Beginning balance	₩ 193,262	294,075	1,978,209	2,465,546
Transfer to 12-month expected credit loss	60,610	(60,610)	-	-
Transfer to lifetime expected credit losses:				
Transfer to non credit-impaired loans	(257,700)	282,759	(25,059)	-
Transfer to credit-impaired loans	(91,309)	(129,240)	220,549	-
Provision for (reversal of) loss allowance	780,611	138,539	311,912	1,231,062
Write-offs	-	-	(158,617)	(158,617)
Recovery	-	-	54,239	54,239
Sale	-	-	(273,818)	(273,818)
Debt-to-equity swap	-	-	(415,141)	(415,141)
Foreign currency translation	(2,607)	(11,825)	(8,663)	(23,095)
Other	(20,677)	151,320	156,259	286,902
Ending balance	₩ <u>662,190</u>	<u>665,018</u>	<u>1,839,870</u>	<u>3,167,078</u>

December 31, 2020 and 2019

(In millions of won)

**9. Loans Measured at Amortized Cost, Continued**

		<b>2019</b>			
		12-month expected credit loss	Lifetime expected credit losses		Total
	₩	Non credit- impaired	Credit- impaired		
Beginning balance	₩	191,557	1,127,118	1,503,103	2,821,778
Transfer to 12-month expected credit loss		15,553	(15,338)	(215)	-
Transfer to lifetime expected credit losses:					
Transfer to non credit-impaired loans		(54,486)	58,810	(4,324)	-
Transfer to credit-impaired loans		(136,075)	(294,658)	430,733	-
Provision for (reversal of) loss allowance		175,196	(637,343)	655,433	193,286
Write-offs		-	-	(185,496)	(185,496)
Recovery		-	-	23,960	23,960
Sale		-	-	(241,150)	(241,150)
Debt-to-equity swap		-	-	(231,880)	(231,880)
Foreign currency translation		1,057	13,685	11,221	25,963
Other		460	41,801	16,824	59,085
Ending balance	₩	<u>193,262</u>	<u>294,075</u>	<u>1,978,209</u>	<u>2,465,546</u>

(3) Losses related to loans measured at amortized cost for the years ended December 31, 2020 and 2019 are as follows:

		<b>2020</b>	<b>2019</b>
Provision for loan losses	₩	(1,231,062)	(180,761)
Losses on disposal of loan		(105,615)	(96,251)
	₩	<u>(1,336,677)</u>	<u>(277,012)</u>

(4) Changes in net deferred loan origination costs and fees for the years ended December 31, 2020 and 2019 are as follows:

		<b>2020</b>	<b>2019</b>
Beginning balance	₩	(4,779)	4,821
New deferrals		8,164	848
Amortization		(5,573)	(10,448)
Ending balance	₩	<u>(2,188)</u>	<u>(4,779)</u>

Korea Development Bank and Subsidiaries

# Notes to the Consolidated Financial Statements

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(In millions of won)

## 10. Derivative Financial Instruments

The Group's derivative financial instruments consist of trading derivatives and hedging derivatives, depending on the nature of each transaction. The Group enters into hedging derivative transactions mainly for the purpose of hedging risk related to changes in fair values of the underlying assets and liabilities and future cash flows.

The Group enters into trading derivative transactions such as futures, forwards, swaps and options for arbitrage transactions by speculating on the future value of the underlying asset. Trading derivative transactions include contracts with the Group's clients and its liquidation position.

For the purpose of hedging the exposure to the variability of fair values and future cash flows of funds in Korean won by changes in interest rate, the Group mainly uses interest swaps or currency swaps. The main counterparties are foreign financial institutions and local banks. In addition, to hedge the exposure to the variability of fair values of bonds in foreign currencies by changes in interest rate or foreign exchange rate, the Group mainly uses interest swaps or currency swaps.

The Group applies net investment hedge accounting by designating non-derivative financial instruments as hedging instruments and any gain or loss on the hedging instruments relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

Gains and losses on the hedging instrument accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

December 31, 2020 and 2019

(In millions of won)

**10. Derivative Financial Instruments, Continued**

- (1) The notional amounts outstanding for derivative contracts and the carrying amounts of the derivative financial instruments as of December 31, 2020 and 2019 are as follows:

	<b>December 31, 2020</b>			
	Notional amounts (*1)		Carrying amounts (*1)	
	Buy	Sell	Assets	Liabilities
Trading purpose derivative financial instruments:				
Interest rate				
Futures	₩ 55,000	151,200	-	-
Swaps	186,881,107	186,700,721	1,483,641	811,318
Options	9,055,649	12,890,976	291,068	329,946
	<u>195,991,756</u>	<u>199,742,897</u>	<u>1,774,709</u>	<u>1,141,264</u>
Currency				
Futures	16,320	-	-	-
Forwards	54,363,673	50,035,649	1,843,094	2,302,127
Swaps	50,665,402	57,238,202	3,272,004	2,630,899
Options	422,146	403,029	2,909	5,299
	<u>105,467,541</u>	<u>107,676,880</u>	<u>5,118,007</u>	<u>4,938,325</u>
Stock				
Options	53,571	7,315	12,511	661
Others	866	-	-	-
Allowance and other adjustments	-	-	(6,288)	(870)
	<u>301,513,734</u>	<u>307,427,092</u>	<u>6,898,939</u>	<u>6,079,380</u>
Hedging purpose derivative financial instruments:				
Interest rate (*2)				
Swaps	19,235,289	19,235,289	885,364	20,508
Currency				
Swaps	8,308,800	7,985,902	538,464	70,506
Allowance and other adjustments	-	-	(517)	(4,383)
	<u>27,544,089</u>	<u>27,221,191</u>	<u>1,423,311</u>	<u>86,631</u>
	<u>₩ 329,057,823</u>	<u>334,648,283</u>	<u>8,322,250</u>	<u>6,166,011</u>

(\*1) Derivative financial assets and liabilities of Deawoo Shipbuilding & Marine Engineering Co., Ltd. and KDB Life Insurance Co., Ltd. classified as assets and liabilities held for sale as of December 31, 2020, are excluded.

(\*2) The expected maximum period for which derivative contracts, applied the cash flow hedge accounting, are exposed to risk of cash flow fluctuation is until April 29, 2025.

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**10. Derivative Financial Instruments, Continued**

	<b>December 31, 2019</b>			
	Notional amounts (*1)		Carrying amounts (*1)	
	Buy	Sell	Assets	Liabilities
Trading purpose derivative financial instruments:				
Interest rate				
Futures	₩ -	1,885,190	-	-
Swaps	220,854,055	220,541,918	1,206,945	703,839
Options	7,480,126	12,736,326	246,636	312,188
	<u>228,334,181</u>	<u>235,163,434</u>	<u>1,453,581</u>	<u>1,016,027</u>
Currency				
Futures	17,367	-	-	-
Forwards	87,879,331	85,584,411	1,760,955	1,535,811
Swaps	51,179,697	56,571,297	1,238,629	1,427,303
Options	214,646	171,284	1,134	2,813
	<u>139,291,041</u>	<u>142,326,992</u>	<u>3,000,718</u>	<u>2,965,927</u>
Stock				
Futures	-	3,563	-	-
Options	59,964	89,672	20,955	641
	<u>59,964</u>	<u>93,235</u>	<u>20,955</u>	<u>641</u>
Others	866	-	-	-
Allowance and other adjustments	-	-	(5,080)	(622)
	<u>367,686,052</u>	<u>377,583,661</u>	<u>4,470,174</u>	<u>3,981,973</u>
Hedging purpose derivative financial instruments:				
Interest rate (*2)				
Swaps	22,409,724	22,409,724	827,858	16,913
Currency				
Forwards	-	481,716	10,595	4,785
Swaps	7,681,686	10,322,324	98,168	185,721
	<u>7,681,686</u>	<u>10,804,040</u>	<u>108,763</u>	<u>190,506</u>
Allowance and other adjustments	-	-	(791)	(4,788)
	<u>30,091,410</u>	<u>33,213,764</u>	<u>935,830</u>	<u>202,631</u>
	<u>₩ 397,777,462</u>	<u>410,797,425</u>	<u>5,406,004</u>	<u>4,184,604</u>

(\*1) Derivative financial assets and liabilities of Deawoo Shipbuilding & Marine Engineering Co., Ltd. classified as assets and liabilities held for sale as of December 31, 2019, are excluded.

(\*2) The expected maximum period for which derivative contracts, applied the cash flow hedge accounting, are exposed to risk of cash flow fluctuation is until August 28, 2029.

December 31, 2020 and 2019

(In millions of won)

**10. Derivative Financial Instruments, Continued**

(2) The notional amounts outstanding for the hedging instruments by period as of December 31, 2020 and 2019 are as follows:

		<b>December 31, 2020</b>					
		<u>Within 1 month</u>	<u>1~3 months</u>	<u>3~12 months</u>	<u>1~5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Interest rate:							
Swaps	₩	100,512	304,187	3,213,287	10,973,695	4,643,608	19,235,289
Currency:							
Swaps		77,504	290,040	1,851,289	5,711,249	378,718	8,308,800
		<b>December 31, 2019</b>					
		<u>Within 1 month</u>	<u>1~3 months</u>	<u>3~12 months</u>	<u>1~5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Interest rate:							
Swaps	₩	86,603	1,204,456	3,751,455	10,354,523	7,012,687	22,409,724
Currency:							
Swaps		60,099	58,009	1,734,965	8,051,067	418,184	10,322,324

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**10. Derivative Financial Instruments, Continued**

(3) Details of the balances of the hedging instruments by risk type as of December 31, 2020 and 2019 are as follows:

	<b>December 31, 2020</b>				
	Notional amounts		Balances		Changes in fair value for 2020
	Buy	Sell	Assets	Liabilities	
Cash flow hedge accounting: Interest rate risk Swaps	₩ 76,160	76,160	-	-	23
Fair value hedge accounting: Interest rate risk Swaps	19,159,129	19,159,129	885,364	20,508	352,413
Currency risk Swaps	8,308,800	7,985,902	538,464	70,506	490,063
	<u>27,467,929</u>	<u>27,145,031</u>	<u>1,423,828</u>	<u>91,014</u>	<u>842,476</u>
	₩ <u>27,544,089</u>	<u>27,221,191</u>	<u>1,423,828</u>	<u>91,014</u>	<u>842,499</u>
	<b>December 31, 2019</b>				
	Notional amounts		Balances		Changes in fair value for 2019
	Buy	Sell	Assets	Liabilities	
Cash flow hedge accounting: Interest rate risk Swaps	₩ 340,000	340,000	-	508	302
Currency risk Swaps	-	186,467	1,796	-	1,289
	<u>340,000</u>	<u>526,467</u>	<u>1,796</u>	<u>508</u>	<u>1,591</u>
Fair value hedge accounting: Interest rate risk Swaps	22,069,724	22,069,724	827,858	16,405	490,938
Currency risk Forwards	-	481,716	10,595	4,785	30,983
Swaps	7,681,686	10,135,857	96,372	185,721	(19,778)
	<u>7,681,686</u>	<u>10,617,573</u>	<u>106,967</u>	<u>190,506</u>	<u>11,205</u>
	<u>29,751,410</u>	<u>32,687,297</u>	<u>934,825</u>	<u>206,911</u>	<u>502,143</u>
	₩ <u>30,091,410</u>	<u>33,213,764</u>	<u>936,621</u>	<u>207,419</u>	<u>503,734</u>

December 31, 2020 and 2019

(In millions of won)

**10. Derivative Financial Instruments, Continued**

(4) Details of the balances of the hedged items by risk type as of December 31, 2020 and 2019 are as follows:

	<b>December 31, 2020</b>					
	Carrying amounts		Adjustments from fair value hedge accounting		Changes in fair value for 2020	Other comprehen- sive income for cash flow hedge
	Assets	Liabilities	Assets	Liabilities		
Cash flow hedge accounting:						
Interest rate risk						
Debt debentures	₩ -	76,160	-	-	-	47
Fair value hedge accounting:						
Interest rate risk						
Securities measured at FVOCI	2,460,255	-	28,845	-	57,816	-
Debt debentures	-	18,549,949	-	628,869	(396,922)	-
Other liabilities (Deposits, etc.)	-	120,394	-	11,594	(8,770)	-
	<u>2,460,255</u>	<u>18,670,343</u>	<u>28,845</u>	<u>640,463</u>	<u>(347,876)</u>	<u>-</u>
Currency risk						
Debt debentures	-	8,413,087	-	24,675	(503,895)	-
	<u>2,460,255</u>	<u>27,083,430</u>	<u>28,845</u>	<u>665,138</u>	<u>(851,771)</u>	<u>-</u>
	<u>₩ 2,460,255</u>	<u>27,159,590</u>	<u>28,845</u>	<u>665,138</u>	<u>(851,771)</u>	<u>47</u>

# Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

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**10. Derivative Financial Instruments, Continued**

	December 31, 2019					
	Carrying amounts		Adjustments from fair value hedge accounting		Changes in fair value for 2019	Other comprehen- sive income for cash flow hedge
	Assets	Liabilities	Assets	Liabilities		
Cash flow hedge accounting:						
Interest rate risk						
Debt debentures	₩ -	340,000	-	-	-	644
Currency risk						
Securities measured at FVOCI	186,467	-	-	-	(1,289)	(403)
	<u>186,467</u>	<u>340,000</u>	<u>-</u>	<u>-</u>	<u>(1,289)</u>	<u>241</u>
Fair value hedge accounting:						
Interest rate risk						
Securities measured at FVOCI	2,460,824	-	12,483	-	48,291	-
Debt debentures	-	29,448,480	-	288,377	(513,063)	-
Other liabilities (Deposits, etc.)	-	118,785	-	3,005	(9,424)	-
	<u>2,460,824</u>	<u>29,567,265</u>	<u>12,483</u>	<u>291,382</u>	<u>(474,196)</u>	<u>-</u>
Currency risk (*)						
Securities measured at FVOCI	960,928	-	(4,972)	-	(4,972)	-
Debt debentures	-	9,384,387	-	43,847	15,932	-
	<u>960,928</u>	<u>9,384,387</u>	<u>(4,972)</u>	<u>43,847</u>	<u>10,960</u>	<u>-</u>
	<u>3,421,752</u>	<u>38,951,652</u>	<u>7,511</u>	<u>335,229</u>	<u>(463,236)</u>	<u>-</u>
₩	<u>3,608,219</u>	<u>39,291,652</u>	<u>7,511</u>	<u>335,229</u>	<u>(464,525)</u>	<u>241</u>

(\*) The case that firm commitments, etc. are designated as hedged items is excluded.

December 31, 2020 and 2019

(In millions of won)

**10. Derivative Financial Instruments, Continued**

(5) Details of hedge ineffectiveness recognized in profit or loss from derivatives for the years ended December 31, 2020 and 2019 is as follows:

		<u>2020</u>	<u>2019</u>
Interest rate risk	₩	4,537	16,742
Currency risk (*)		<u>(13,832)</u>	<u>22,165</u>
	₩	<u>(9,295)</u>	<u>38,907</u>

(\*) The case that firm commitments, etc. are designated as hedged items is excluded.

(6) The summary of the amounts that have affected the statement of comprehensive income as a result of applying cash flow hedge accounting for the years ended December 31, 2020 and 2019 is as follows:

		<u>2020</u>		
		<u>Change in the value of the hedging instrument recognized in other comprehensive income</u>	<u>Hedge ineffectiveness recognized in profit or loss (*)</u>	<u>Amount reclassified from other comprehensive income to profit or loss (*)</u>
Interest rate risk and currency risk	₩	47	(24)	403

		<u>2019</u>		
		<u>Change in the value of the hedging instrument recognized in other comprehensive income</u>	<u>Hedge ineffectiveness recognized in profit or loss (*)</u>	<u>Amount reclassified from other comprehensive income to profit or loss (*)</u>
Interest rate risk and currency risk	₩	1,589	2	1,876

(\*) Recognized in gains or losses related to hedging purpose derivatives.

(7) Details of net investments in foreign operations for the year ended December 31, 2020 and 2019 are as follows:

		<u>2020</u>	
		<u>Changes in fair value</u>	<u>Other comprehensive income (loss) for hedges of a net investment in a foreign operation</u>
Currency (foreign exchange risk)	₩	(43,437)	48,975

		<u>2019</u>	
		<u>Changes in fair value</u>	<u>Other comprehensive income (loss) for hedges of a net investment in a foreign operation</u>
Currency (foreign exchange risk)	₩	(5,538)	5,538

(8) Detail of hedging instruments in hedge of net investment in a foreign operation as of December 31, 2020 and 2019 is as follows:

		<u>December 31, 2020</u>			
		<u>Book value</u>	<u>Changes in fair value for 2020</u>	<u>Change in the value of the hedging instrument recognized in other comprehensive income for 2020</u>	<u>Hedge ineffectiveness recognized in profit or loss for 2020</u>
Debentures in foreign currencies	₩	732,566	43,437	43,437	-

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**10. Derivative Financial Instruments, Continued**

	<b>December 31, 2019</b>			
	Book value	Changes in fair value for 2019	Change in the value of the hedging instrument recognized in other comprehensive income for 2019	Hedge ineffectiveness recognized in profit or loss for 2019
Debentures in foreign currencies	₩ 734,718	5,538	5,538	-

(9) In relation to interest rate benchmark reform, the amendments provide a practical expedient allowing entities to change the effective interest rate instead of changing the carrying amount and apply hedge accounting without discontinuance although the interest rate benchmark is replaced in hedging relationship. The notional amounts outstanding for hedging derivative instruments affected by Interest Rate Benchmark Reform as of December 31, 2020 are as follows:

	<b>Notional amounts</b>
USD 3M LIBOR	₩ 17,393,414
KRW 3M CD	2,635,000
EUR 3M EURIBOR	537,149
EUR 6M EURIBOR	669,120
GBP 6M LIBOR	205,904
JPY 3M LIBOR	23,194

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(In millions of won)

**11. Investments in Associates**

(1) The market value of marketable investments in associates as of December 31, 2020 and 2019 are as follows:

	Market value		Carrying amounts	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Korea Electric Power Co., Ltd.	₩ 5,787,846	5,872,340	22,801,747	22,209,346
Hyundai Merchant Marine Co., Ltd.	574,730	146,258	-	-
Dongbu Steel Co., Ltd.	127,359	103,622	106,880	118,065
Hanjin Heavy Industries & Construction Co., Ltd.	-	67,001	-	66,665
HANJIN KAL	445,621	-	500,000	-

(2) Changes in investments in associates for the years ended December 31, 2020 and 2019 are as follows:

	2020								
	January 1, 2020	Acquisition / transfer	Disposal / transfer	Share of profit (loss)	Impairment loss (*2)	Share of other comprehensive income (loss)	Dividends	Others	December 31, 2020
Korea Electric Power Co., Ltd.	₩ 22,209,346	-	-	655,243	-	(62,842)	-	-	22,801,747
Korea Tourism Organization	342,320	-	-	(24,797)	-	(1,711)	-	-	315,812
Hyundai Merchant Marine Co., Ltd.	-	-	-	4,326	-	(20,027)	-	15,701	-
Korea Infrastructure Fund II	244,683	-	(492)	22,946	-	-	(26,748)	-	240,389
Korea Ocean Business Corporation	595,502	-	-	600,704	-	187	-	-	1,196,393
Hanjin Heavy Industries & Construction Co., Ltd. (*1)	66,665	-	(78,278)	12,622	(487)	(522)	-	-	-
HANJIN KAL	-	500,000	-	-	-	-	-	-	500,000
Others	3,885,222	732,808	(749,842)	662,485	(33,795)	61,320	(268,280)	(115,772)	4,174,146
	₩ 27,343,738	1,232,808	(828,612)	1,933,529	(34,282)	(23,595)	(295,028)	(100,071)	29,228,487

(\*1) The Group picked Dongbu-led consortium as the preferred bidder for Hanjin Heavy Industries & Construction Co., LTD. on December 22, 2020, which was reclassified as assets held for sale for the year ended December 31, 2020.

(\*2) The Group recognized ₩34,282 million as impairment losses considering the decrease in fair values of cash-generating units due to the decline in expected cash flows as indications of impairment for IBKS Small Leap Up Fund and 20 others for the year ended December 31, 2020. Recoverable amount is ₩209,465 million as of December 31, 2020.

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**11. Investments in Associates, Continued**

	2019								
	January 1, 2019	Acquisition / transfer	Disposal / transfer	Share of profit (loss)	Impairment loss (*)	Share of other comprehen- sive income (loss)	Dividends	Others	December 31, 2019
Korea Electric Power Co., Ltd.	₩ 22,948,911	-	-	(771,781)	-	32,216	-	-	22,209,346
Korea Tourism Organization	341,233	-	-	1,350	-	(263)	-	-	342,320
Hyundai Merchant Marine Co., Ltd.	-	-	-	(114,223)	-	(3,410)	-	117,633	-
GM Korea Company	22,681	-	(81)	26,306	(48,143)	-	-	(763)	-
Korea Infrastructure Fund II	233,806	-	(456)	16,242	-	-	(4,909)	-	244,683
Korea Ocean Business Corporation	134,307	497,470	-	(39,731)	-	54	-	3,402	595,502
Hanjin Heavy Industries & Construction Co., Ltd.	-	139,110	-	14,689	(74,251)	(12,883)	-	-	66,665
Others	4,271,392	874,108	(1,187,938)	155,391	17,387	2,226	(273,347)	26,003	3,885,222
	₩ 27,952,330	1,510,688	(1,188,475)	(711,757)	(105,007)	17,940	(278,256)	146,275	27,343,738

(\*) The Group recognized ₩105,007 million as impairment losses considering the decrease in fair values of cash-generating units due to the decline in expected cash flows as indications of impairment for GM Korea Company and 20 others for the year ended December 31, 2019. Recoverable amount is ₩159,462 million as of December 31, 2019.

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(In millions of won)

**11. Investments in Associates, Continued**

(3) The key financial information of associates invested and ownership ratios as of and for the years ended December 31, 2020 and 2019 are as follows:

<b>December 31, 2020</b>										
	Country	Fiscal year end	Industry	Assets	Liabilities	Equity	Operating revenue	Profit (loss) for the year	Total comprehensive income (loss)	Ownership (%)
Korea Electric Power Co., Ltd.	Korea	December	Electricity generation	₩ 203,142,111	132,475,265	70,666,846	58,569,314	1,991,347	1,802,824	32.90
Korea Tourism Organization	Korea	December	Culture and tourism administration	1,351,779	388,854	962,925	488,285	(56,712)	(60,819)	43.58
HMM Co., Ltd. (ex. Hyundai Merchant Marine Co., Ltd.) (*1)	Korea	December	Shipping	9,373,360	7,684,812	1,688,548	6,413,270	123,889	(33,766)	12.61
GM Korea Company (*2)	Korea	December	Manufacturing	5,415,322	3,739,509	1,675,813	8,504,588	(302,847)	(302,847)	17.02
Korea Infrastructure Fund II	Korea	December	Financial investment	874,470	31,518	842,952	68,022	47,318	47,318	26.67
Korea Ocean Business Corporation	Korea	December	Financial investment	8,826,068	3,842,127	4,983,941	3,597,982	2,689,659	2,690,496	22.33
HANJIN KAL (*2)	Korea	December	Holding company	3,488,569	1,824,304	1,664,265	408,827	(269,846)	(222,157)	10.66
<b>December 31, 2019</b>										
	Country	Fiscal year end	Industry	Assets	Liabilities	Equity	Operating revenue	Profit (loss) for the year	Total comprehensive income (loss)	Ownership (%)
Korea Electric Power Co., Ltd.	Korea	December	Electricity generation	₩ 197,597,792	128,708,143	68,889,649	59,172,890	(2,345,517)	(2,239,147)	32.90
Korea Tourism Organization	Korea	December	Culture and tourism administration	1,569,185	497,038	1,072,147	787,216	6,803	5,430	43.58
HMM Co., Ltd. (ex. Hyundai Merchant Marine Co., Ltd.) (*1)	Korea	December	Shipping	7,160,187	6,069,878	1,090,309	5,513,089	(589,927)	(612,482)	12.94
GM Korea Company (*2)	Korea	December	Manufacturing	5,492,399	3,550,438	1,941,961	8,438,789	(356,831)	(356,831)	17.02
Korea Infrastructure Fund II	Korea	December	Financial investment	929,296	70,245	859,051	106,095	99,085	99,085	26.67
Korea Ocean Business Corporation	Korea	December	Financial investment	4,358,100	2,069,521	2,288,579	205,269	(167,419)	(167,181)	22.37
Hanjin Heavy Industries & Construction Co., Ltd. (*1)	Korea	December	Construction	2,470,222	2,225,228	244,994	1,628,751	305,753	267,121	16.14

(\*1) Although the Group's shareholding in HMM Co., Ltd. and Hanjin Heavy Industries & Construction Co., Ltd. is less than 20%, the equity method is applied as the Group is considered to have significant influence over Hyundai Merchant Marine Co., Ltd. as a principal creditor bank of Council of Financial Creditors.

(\*2) Equity method is applied to GM Korea Company and HANJIN KAL, even though the Group's shareholding is less than 20%, because the Group is considered to have significant influence over GM Korea Company and HANJIN KAL by exercising rights to elect board of directors.

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### 12. Property and Equipment

Changes in property and equipment for the years ended December 31, 2020 and 2019 are as follows:

	2020						December 31, 2020
	January 1, 2020	Acquisition/ depreciation	Disposal	Reclassifi- cation (*2)	Foreign exchange differences	Others	
Acquisition cost:							
Land	₩ 957,925	989	(306,536)	(21,687)	(3)	-	630,688
Buildings and structures	1,299,776	9,699	(71,337)	(15,515)	(985)	(18,441)	1,203,197
Leasehold improvements	46,089	2,339	(4,152)	(1,400)	798	-	43,674
Vehicles	121,291	3,577	(3,263)	(18)	(36)	(30,763)	90,788
Equipment	234,525	12,393	(32,089)	(52,785)	(1,199)	(9,024)	151,821
Construction in progress	195,341	21,844	(558)	(106,230)	-	(6)	110,391
Right-of-use assets	447,887	36,209	(43,719)	(34,346)	(1,735)	6,464	410,760
Others	835,139	21,893	(62,667)	45	343	(102,310)	692,443
	<u>4,137,973</u>	<u>108,943</u>	<u>(524,321)</u>	<u>(231,936)</u>	<u>(2,817)</u>	<u>(154,080)</u>	<u>3,333,762</u>
Accumulated depreciation: (*1)							
Buildings and structures	389,165	29,047	(29,245)	(9,834)	(241)	4,560	383,452
Leasehold improvements	39,017	3,019	(3,125)	(1,400)	14	-	37,525
Vehicles	107,745	8,042	(2,197)	(18)	(92)	(30,321)	83,159
Equipment	196,782	12,622	(26,822)	(50,358)	(817)	(7,385)	124,022
Construction in progress	2,810	-	-	-	-	77	2,887
Right-of-use assets	59,534	91,376	(35,465)	(9,546)	(334)	33	105,598
Others	637,897	53,320	(51,521)	14	(550)	(91,980)	547,180
	<u>1,432,950</u>	<u>197,426</u>	<u>(148,375)</u>	<u>(71,142)</u>	<u>(2,020)</u>	<u>(125,016)</u>	<u>1,283,823</u>
Accumulated impairment losses:							
Land	77,920	-	(68,267)	2,068	-	-	11,721
Buildings and structures	54,023	961	(17,439)	2,645	-	-	40,190
Vehicles	297	11	(282)	-	-	-	26
Equipment	3,649	80	(2,877)	-	-	-	852
Construction in progress	20,163	-	-	-	-	-	20,163
Others	13,700	344	(4,377)	-	-	-	9,667
	<u>169,752</u>	<u>1,396</u>	<u>(93,242)</u>	<u>4,713</u>	<u>-</u>	<u>-</u>	<u>82,619</u>
	<u>₩ 2,535,271</u>	<u>(89,879)</u>	<u>(282,704)</u>	<u>(165,507)</u>	<u>(797)</u>	<u>(29,064)</u>	<u>1,967,320</u>

(\*1) The amounts include government grants.

(\*2) The property and equipment of KDB Life Insurance Co., Ltd. are reclassified as assets held for sale as of December 31, 2020.

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**12. Property and Equipment, Continued**

	2019								
	January 1, 2019	Changes in accounting policy	January 1, 2019 (Restated)	Acquisition/ depreciation	Disposal	Reclassifi- cation (*2)	Foreign exchange differences	Others	December 31, 2019
Acquisition cost:									
Land	₩ 2,617,675	-	2,617,675	5,566	(6,753)	(1,658,701)	(1)	139	957,925
Buildings and structures	3,460,350	-	3,460,350	10,617	(1,639)	(2,171,041)	2,647	(1,158)	1,299,776
Leasehold improvements	45,247	(40,892)	4,355	2,309	(1)	40,930	(80)	(1,424)	46,089
Vehicles	305,317	-	305,317	3,435	(1,639)	(183,789)	2,635	(4,668)	121,291
Equipment	864,269	-	864,269	29,291	(21,251)	(635,114)	2,127	(4,797)	234,525
Construction in progress	643,391	-	643,391	140,798	(338)	(591,835)	-	3,325	195,341
Right-of-use assets	-	249,427	249,427	263,814	(90,958)	7,871	(55)	17,788	447,887
Others	2,250,409	-	2,250,409	16,871	(19,029)	(1,401,954)	2,055	(13,213)	835,139
	10,186,658	208,535	10,395,193	472,701	(141,608)	(6,593,633)	9,328	(4,008)	4,137,973
Accumulated depreciation: (*1)									
Buildings and structures	1,248,992	-	1,248,992	33,348	(916)	(882,239)	(62)	(9,958)	389,165
Leasehold improvements	35,991	(32,501)	3,490	3,854	-	32,501	(160)	(668)	39,017
Vehicles	240,065	-	240,065	15,419	(772)	(142,322)	23	(4,668)	107,745
Equipment	638,176	-	638,176	15,812	(20,459)	(432,106)	148	(4,789)	196,782
Construction in progress	2,810	-	2,810	-	-	-	-	-	2,810
Right-of-use assets	-	32,760	32,760	60,793	(39,759)	543	3	5,194	59,534
Others	1,419,785	-	1,419,785	65,344	(15,746)	(820,067)	(358)	(11,061)	637,897
	3,585,819	259	3,586,078	194,570	(77,652)	(2,243,690)	(406)	(25,950)	1,432,950
Accumulated impairment losses:									
Land	95,924	-	95,924	74,896	-	(92,900)	-	-	77,920
Buildings and structures	198,443	-	198,443	6,064	(2)	(150,302)	-	(180)	54,023
Vehicles	31,265	-	31,265	2	-	(30,970)	-	-	297
Equipment	153,444	-	153,444	165	(173)	(149,787)	-	-	3,649
Construction in progress	26,360	-	26,360	9,443	-	(15,640)	-	-	20,163
Right-of-use assets	-	-	-	-	(924)	-	-	924	-
Others	143,563	-	143,563	2,469	(285)	(131,303)	-	(744)	13,700
	648,999	-	648,999	93,039	(1,384)	(570,902)	-	-	169,752
₩	5,951,840	208,276	6,160,116	185,092	(62,572)	(3,779,041)	9,734	21,942	2,535,271

(\*1) The amounts include government grants.

(\*2) The property and equipment of Deawoo Shipbuilding &amp; Marine Engineering Co., Ltd. are reclassified as assets held for sale as of December 31, 2019.

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### 13. Investment Property

Changes in investment property for the years ended December 31, 2020 and 2019 are as follows:

	2020						
	January 1, 2020	Acquisition/ depreciation/ impairment	Disposal	Reclassifi- cation	December 31, 2020		
Acquisition cost:							
Land	₩ 204,556	57	(74)	6,653	211,192		
Buildings and structures	437,659	2,270	(163)	(82,753)	357,013		
	<u>642,215</u>	<u>2,327</u>	<u>(237)</u>	<u>(76,100)</u>	<u>568,205</u>		
Accumulated depreciation:							
Buildings and structures	111,996	10,495	-	(34,378)	88,113		
Accumulated impairment losses:							
Land	1,663	6,808	-	(150)	8,321		
Buildings and structures	3,547	8,083	-	(596)	11,034		
	<u>5,210</u>	<u>14,891</u>	<u>-</u>	<u>(746)</u>	<u>19,355</u>		
	<u>₩ 525,009</u>	<u>(23,059)</u>	<u>(237)</u>	<u>(40,976)</u>	<u>460,737</u>		
	<b>2019</b>						
	January 1, 2019	Changes in accounting policy	January 1, 2019 (Restated)	Acquisition/ depreciation/ impairment	Reclassifi- cation	Others	December 31, 2019
Acquisition cost:							
Land	₩ 261,031	-	261,031	35,900	(95,917)	3,542	204,556
Buildings and structures	233,805	156,798	390,603	51,633	(5,019)	442	437,659
	<u>494,836</u>	<u>156,798</u>	<u>651,634</u>	<u>87,533</u>	<u>(100,936)</u>	<u>3,984</u>	<u>642,215</u>
Accumulated depreciation:							
Buildings and structures	101,644	-	101,644	10,222	-	130	111,996
Accumulated impairment losses:							
Land	19,488	-	19,488	(3,337)	(15,232)	744	1,663
Buildings and structures	6,433	-	6,433	(6,932)	3,341	705	3,547
	<u>25,921</u>	<u>-</u>	<u>25,921</u>	<u>(10,269)</u>	<u>(11,891)</u>	<u>1,449</u>	<u>5,210</u>
	<u>₩ 367,271</u>	<u>156,798</u>	<u>524,069</u>	<u>87,580</u>	<u>(89,175)</u>	<u>2,535</u>	<u>525,009</u>

The fair value of the Group's investment property, as determined on the basis of valuation by an independent appraiser, amounts to ₩464,235 million and ₩533,975 million as of December 31, 2020 and 2019, respectively. Additionally, fair value of investment in property is classified as level 3 according to the fair value hierarchy in Note 49.

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**14. Intangible Assets**

Changes in intangible assets for the years ended December 31, 2020 and 2019 are as follows:

		2020								
	₩	January 1, 2020	Acquisition	Disposal	Reclassification	Amortization	Impairment loss	Foreign exchange differences	Others	December 31, 2020
Goodwill	₩	803	11,835	-	-	-	-	(236)	-	12,402
Customers related		205,197	-	-	-	(61,501)	(17,731)	-	-	125,965
Membership		29,620	6,705	(3,571)	(782)	(1,435)	-	(10)	(2)	30,525
Others		647,830	19,182	(102)	(6,249)	(96,460)	(40,049)	(222)	15,118	539,048
	₩	883,450	37,722	(3,673)	(7,031)	(159,396)	(57,780)	(468)	15,116	707,940

		2019								
	₩	January 1, 2019	Acquisition	Disposal	Reclassification	Amortization	Impairment loss	Foreign exchange differences	Others	December 31, 2019
Goodwill	₩	5,537	-	(4,742)	-	-	-	8	-	803
Customers related		222,916	-	-	-	(59,932)	42,213	-	-	205,197
Membership		34,102	1,426	(3,247)	(776)	(1,441)	(453)	9	-	29,620
Others		677,229	99,348	(10,965)	(38,720)	(135,325)	54,678	(110)	1,695	647,830
	₩	939,784	100,774	(18,954)	(39,496)	(196,698)	96,438	(93)	1,695	883,450

**15. Other Assets**

Other assets as of December 31, 2020 and 2019 are as follows:

	₩	December 31, 2020	December 31, 2019
Accounts receivable	₩	3,575,002	3,836,827
Domestic exchange receivables		1,312,604	1,622,128
Accrued income		527,823	703,475
Guarantee deposits		481,658	445,272
Trade accounts receivables		2,519,408	3,001,720
Inventories		1,498,789	901,858
Prepaid expenses		188,418	317,531
Advance payments		722,424	773,436
Deferred acquisition cost		-	452,118
Separate account assets		-	638,027
Financial guarantee asset		22,982	30,078
Others		220,797	77,379
		11,069,905	12,799,849
Allowance for credit losses		(125,837)	(733,828)
Present value discount		(5,063)	(3,386)
	₩	10,939,005	12,062,635

(\*) The carrying amounts of financial assets included in other assets above amounted to W8,439,476 million and W9,639,501 million as of December 31, 2020 and 2019, respectively, and their fair value amounted to W8,366,766 million and W9,556,451 million as of December 31, 2020 and 2019, respectively.

# Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

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### 16. Assets and Liabilities Held for Sale

#### (1) Contract between the Group and Hyundai Heavy Industries Co., Ltd.

For attracting investment in Daewoo Shipbuilding & Marine Engineering Co., Ltd. (“Daewoo Shipbuilding & Marine Engineering”), the Group’s subsidiary, the Group and Hyundai Heavy Industries Co., Ltd. (“Hyundai Heavy Industries”) made the basic agreement on January 31, 2019 and the contract on investment on March 8, 2019. According to the contract, Hyundai Heavy Industries will make shipbuilding segment, special ship segment, industrial plant segment and engine & machinery segment into each new company and surviving company, Korea Shipbuilding & Offshore Engineering Co., Ltd. (“Korea Shipbuilding & Offshore Engineering”), into holding company defined in the Monopoly Regulation and Fair Trade Act. The Group will invest the common shares of Daewoo Shipbuilding & Marine Engineering into the common shares and redeemable convertible preference shares of Korea Shipbuilding & Offshore Engineering. Also, Korea Shipbuilding & Offshore Engineering will finance new common shares of Daewoo Shipbuilding & Marine Engineering and the Group will be obliged to fund Daewoo Shipbuilding & Marine Engineering.

The Group made the adjusted contract on investment with Korea Shipbuilding & Offshore Engineering Co., Ltd. on January 22, 2021 reflecting some adjustments to the previous contract on investment made between the Bank and Hyundai Heavy Industries on March 8, 2019.

The contract will be completed after the satisfaction of the contract’s precondition including governmental permission of different countries.

The Group classified a disposal group of Daewoo Shipbuilding & Marine Engineering as assets and liabilities held for sale and profit or loss on Daewoo Shipbuilding & Marine Engineering as profit or loss from discontinued operations. The classification of profit or loss from discontinued operations is also applied to the comparative consolidated statement of comprehensive income.

#### (2) Classification of KDB Life Insurance Co., Ltd., the Group’s subsidiary, as assets and liabilities held for sale

The Group picked JC Partners, local private equity firm, as the preferred bidder for the shares of KDB Life Insurance Co., Ltd. held by KDB Consus Value Private Equity Fund, the Group’s subsidiary on June 30, 2020, and signed a stock purchase agreement with JC Partners on December 31, 2020 to sell the Group’s shares of KDB Life Insurance Co., Ltd.

The Group classified a disposal group of KDB Life Insurance Co., Ltd. as assets and liabilities held for sale and profit or loss on KDB Life Insurance Co., Ltd. as profit or loss from discontinued operations. The classification of profit or loss from discontinued operations is also applied to the comparative consolidated statement of comprehensive income.

December 31, 2020 and 2019

(In millions of won)

**16. Assets and Liabilities Held for Sale, Continued**

(3) Assets and liabilities held for sale as of December 31, 2020 and 2019 are as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Assets held for sale		
Cash and cash equivalents	₩ 1,433,023	1,082,314
Securities measured at FVTPL	4,433,181	28,681
Securities measured at FVOCI	6,858,963	19,087
Securities measured at amortized cost	6,950,951	24,976
Investments in associates (*1), (*2)	85,367	10,433
Derivative financial instruments	132,917	86,851
Property and equipment (*3)	3,690,986	3,768,435
Investment property	77,148	7,676
Intangible assets	9,714	24,722
Other assets	5,195,857	5,463,709
	<u>28,868,107</u>	<u>10,516,884</u>
Liabilities held for sale		
Policy reserves	17,248,607	-
Borrowings	811,194	1,092,220
Debentures	1,091,812	628,085
Demand repayment share	36,783	-
Derivative financial instruments	126,348	128,393
Other liabilities	4,836,426	4,133,977
	<u>24,151,170</u>	<u>5,982,675</u>
Net assets	₩ <u>4,716,937</u>	<u>4,534,209</u>

(\*1) These amounts consist of securities planned to be sold by Daewoo Engineering &amp; Construction Co., Ltd.

(\*2) These amounts consist of investments in associates of Hanjin Heavy Industries &amp; Construction Co., LTD

(\*3) These amounts consist of property and equipment, investments in associates and others planned to be sold by Daewoo Engineering &amp; Construction Co., Ltd.

# Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

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**16. Assets and Liabilities Held for Sale, Continued**

(4) Other comprehensive income in relation to assets and liabilities held for sale as of December 31, 2020 and 2019 are as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Net income (loss) on securities measured at FVOCI	₩ 76,922	(3,527)

(5) Details of profit and loss from discontinued operations and cash flows from discontinued operating activities for the years ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Profit (loss) from discontinued operations		
Profit (loss) before income taxes	₩ (209,002)	55,133
Income tax expense (benefit)	(39,220)	(117,849)
Profit (loss) for the year	₩ <u>(169,782)</u>	<u>172,982</u>
Cash flows from discontinued operations		
Net cash flows from operating activities	₩ 632,396	2,865,100
Net cash flows from investing activities	39,969	(904,401)
Net cash flows from financing activities	(281,673)	(229,852)
Effects from changes in foreign currency exchange rate for cash and cash equivalents held	(39,983)	(1,428)
Net cash flows from discontinued operations	₩ <u>350,709</u>	<u>1,729,419</u>

December 31, 2020 and 2019

(In millions of won)

**17. Financial Liabilities Designated at Fair Value Through Profit or Loss**

(1) Financial liabilities designated at fair value through profit or loss as of December 31, 2020 and 2019 are as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Debentures	₩ 1,510,793	2,465,541
Deposits	184,164	-
	<u>1,694,957</u>	<u>2,465,541</u>

Changes in fair value of structured debentures and deposits which hedge accounting are applied, are recognized in profit or loss, but structured debentures with no hedge accounting applied to, are measured at amortized costs. Therefore, such structured debentures, not applied to hedge accounting, have been designated at FVTPL in order to eliminate mismatch in measurements of accounting profit and loss.

(2) The difference between the carrying amount and contractual cash flow amount of financial liabilities designated at fair value through profit or loss as of December 31, 2020 and 2019 are as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Carrying amount	₩ 1,694,957	2,465,541
Contractual cash flow amount	1,580,800	2,323,560
Difference amount	₩ 114,157	141,981

**18. Deposits**

Deposits as of December 31, 2020 and 2019 are as follows:

	<u>December 31, 2020</u>		<u>December 31, 2019</u>	
	<u>Amortized cost</u>	<u>Fair value</u>	<u>Amortized cost</u>	<u>Fair value</u>
Deposits in Korean won:				
Demand deposits	₩ 108,480	108,480	110,411	110,411
Time and savings deposits	36,305,068	36,318,065	26,799,306	26,804,900
Certificates of deposit	467,329	467,342	188,375	188,310
	<u>36,880,877</u>	<u>36,893,887</u>	<u>27,098,092</u>	<u>27,103,621</u>
Deposits in foreign currencies:				
Demand deposits	2,460,089	2,460,089	2,161,939	2,161,939
Time and savings deposits	3,209,368	3,208,643	2,508,641	2,508,639
Certificates of deposit	3,805,888	3,805,888	3,786,180	3,786,180
	<u>9,475,345</u>	<u>9,474,620</u>	<u>8,456,760</u>	<u>8,456,758</u>
Off-shore deposits in foreign currencies:				
Demand deposits	605,133	605,133	760,491	760,491
	₩ <u>46,961,355</u>	<u>46,973,640</u>	<u>36,315,343</u>	<u>36,320,870</u>

# Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

(In millions of won)

**19. Borrowings**

(1) Borrowings as of December 31, 2020 and 2019 are as follows:

	<b>December 31, 2020</b>			
	Minimum interest rate (%)	Maximum interest rate (%)	Amortized cost	Fair value
Borrowings in Korean won	-	4.63	₩ 7,569,570	7,563,248
Borrowings in foreign currencies	(-) 2.40	4.40	10,827,751	10,819,880
Off-shore borrowings in foreign currencies	-	3.60	1,780,912	1,781,541
Share capital repayable on demand	-	-	1,319,852	1,319,852
Others	-	2.55	3,052,510	3,062,188
			<u>24,550,595</u>	<u>24,546,709</u>
Present value discount			(7,747)	
Deferred borrowing costs			(60)	
			<u>₩ 24,542,788</u>	
	<b>December 31, 2019</b>			
	Minimum interest rate (%)	Maximum interest rate (%)	Amortized cost	Fair value
Borrowings in Korean won	-	7.55	₩ 5,693,745	5,664,240
Borrowings in foreign currencies	-	5.49	13,150,406	12,804,149
Off-shore borrowings in foreign currencies	1.79	5.85	1,720,019	1,713,640
Share capital repayable on demand	-	-	1,631,838	1,631,838
Others	0.01	3.66	2,782,753	2,781,963
			<u>24,978,761</u>	<u>24,595,830</u>
Present value discount			(10,249)	
Deferred borrowing costs			(105)	
			<u>₩ 24,968,407</u>	

December 31, 2020 and 2019

(In millions of won)

**19. Borrowings, Continued**

(2) Borrowings in Korean won before adjusting for deferred borrowing costs as of December 31, 2020 and 2019 are as follows:

<u>Lender</u>	<u>Classification</u>	<u>Annual interest rate (%)</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
The Bank of Korea	Borrowings from Bank of Korea	0.25 ~ 0.75	₩ 373,881	224,356
Ministry of Strategy and Finance	Borrowings from government fund (*)	0.37 ~ 0.87	125,101	154,667
Industrial Bank of Korea	Borrowings from IT industry promotion fund	1.00	-	190
Small & Medium Business Corp.	Borrowings from small and medium enterprise promotion fund	0.55 ~ 2.76	64,892	73,709
Ministry of Culture and Tourism	Borrowings from tourism promotion fund	0.50 ~ 2.00	2,934,681	2,578,317
Korea Energy Management Corporation	Borrowings from fund for rational use of energy	0.25 ~ 2.80	295,088	387,943
Local governments	Borrowings from local small and medium enterprise promotion fund	0.00 ~ 2.95	37,198	47,834
Others	Borrowings from petroleum enterprise fund	0.00 ~ 4.63	3,738,729	2,226,729
			₩ <u>7,569,570</u>	<u>5,693,745</u>

(\*) Borrowings from government fund are subordinated borrowings.

## Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

(In millions of won)

**19. Borrowings, Continued**

(3) Borrowings and off-shore borrowings in foreign currencies before adjusting for deferred borrowing costs as of December 31, 2020 and 2019 are as follows:

Lender	Classification	Annual interest rate (%)	December 31, 2020	December 31, 2019
Mizuho and others	Bank loans from foreign funds	3M Libor + 0.20 ~ 3M Libor + 0.78	435,200	694,680
Ministry of Strategy and Finance	Exchange equalization fund borrowings in foreign currencies	3M Libor + 0.22 ~ 3M Libor + 0.74	183,360	653,613
Central Bank of the Republic Uzbekistan and others	Off-shore short term borrowings	0.25 ~ 2.50	1,478,220	1,493,957
HSBC and others	Off-shore long term borrowings	3M Libor + 0.36 ~ 3M Libor + 0.50	302,692	226,062
Others	Short-term borrowings in foreign currencies	(-) 2.40 ~ 4.40	9,399,395	10,521,672
	Long-term borrowings in foreign currencies	0.06 ~ 2.49	809,796	1,280,441
			<b>₩</b> 12,608,663	14,870,425

December 31, 2020 and 2019

(In millions of won)

**20. Debentures**

Debentures as of December 31, 2020 and 2019 are as follows:

	<b>December 31, 2020</b>			
	Minimum interest rate (%)	Maximum interest rate (%)	Amortized cost	Fair value
Debentures in Korean won:				
Debentures	0.03	6.60	₩ 112,399,803	113,493,085
Discount on debentures			(60,639)	
Premium on debentures			-	
Valuation adjustment for fair value hedges			49,070	
			<u>112,388,234</u>	
Debentures in foreign currencies:				
Debentures	-	6.97	15,893,667	16,915,390
Discount on debentures			(31,489)	
Premium on debentures			1,676	
Valuation adjustment for fair value hedges			452,348	
			<u>16,316,202</u>	
Off-shore debentures:				
Debentures	-	7.20	14,496,508	14,662,046
Discount on debentures			(23,869)	
Premium on debentures			79	
Valuation adjustment for fair value hedges			152,144	
			<u>14,624,862</u>	
			<u>₩ 143,329,298</u>	<u>145,070,521</u>
	<b>December 31, 2019</b>			
	Minimum interest rate (%)	Maximum interest rate (%)	Amortized cost	Fair value
Debentures in Korean won:				
Debentures	1.22	6.60	₩ 97,344,032	98,431,421
Discount on debentures			(67,623)	
Premium on debentures			24	
Valuation adjustment for fair value hedges			100,969	
			<u>97,377,402</u>	
Debentures in foreign currencies:				
Debentures	-	6.97	14,904,100	15,797,241
Discount on debentures			(34,600)	
Premium on debentures			221	
Valuation adjustment for fair value hedges			203,484	
			<u>15,073,205</u>	
Off-shore debentures:				
Debentures	-	7.20	12,751,332	12,820,674
Discount on debentures			(23,075)	
Premium on debentures			155	
Valuation adjustment for fair value hedges			27,790	
			<u>12,756,202</u>	
			<u>₩ 125,206,809</u>	<u>127,049,336</u>

# Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

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### 21. Policy Reserves

Details of policy reserves categorized by insurance type as of December 31, 2020 and 2019 are as follows:

	Classification	December 31, 2020		December 31, 2019
			(*)	
Premium reserve	Pure endowment	₩	5,345,547	5,268,627
	Death		6,431,155	6,013,425
	Endowment		4,365,994	4,357,150
	Group		19,489	29,427
			<u>16,162,185</u>	<u>15,668,629</u>
Unearned premium reserve	Pure endowment		1	1
	Death		3,982	162
	Group		1,464	1,847
			<u>5,447</u>	<u>2,010</u>
Reserve for outstanding claims	Pure endowment		101,450	98,210
	Death		273,838	295,527
	Endowment		599,532	573,805
	Group		4,314	4,518
			<u>979,134</u>	<u>972,060</u>
Reserve for participating policyholders' dividends	Pure endowment		39,700	37,413
	Death		3,128	3,460
	Endowment		1,841	1,902
	Group		6	6
			<u>44,675</u>	<u>42,781</u>
Excess participating policyholders' dividend reserve			4,775	6,938
Reserve for losses on participating insurance			7,587	6,507
Guaranteed benefit reserve			44,804	64,900
		₩	<u>17,248,607</u>	<u>16,763,825</u>

(\*) These are the policy reserves of KDB Life Insurance Co., Ltd. and are included in the liabilities held for sale.

### 22. Defined Benefit Liabilities

(1) Details of defined benefit liabilities as of December 31, 2020 and 2019 are as follows:

		December 31, 2020	December 31, 2019
Present value of defined benefit obligation	₩	909,847	942,542
Fair value of plan assets (*)		(663,192)	(642,544)
Net defined benefit liabilities		246,655	299,998
Liabilities for other long-term employment benefits		4,839	3,416
	₩	<u>251,494</u>	<u>303,414</u>

(\*) The plan assets are in trusts with Kookmin Bank, Samsung Life Insurance Co., Ltd., etc.



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(In millions of won)

**22. Defined Benefit Liabilities, Continued**

(3) Fair value of plan assets for each type as of December 31, 2020 and 2019 are as follows:

	December 31, 2020		December 31, 2019	
	Quoted market prices	Unquoted market prices	Quoted market prices	Unquoted market Prices
Equity securities	₩ -	-	168	-
Debt securities	-	-	17,947	-
Due from banks	271,263	391,929	284,403	339,391
Others	-	-	635	-
	₩ 271,263	391,929	303,153	339,391

(4) Defined benefit costs recognized in profit or loss for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Current service costs	₩ 86,750	92,952
Past service costs	-	136
Interest expense, net	8,553	10,905
	₩ 95,303	103,993

(5) The principal actuarial assumptions used as of December 31, 2020 and 2019 are as follows:

	December 31, 2020	December 31, 2019
Discount rate (%)	0.20 ~ 2.54	1.50 ~ 2.44
Future salary increasing rate (%)	2.00 ~ 10.00	2.00 ~ 6.23

(6) The present value sensitivity of defined benefit liabilities as changes in principal actuarial assumptions as of December 31, 2020 is as follows:

	Sensitivity	
	1% increase in assumption	1% decrease in assumption
Discount rate	10.16% decrease	12.06% increase
Future salary increasing rate	11.51% increase	9.94% decrease

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(In millions of won)

**23. Provisions**

(1) Provisions as of December 31, 2020 and 2019 are as follows:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Provision for payment guarantees	₩ 272,818	293,541
Provision for unused commitments	162,233	120,101
Financial guarantee provision	62,207	35,880
Lawsuit provision	26,949	35,569
Provision for restoration	15,717	16,869
Other provision	426,782	495,684
	<b>₩ 966,706</b>	<b>997,644</b>

(2) Changes in provision for payment guarantees for the years ended December 31, 2020 and 2019 are as follows:

	<b>2020</b>			
	12-month expected credit loss	Lifetime expected credit losses		Total
		Non credit- impaired	Credit- impaired	
Beginning balance	₩ 123,401	10,569	159,571	293,541
Transfer to 12-month expected credit loss	44,036	(44,036)	-	-
Transfer to lifetime expected credit losses:				
Transfer to non credit-impaired exposures	(9,487)	9,487	-	-
Transfer to credit-impaired exposures	(5,988)	-	5,988	-
Provision for (reversal of) unused commitments	(73,431)	121,085	(73,019)	(25,365)
Foreign currency translation	698	1,614	2,338	4,650
Others	(8)	-	-	(8)
Ending balance	<b>₩ 79,221</b>	<b>98,719</b>	<b>94,878</b>	<b>272,818</b>
	<b>2019</b>			
	12-month expected credit loss	Lifetime expected credit losses		Total
		Non credit- impaired	Credit- impaired	
Beginning balance	₩ 224,018	53,321	243,387	520,726
Transfer to 12-month expected credit loss	41,125	(41,119)	(6)	-
Transfer to lifetime expected credit losses:				
Transfer to non credit-impaired exposures	(59,838)	59,838	-	-
Transfer to credit-impaired exposures	(181,313)	(10,120)	191,433	-
Provision for (reversal of) unused commitments	96,662	(60,153)	(291,623)	(255,114)
Foreign currency translation	2,813	8,802	16,380	27,995
Others	(66)	-	-	(66)
Ending balance	<b>₩ 123,401</b>	<b>10,569</b>	<b>159,571</b>	<b>293,541</b>



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**23. Provisions, Continued**

(4) Changes of financial guarantee provision for the years ended December 31, 2020 and 2019 are as follows:

	<b>2020</b>			
	12-month expected credit loss	Lifetime expected credit losses		Total
		Non credit- Impaired	Credit- impaired	
Beginning balance	₩ 1,189	23,121	11,570	35,880
Transfer to 12-month expected credit loss	23,874	(1,051)	(22,823)	-
Transfer to lifetime expected credit losses:				
Transfer to non credit-impaired exposures	(2,240)	2,348	(108)	-
Transfer to credit-impaired exposures	(179)	(49)	228	-
Provision for unused commitments	22,988	1,638	1,701	26,327
Ending balance	₩ 45,632	26,007	(9,432)	62,207
	<b>2019</b>			
	12-month expected credit loss	Lifetime expected credit losses		Total
		Non credit- Impaired	Credit- impaired	
Beginning balance	₩ 1,881	71,546	38,234	111,661
Transfer to 12-month expected credit loss	27	(27)	-	-
Transfer to lifetime expected credit losses:				
Transfer to non credit-impaired exposures	(7)	7	-	-
Transfer to credit-impaired exposures	(909)	(633)	1,542	-
Provision for (reversal of) unused commitments	602	(48,822)	(28,206)	(76,426)
Foreign currency translation	10	1,050	-	1,060
Others	(415)	-	-	(415)
Ending balance	₩ 1,189	23,121	11,570	35,880

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**23. Provisions, Continued**

(5) Changes of lawsuit provision, restoration provision and other provision for the years ended December 31, 2020 and 2019 are as follows:

	<b>2020</b>		
	Lawsuit provision	Restoration provision	Other provision
Beginning balance	₩ 35,569	16,869	495,684
Increase (reversal) of provision	384	(839)	73,729
Provision used	(12,302)	-	51
Foreign currency translation	(45)	-	(22)
Reclassification	-	-	(11,529)
Others	3,343	(313)	(131,131)
Ending balance	₩ 26,949	15,717	426,782

	<b>2019</b>		
	Lawsuit provision	Restoration provision	Other provision
Beginning balance	₩ 589,499	1,389	861,808
Increase (reversal) of provision	(14)	258	127,207
Provision used	-	(529)	(127,419)
Foreign currency translation	(7)	-	1
Reclassification	(553,374)	-	(354,138)
Others	(535)	15,751	(11,775)
Ending balance	₩ 35,569	16,869	495,684

**(6) Provision for payment guarantees and financial guarantee**

Confirmed acceptances and guarantees, unconfirmed acceptances and guarantees and bills endorsed are not recognized on the statement of financial position, but are disclosed as off-statement of financial position items in the notes to the financial statements. The Group provides a provision for such off-statement of financial position items, applying a Credit Conversion Factor (CCF) and provision rates under the Group's expected credit loss model, and records the provision as a reserve for expected credit losses on acceptances and guarantees.

In the case of financial guarantee contracts, when the amount calculated using the same method as above is greater than the initial amount less amortization of fees recognized, the difference is recorded as provision for financial guarantee.

**(7) Provision for unused commitments**

The Group records a provision for a certain portion of unused credit lines which is calculated using a CCF as provision for unused commitments applying provision rates under the Group's expected credit loss model.

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**23. Provisions, Continued****(8) Provision for possible losses from lawsuits**

As of December 31, 2020, the Group is involved in 188 lawsuits as a plaintiff and 421 lawsuits as a defendant. The aggregate amounts of claims as a plaintiff and a defendant amounted to ₩1,563,617 million and ₩1,982,467 million, respectively. The Group provided a provision against contingent loss from pending lawsuits as of December 31, 2020 and additional losses may be incurred depending on the final result of pending lawsuits.

Some investors who bought the DSME's shares, corporate bonds and commercial papers sued the DSME, certain accounting firm and others for damage claims asserting that they had misled by false audit report, business report, registration of securities, prospectus, etc. and these lawsuits are included in the Group's lawsuits as a defendant.

Major lawsuits in progress as of December 31, 2020 and 2019 are as follows:

	December 31, 2019		
	Contents	Amounts	Status of lawsuit
<b>Plaintiff:</b>			
Korea Trade Insurance Corporation and one other	Claim for guarantee insurance	₩ 136,538	1 <sup>st</sup> trial ruled against the Group; 2 <sup>nd</sup> trial in progress
KAMCO 1st JV	Transfer of claim	8,792	1 <sup>st</sup> trial in progress
Securitization Specialty Co., Ltd.			
Dadae Construction Co., Ltd.	Absence of liens	2,900	1 <sup>st</sup> trial ruled in favor of the Group; 2 <sup>nd</sup> trial in progress
Korea Technology Finance Corporation	Claim for guarantee	872	1 <sup>st</sup> trial ruled partially in favor of the Group; 2 <sup>nd</sup> trial in progress
Plaza Rakyat	Claim for construction cost due to termination of contractor contract	250,851	1 <sup>st</sup> trial in progress
AOA	Claim for construction cost	58,561	1 <sup>st</sup> trial in progress
<b>Defendant:</b>			
Shinhan Bank and one other	Claim for damages	58,474	1 <sup>st</sup> trial in progress
Defense Acquisition Program Administration	Claim for guaranteed debt	56,977	1 <sup>st</sup> , 2 <sup>nd</sup> trial ruled partially against the Group; 3 <sup>rd</sup> trial in progress
Dongbu Corporation	Claim for nullity of table of rehabilitation creditor	33,997	1 <sup>st</sup> trial ruled in favor of the Group; 2 <sup>nd</sup> trial ruled against the Group; 3 <sup>rd</sup> trial in progress
Dongbu Corporation	Claim for objection of request (participation to support)	19,658	1 <sup>st</sup> trial in progress
Woori Bank	Claim for disposal of debt	12,470	1 <sup>st</sup> , 2 <sup>nd</sup> trial ruled in favor of the Group; 3 <sup>rd</sup> trial in progress
Korea Gas Corporation	Claim for damages	200,000	1 <sup>st</sup> trial in progress
Korea Gas Corporation	Claim for damages	108,000	1 <sup>st</sup> trial in progress
KOREA NATIONAL RAILWAY	Claim for damages	104,511	1 <sup>st</sup> trial in progress
K-water	Claim for damages	70,252	1 <sup>st</sup> trial in progress
K-water	Claim for damages	59,748	1 <sup>st</sup> trial ruled in favor of the Group; 2 <sup>nd</sup> trial in progress

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**23. Provisions, Continued**

	<b>December 31, 2019</b>		
	Contents	Amounts	Status of lawsuit
<b>Plaintiff:</b>			
Korea Trade Insurance Corporation and one other	Claim for guarantee insurance	₩ 136,538	1 <sup>st</sup> trial ruled against the Group; 2 <sup>nd</sup> trial in progress
Gyeonggi Urban Innovation Corp.	Claim for refund of investments	160,293	1 <sup>st</sup> , 2 <sup>nd</sup> trial ruled partially in favor of the Group; 3 <sup>rd</sup> trial in progress
KAMCO 1st JV Securitization Specialty Co., Ltd.	Transfer of claim	8,792	1 <sup>st</sup> trial in progress
STX Offshore and shipbuilding Co., Ltd.	Objection for trial for determination of investigation	4,800	1 <sup>st</sup> trial in progress
Global Display Co., Ltd.	Claim for guaranteed debt	3,474	1 <sup>st</sup> trial ruled in favor of the Group; 2 <sup>nd</sup> trial in progress
Korea Land and Housing Corporation	Claim for guaranteed debt	3,533	1 <sup>st</sup> trial ruled against the Group; 2 <sup>nd</sup> trial ruled partially in favor of the Group; 3 <sup>rd</sup> trial in progress
Plaza Rakyat	Claim for construction cost due to termination of contractor contract	266,981	1 <sup>st</sup> trial in progress
<b>Defendant:</b>			
Shinhan Bank and one other	Claim for damages	58,474	1 <sup>st</sup> trial in progress
Defense Acquisition Program Administration	Claim for guaranteed debt	56,977	1 <sup>st</sup> , 2 <sup>nd</sup> trial ruled partially against the Group; 3 <sup>rd</sup> trial in progress
Dongbu Corporation	Claim for nullity of table of rehabilitation creditor	33,997	1 <sup>st</sup> trial ruled in favor of the Group; 2 <sup>nd</sup> trial ruled against the Group; 3 <sup>rd</sup> trial in progress
Dongbu Corporation	Claim for objection of request (participation to support)	19,658	1 <sup>st</sup> trial in progress
Woori Bank	Claim for disposal of debt	12,470	1 <sup>st</sup> trial ruled in favor of the Group; 2 <sup>nd</sup> trial in progress
KAMCO 8th JV Securitization Specialty Co., Ltd.	Claim for refund of impairment sale payment	13,898	1 <sup>st</sup> trial ruled partially against the Group; 2 <sup>nd</sup> trial ruled in favor of the Group; 3 <sup>rd</sup> trial in progress
Korea Gas Corporation	Claim for damages	308,000	1 <sup>st</sup> trial in progress

**(9) Other provision**

The Group recognized other provision as a reserve for other miscellaneous purpose.

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(In millions of won)

**24. Other Liabilities**

Other liabilities as of December 31, 2020 and 2019 are as follows:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Accounts payable	₩ 3,605,427	3,682,965
Lease liabilities	530,829	613,987
Accrued expense	2,492,997	2,844,817
Domestic exchange payable	587,194	363,546
Borrowing from trust accounts	933,406	1,494,569
Advance receipts	1,490,948	1,397,741
Guarantee money received	1,269,216	1,092,020
Trade payable	183,591	422,265
Unearned income	74,982	305,917
Deposits withholding tax	65,357	69,005
Foreign exchanges payable	77,587	18,799
Separate account liabilities	-	643,380
Financial guarantee liability	60,111	67,224
Contractor equity adjustments	-	45,597
Others	125,031	162,084
	11,496,676	13,223,916
Present value discount	(19,526)	(17,041)
	₩ 11,477,150	13,206,875

The carrying amount of financial liabilities included in other liabilities above amounted to ₩9,747,271 million and ₩10,612,043 million as of December 31, 2020 and 2019, respectively, and their fair value amounted to ₩9,835,751 million and ₩10,708,027 million as of December 31, 2020 and 2019, respectively.

(2) Details of lease liabilities as of December 31, 2020 and 2019 are as follows:

	<b>December 31, 2020</b>		
	Face value	Discount	Carrying amounts
Real estate	₩ 593,173	(106,161)	487,012
Vehicles	46,271	(3,281)	42,990
Others	1,025	(198)	827
	₩ 640,469	(109,640)	530,829

Cash payments for the principal portion of the lease liabilities are ₩167,232 million and cash payments for the interest portion of the lease liabilities are ₩14,187 million for the year ended December 31, 2020.

	<b>December 31, 2019</b>		
	Face value	Discount	Carrying amounts
Real estate	₩ 657,636	(89,544)	568,092
Vehicles	47,189	(1,434)	45,755
Others	142	(2)	140
	₩ 704,967	(90,980)	613,987

Cash payments for the principal portion of the lease liabilities are ₩156,569 million and cash payments for the interest portion of the lease liabilities are ₩12,588 million for the year ended December 31, 2019.

## Korea Development Bank and Subsidiaries

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(In millions of won)

**25. Equity**

## (1) Issued capital

The Group is authorized to issue up to 6,000 million shares of common stock and has 4,153,145,768 shares and 3,732,619,768 shares issued as of December 31, 2020 and 2019, respectively, and outstanding with a total par value (₩ 5,000 of par value per share) of ₩20,765,729 million ₩18,663,099 million as of December 31, 2020 and 2019, respectively. Due to the Group's paid-capital increase, total number and par value of the shares increased in 2020.

## (2) Capital surplus

Capital surplus as of December 31, 2020 and 2019 are as follows:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Paid-in capital in excess of par value	₩ 49,530	59,636
Surplus from capital reduction	47,973	47,973
Share of capital surplus of associates	122,810	122,810
Other capital surplus	835,575	770,180
	<b>₩ 1,055,888</b>	<b>1,000,599</b>

## (3) Capital adjustments

Capital adjustments as of December 31, 2020 and 2019 are as follows:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Share of capital adjustment of associates	₩ 220,605	220,605
Other capital adjustment	57,446	57,434
	<b>₩ 278,051</b>	<b>278,039</b>

December 31, 2020 and 2019

(In millions of won)

**25. Equity, Continued**

(4) Accumulated other comprehensive income

(i) Accumulated other comprehensive income as of December 31, 2020 and 2019 are as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Net gain (loss) on securities measured at FVOCI:		
Valuation gain (loss) on securities measured at FVOCI (before tax)	₩ 2,733,356	(244,570)
Loss allowance for securities measured at FVOCI (before tax)	81,930	75,303
Income tax effect	(769,084)	52,190
	<u>2,046,202</u>	<u>(117,077)</u>
Share of other comprehensive income of associates:		
Share of other comprehensive income of associates (before tax)	433,885	447,784
Income tax effect	8,925	9,431
	<u>442,810</u>	<u>457,215</u>
Exchange differences on translation of foreign operations:		
Exchange differences on translation of foreign operations (before tax)	(578,627)	(392,504)
Income tax effect	131,026	112,759
	<u>(447,601)</u>	<u>(279,745)</u>
Valuation gain (loss) on cash flow hedge:		
Valuation gain (loss) on cash flow hedge (before tax)	(1,526)	194
Income tax effect	520	47
	<u>(1,006)</u>	<u>241</u>
Net gain on hedges of net investments in foreign operations :		
Net gain on hedges of net investments in foreign operations (before tax)	48,975	5,538
Income tax effect	(13,468)	(1,523)
	<u>35,507</u>	<u>4,015</u>
Remeasurements of defined benefit liabilities:		
Remeasurements of defined benefit liabilities (before tax)	(25,232)	(44,977)
Income tax effect	6,264	11,758
	<u>(18,968)</u>	<u>(33,219)</u>
Fair value changes on financial liabilities designated at fair value due to credit risk:		
Valuation loss on financial liabilities designated at fair value due to credit risk (before tax)	(7,958)	(6,319)
Income tax effect	2,189	1,738
	<u>(5,769)</u>	<u>(4,581)</u>
Others:		
Others (before tax)	881	17,089
Income tax effect	1,455	(3,002)
	<u>2,336</u>	<u>14,087</u>
	<u>₩ 2,053,511</u>	<u>40,936</u>

# Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

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**25. Equity, Continued**

(ii) Changes in accumulated other comprehensive income for the years ended December 31, 2020 and 2019 are as follows:

	<b>2020</b>			
	January 1, 2020 (*)	Increase (Decrease)	Tax Effect	December 31, 2020
Net gain (loss) on securities measured at FVOCI	₩ (117,077)	2,984,553	(821,274)	2,046,202
Share of other comprehensive income of associates	457,215	(13,899)	(506)	442,810
Exchange differences on translation of foreign operations	(279,745)	(186,123)	18,267	(447,601)
Valuation gain (loss) on cash flow hedge	241	(1,720)	473	(1,006)
Net gain (loss) on hedges of net investments in foreign operations	4,015	43,437	(11,945)	35,507
Remeasurements of defined benefit liabilities	(33,219)	19,745	(5,494)	(18,968)
Fair value changes on financial liabilities designated at fair value due to credit risk	(4,581)	(1,639)	451	(5,769)
Others	23,934	(29,790)	8,192	2,336
	<b>₩ 50,783</b>	<b>2,814,564</b>	<b>(811,836)</b>	<b>2,053,511</b>

(\*) The changes in accounting policy are included.

	<b>2019</b>			
	January 1, 2019	Increase (Decrease)	Tax Effect	December 31, 2019
Net gain (loss) on securities measured at FVOCI	₩ (114,315)	(10,330)	7,568	(117,077)
Share of other comprehensive income of associates	440,688	19,749	(3,222)	457,215
Exchange differences on translation of foreign operations	(288,251)	3,281	5,225	(279,745)
Valuation gain (loss) on cash flow hedge	(439)	938	(258)	241
Net gain (loss) on hedges of net investments in foreign operations	-	5,538	(1,523)	4,015
Remeasurements of defined benefit liabilities	(18,560)	(21,184)	6,525	(33,219)
Fair value changes on financial liabilities designated at fair value due to credit risk	3,178	(10,702)	2,943	(4,581)
Others	2,409	16,207	(4,529)	14,087
	<b>₩ 24,710</b>	<b>3,497</b>	<b>12,729</b>	<b>40,936</b>

December 31, 2020 and 2019

(In millions of won)

**25. Equity, Continued****(5) Retained earnings**

In accordance with the *Korea Development Bank Act*, the Group is required to appropriate at least 40% of net income as a legal reserve. This reserve can be transferred to paid-in capital or offset an accumulated deficit.

In accordance with the *Korea Development Bank Act*, the Group offsets an accumulated deficit with reserves. If the reserve is insufficient to offset the accumulated deficit, the Korean government is responsible for the deficit.

(i) Retained earnings as of December 31, 2020 and 2019 are as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Legal reserve	₩ 1,356,142	1,177,851
Voluntary reserve		
Regulatory reserve for credit losses (*)	1,146,038	1,227,700
Unappropriated retained earnings	9,844,908	8,253,241
	<u>₩ 12,347,088</u>	<u>10,658,792</u>

(\*) This amount is regulatory reserve for credit losses recognized by the Bank, controlling company, in the separate financial statements according to the Article 29(1) and (2) of the *Regulation on Supervision of Banking Business*.

(ii) Changes in legal reserve for the years ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Beginning balance	₩ 1,177,851	173,913
Transfer from retained earnings	178,291	1,003,938
Ending balance	<u>₩ 1,356,142</u>	<u>1,177,851</u>

(iii) Changes in unappropriated retained earnings for the years ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Beginning balance	₩ 8,253,241	8,972,946
Changes in accounting policy	(9,847)	(65)
Profit attributable to owners of the parent for the year	1,845,056	275,466
Contribution to legal reserve	(178,291)	(1,003,938)
Dividends	(111,978)	(144,865)
Reclassification of valuation gain or loss on equity securities measured at FVOCI	(34,935)	20,317
Transfer from regulatory reserve for credit losses	82,217	148,180
Others	(555)	(14,800)
Ending balance	<u>₩ 9,844,908</u>	<u>8,253,241</u>

# Korea Development Bank and Subsidiaries

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**25. Equity, Continued****(6) Regulatory reserve for credit losses**

The Group is required to provide regulatory reserve for credit losses in accordance with *Regulation on Supervision of Banking Business 29(1) and (2)*. The details of regulatory reserve for credit losses are as follows:

(i) Regulatory reserve for credit losses as of December 31, 2020 and 2019 are as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Beginning balance	₩ 1,175,456	1,257,673
Planned reversal of regulatory reserve for credit losses	(672,712)	(82,217)
Ending balance	₩ <u>502,744</u>	<u>1,175,456</u>

(ii) Obligated amount of provision for regulatory reserve for loan losses and profit after adjusting regulatory reserve for loan losses for the years ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Profit for the year	₩ 1,961,347	279,147
Obligated amount of reversal of regulatory reserve for loan losses	672,712	82,217
Profit after adjusting regulatory reserve for loan losses	₩ <u>2,634,059</u>	<u>361,364</u>
Earnings per share after adjusting regulatory reserve for loan losses (in won)	₩ <u>669</u>	<u>98</u>

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(In millions of won)

**26. Net Interest Income**

Net interest income for the years ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Interest income:		
Due from banks	₩ 52,768	103,423
Securities measured at FVTPL	50,202	101,385
Securities measured at FVOCI	422,101	409,847
Securities measured at amortized cost	26,892	44,636
Loans measured at FVTPL	21,939	17,706
Loans measured at amortized cost	4,302,276	4,890,139
	<u>4,876,178</u>	<u>5,567,136</u>
Interest expense:		
Financial liabilities measured at FVTPL	(79,318)	(90,883)
Deposits	(511,848)	(635,312)
Borrowings	(306,461)	(473,458)
Debentures	(2,411,986)	(2,988,702)
	<u>(3,309,613)</u>	<u>(4,188,355)</u>
	<u>₩ 1,566,565</u>	<u>1,378,781</u>

**27. Net Fees and Commission Income**

Net fees and commission income for the years ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Fees and commission income:		
Loan commissions	₩ 118,224	132,181
Underwriting and investment consulting commissions	106,256	122,028
Brokerage and agency commissions	8,100	6,800
Trust and retirement pension plan commissions	32,961	31,660
Fees on asset management	10,742	4,878
Other fees	142,301	167,929
	<u>418,584</u>	<u>465,476</u>
Fees and commission expenses:		
Brokerage and agency fees	(10,674)	(11,625)
Other fees	(47,396)	(34,700)
	<u>(58,070)</u>	<u>(46,325)</u>
	<u>₩ 360,514</u>	<u>419,151</u>

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**28. Dividend Income**

Dividend income for the years ended December 31, 2020 and 2019 are as follows:

		<u>2020</u>	<u>2019</u>
Securities measured at FVTPL	₩	157,121	174,500
Securities measured at FVOCI		128,462	112,711
	₩	<u>285,583</u>	<u>287,211</u>

**29. Net Gain on Securities Measured at FVTPL**

Net gain related to securities measured at FVTPL for the years ended December 31, 2020 and 2019 are as follows:

		<u>2020</u>	<u>2019</u>
Gains on securities measured at FVTPL:			
Gains on redemption	₩	1,760	1,097
Gains on sale		127,646	307,380
Gains on valuation		262,419	278,361
		<u>391,825</u>	<u>586,838</u>
Losses on securities measured at FVTPL:			
Losses on redemption		(1,548)	(9,580)
Losses on sale		(78,323)	(48,665)
Losses on valuation		(218,519)	(152,944)
Purchase related expense		(48)	(94)
		<u>(298,438)</u>	<u>(211,283)</u>
	₩	<u>93,387</u>	<u>375,555</u>

**30. Net Gain (Loss) on Financial Liabilities Measured at FVTPL**

Net gain (loss) related to financial liabilities measured at FVTPL for the years ended December 31, 2020 and 2019 are as follows:

		<u>2020</u>	<u>2019</u>
Gains on financial liabilities measured at FVTPL:			
Gains on redemption	₩	999	827
Gains on valuation		49,886	19,664
		<u>50,885</u>	<u>20,491</u>
Losses on financial liabilities measured at FVTPL:			
Losses on redemption		(14,545)	(2,991)
Losses on sale		-	(1)
Losses on valuation		(3,314)	(24,259)
		<u>(17,859)</u>	<u>(27,251)</u>
	₩	<u>33,026</u>	<u>(6,760)</u>

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(In millions of won)

**31. Net Gain on Securities Measured at FVOCI**

Net gain related to securities measured at FVOCI for the years ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Gains on securities measured at FVOCI:		
Gains on redemption	₩ 414	711
Gains on sale	108,484	119,480
Reversal of impairment losses	2,631	2,520
	<u>111,529</u>	<u>122,711</u>
Losses on securities measured at FVOCI:		
Losses on redemption	(40)	(19)
Losses on sale	(15,038)	(23,335)
Impairment losses	(9,770)	(306)
	<u>(24,848)</u>	<u>(23,660)</u>
	<u>₩ 86,681</u>	<u>99,051</u>

**32. Net Gain (Loss) on Securities Measured at Amortized Cost**

Net gain (loss) related to securities measured at amortized cost for the years ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Gains on securities measured at amortized cost:		
Gains on redemption	₩ -	107
Gains on sale	-	214
	<u>-</u>	<u>321</u>
Losses on securities measured at amortized cost:		
Losses on sale	(164)	-
Impairment losses	(4,217)	(2)
	<u>(4,381)</u>	<u>(2)</u>
	<u>₩ (4,381)</u>	<u>319</u>

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**33. Net Gain (Loss) on Derivatives**

Net gain (loss) on derivatives for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Net gain (loss) on trading purpose derivatives:		
Gains on trading purpose derivatives:		
Interest rate	₩ 2,195,002	2,339,033
Currency	13,412,008	9,397,719
Stock	16,026	28,063
Commodities	-	-
Embedded derivatives	-	32
Gains on adjustment of derivatives	-	19,676
	<u>15,623,036</u>	<u>11,784,523</u>
Losses on trading purpose derivatives:		
Interest rate	(2,282,121)	(2,224,469)
Currency	(13,388,140)	(9,415,364)
Stock	(29,778)	(176,372)
Commodities	-	-
Losses on adjustment of derivatives	(18,805)	(28,819)
	<u>(15,718,844)</u>	<u>(11,845,024)</u>
	<u>(95,808)</u>	<u>(60,501)</u>
Net gain on hedging purpose derivatives:		
Gains on hedging purpose derivatives:		
Interest rate	458,699	564,219
Currency	675,709	260,568
Gains on adjustment of derivatives	23	22
	<u>1,134,431</u>	<u>824,809</u>
Losses on hedging purpose derivatives:		
Interest rate	(119,802)	(80,564)
Currency	(412,840)	(338,512)
Losses on adjustment of derivatives	(746)	(589)
	<u>(533,388)</u>	<u>(419,665)</u>
	<u>601,043</u>	<u>405,144</u>
Net loss on fair value hedged items:		
Gains on fair value hedged items:		
Gains on valuation	308,842	119,243
Gains on redemption	356,885	155,607
	<u>665,727</u>	<u>274,850</u>
Losses on fair value hedged items:		
Losses on valuation	(598,515)	(741,494)
Losses on redemption	(92,558)	(179,124)
	<u>(691,073)</u>	<u>(920,618)</u>
	<u>(25,346)</u>	<u>(645,768)</u>
	<u>₩ 479,889</u>	<u>(301,125)</u>

Related with cash flow hedge, the Group recognized ₩24 million of loss and ₩2 million of gain in the consolidated statement of comprehensive income as the ineffective portion for the years ended December 31, 2020 and 2019, respectively.

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(In millions of won)

**34. Net Foreign Currency Transaction Loss**

Net foreign currency transaction loss for the years ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Net gain (loss) on foreign exchange transactions:		
Gains on foreign exchange transactions	₩ 681,384	572,578
Losses on foreign exchange transactions	(713,521)	(534,785)
	<u>(32,137)</u>	<u>37,793</u>
Net loss on foreign exchange translations:		
Gains on foreign exchange translations	8,497,113	4,025,970
Losses on foreign exchange translations	(8,661,153)	(4,109,099)
	<u>(164,040)</u>	<u>(83,129)</u>
	<u>₩ (196,177)</u>	<u>(45,336)</u>

# Korea Development Bank and Subsidiaries

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**35. Other Operating Income, net**

Other operating income and expense for the years ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Other operating income:		
Insurance gains	₩ -	-
Gains on sale of investments in associates	103,046	65,245
Gains on sale of loans	20,168	82,007
Gains on disposal of loans measured at FVTPL	4,568	23,456
Gains on valuation of loans measured at FVTPL	676,776	59,719
Gains on demand equity redemption	105,627	58,186
Reversal of provisions	3,115	3,909
Income from construction business	8,645,438	9,064,705
Gains on redemption of debentures	-	16
Others	494,003	670,617
	<u>10,052,741</u>	<u>10,027,860</u>
Other operating expense:		
Insurance losses	(67,135)	(49,703)
Losses on sale of investments in associates	(134,606)	(56,114)
Losses on sale of loans	(125,783)	(178,258)
Losses on disposal of loans measured at FVTPL	(29,155)	(27,231)
Losses on valuation of loans measured at FVTPL	(27,509)	(16,798)
Losses on demand equity redemption	(92,088)	(148,032)
Increase of provisions	(69,226)	(131,360)
Cost of construction business	(7,607,525)	(8,216,976)
Losses on redemption of debentures	(136)	(4)
Others	(734,570)	(864,145)
	<u>(8,887,733)</u>	<u>(9,688,621)</u>
₩	<u>1,165,008</u>	<u>339,239</u>

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**36. Provision for (Reversal of) Credit Losses**

Provision for (reversal of) credit losses for the years ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Provision for loss allowance	₩ 1,231,062	180,761
Reversal of other manufacturing-related assets	(24,253)	(46,243)
Provision for (reversal of) other assets	38,676	(4,688)
Provision for due from banks	166	42
Provision for unused commitments	66,850	39,105
Provision for (reversal of) financial guarantees	26,327	(76,426)
Reversal of payment guarantees	(25,365)	(255,114)
	<u>₩ 1,313,463</u>	<u>(162,563)</u>

**37. General and Administrative Expenses**

General and administrative expenses for the years ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Payroll costs:		
Short-term employee benefits	₩ 623,658	627,019
Long-term employee benefits	28	-
Defined benefit costs	61,896	62,495
Defined contribution costs	7,941	7,706
	<u>693,523</u>	<u>697,220</u>
Depreciation and amortization:		
Depreciation of property and equipment	130,271	119,088
Amortization of intangible assets	156,263	191,818
	<u>286,534</u>	<u>310,906</u>
Other:		
Employee welfare benefits	82,858	83,295
Rent expenses	12,950	18,787
Taxes and dues	48,304	50,461
Advertising expenses	28,284	25,936
Others	301,635	339,947
	<u>474,031</u>	<u>518,426</u>
	<u>₩ 1,454,088</u>	<u>1,526,552</u>

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**38. Other Non-Operating Income and Expense**

Other non-operating income and expense for the years ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Other non-operating income:		
Gain on exemption of debt	₩ 7,829	357
Interest income of non-financial business	44,850	59,695
Gain on assets held for sale	2,233	4,678
Gain on disposal of property and equipment	5,986	7,568
Rental income on investment property	2,192	1,804
Gain on disposal of intangible assets	1,833	403
Reversal of impairment loss of intangible assets	-	96,891
Others	32,679	138,473
	<u>97,602</u>	<u>309,869</u>
Other non-operating expense:		
Interest expense of non-financial business	(117,631)	(145,631)
Loss on assets held for sale	(7,541)	(11,887)
Loss on disposal of property and equipment	(5,523)	(1,071)
Impairment loss of property and equipment	(1,397)	(97,470)
Impairment loss of investment property	(14,878)	(3,527)
Loss on disposal of investment property	(27)	-
Depreciation of investment property	(1,394)	(1,446)
Loss on disposal of intangible assets	(202)	(6)
Impairment loss of intangible assets	(57,780)	-
Donations	(15,865)	(18,930)
Others	(28,806)	(75,405)
	<u>(251,044)</u>	<u>(355,373)</u>
₩	<u>(153,442)</u>	<u>(45,504)</u>

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**39. Income Tax Expenses**

(1) Income tax expenses for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Current income tax	₩ 185,847	272,582
Changes in deferred income taxes on temporary differences	1,288,104	(186,586)
Income tax recognized directly to equity:		
Other comprehensive income (owners of the parent)	(811,836)	12,729
Other comprehensive income (non-controlling interests)	2,634	4,796
Retained earnings (including non- controlling interests)	13,251	(7,706)
Income tax expenses:	₩ 678,000	95,815
Continuing operations	717,220	213,664
Discontinued operations	(39,220)	(117,849)

(2) Profit before income taxes and income tax expenses for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Profit before income taxes	₩ 2,848,349	319,829
Income taxes calculated using enacted tax rates	783,296	87,953
Adjustments:		
Non-deductible losses and tax-free gains	(14,922)	(12,787)
Non-recognition effect of deferred income taxes	(29,507)	(120,178)
Net adjustments for prior years	(10,182)	(6,832)
Consolidation adjustments	470,205	(102,757)
Others	(481,670)	368,265
	(66,076)	125,711
Income tax expenses	₩ 717,220	213,664
Effective tax rate	25.18%	66.81%

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**39. Income Tax Expenses, Continued**

(3) Changes in deferred income taxes recognized directly to equity for the years ended December 31, 2020 and 2019 are as follows:

	<b>2020</b>				
	December 31, 2020		January 1, 2020 (*)		Changes in tax effect
	Amounts before tax	Tax effect	Amounts before tax	Tax effect	
Net gain (loss) on securities measured at FVOCI	₩ 2,815,286	(769,084)	(169,267)	52,190	(821,274)
Share of other comprehensive income (loss) of associates	433,885	8,925	447,784	9,431	(506)
Exchange differences on translation of foreign operations	(578,627)	131,026	(392,504)	112,759	18,267
Gain (loss) on valuation of cash flow hedge	(1,526)	520	194	47	473
Net gain (loss) on hedges of net investments in foreign operations	48,975	(13,468)	5,538	(1,523)	(11,945)
Remeasurements of defined benefit liabilities	(25,232)	6,264	(44,977)	11,758	(5,494)
Fair value changes on financial liabilities designated at fair value due to credit risk	(7,958)	2,189	(6,319)	1,738	451
Others	881	1,455	30,671	(6,737)	8,192
	<b>₩ 2,685,684</b>	<b>(632,173)</b>	<b>(128,880)</b>	<b>179,663</b>	<b>(811,836)</b>

(\*) The changes in accounting policy are included.

₩13,251 million of income tax expenses which is directly recognized in retained earnings consist of tax effects from ₩48,186 million of realized loss on disposal of equity securities measured at FVOCI.

	<b>2019</b>				
	December 31, 2019		January 1, 2019		Changes in tax effect
	Amounts before tax	Tax effect	Amounts before tax	Tax effect	
Net gain (loss) on securities measured at FVOCI	₩ (169,267)	52,190	(158,937)	44,622	7,568
Share of other comprehensive income (loss) of associates	447,784	9,431	428,035	12,653	(3,222)
Exchange differences on translation of foreign operations	(392,504)	112,759	(395,785)	107,534	5,225
Gain (loss) on valuation of cash flow hedge	194	47	(744)	305	(258)
Net gain (loss) on hedges of net investments in foreign operations	5,538	(1,523)	-	-	(1,523)
Remeasurements of defined benefit liabilities	(44,977)	11,758	(23,793)	5,233	6,525
Fair value changes on financial liabilities designated at fair value due to credit risk	(6,319)	1,738	4,383	(1,205)	2,943
Others	17,089	(3,002)	882	1,527	(4,529)
	<b>₩ (142,462)</b>	<b>183,398</b>	<b>(145,959)</b>	<b>170,669</b>	<b>12,729</b>

₩7,706 million of income tax expenses which is directly recognized in retained earnings consist of tax effects from ₩28,023 million of realized gain on disposal of equity securities measured at FVOCI.

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**39. Income Tax Expenses, Continued**

(4) Changes in temporary differences and deferred tax assets (liabilities) for the years ended December 31, 2020 and 2019 are as follows:

	<b>2020</b>			
	January 1, 2020	Increase/ decrease	December 31, 2020	Deferred tax assets (liabilities) (*)
Temporary differences from recognized deferred tax assets and liabilities:				
Derivatives	₩ (777,591)	(703,959)	(1,481,550)	(407,311)
Investments in associates	(7,144,828)	200,111	(6,944,717)	(2,215,211)
Securities measured at FVOCI	(145,316)	(1,201)	(146,517)	148
Impairment losses on debt securities	65,933	-	65,933	18,132
Impairment losses on equity securities	148,554	(10,617)	137,937	35,372
Others	1,494,705	(4,630,682)	(3,135,977)	(1,181,856)
	<u>(6,358,543)</u>	<u>(5,146,348)</u>	<u>(11,504,891)</u>	<u>(3,750,726)</u>
Temporary differences from unrecognized deferred tax assets and liabilities:				
Investments in associates	1,912,607	(25,887)	1,886,720	-
Undisposed accumulated deficit by deferred corporate taxes:				
Undisposed accumulated deficit	610,454	(47,781)	562,673	136,167
	<u>₩ (3,835,482)</u>	<u>(5,220,016)</u>	<u>(9,055,498)</u>	<u>(3,614,559)</u>

(\*) The deferred tax assets (liabilities) classified as assets (liabilities) held for sale are not included.

	<b>2019</b>			
	January 1, 2019	Increase/ decrease	December 31, 2019	Deferred tax assets (liabilities) (*)
Temporary differences from recognized deferred tax assets and liabilities:				
Derivatives	₩ (329,811)	(447,780)	(777,591)	(213,703)
Investments in associates	(8,743,879)	1,599,051	(7,144,828)	(2,282,670)
Securities measured at FVOCI	(203,908)	58,592	(145,316)	469
Impairment losses on debt securities	65,933	-	65,933	18,132
Impairment losses on equity securities	191,157	(42,603)	148,554	38,122
Others	(678,086)	2,172,791	1,494,705	69,789
	<u>(9,698,594)</u>	<u>3,340,051</u>	<u>(6,358,543)</u>	<u>(2,369,861)</u>
Temporary differences from unrecognized deferred tax assets and liabilities:				
Investments in associates	1,957,997	(45,390)	1,912,607	-
Undisposed accumulated deficit by deferred corporate taxes:				
Undisposed accumulated deficit	774,293	(163,839)	610,454	147,730
	<u>₩ (6,966,304)</u>	<u>3,130,822</u>	<u>(3,835,482)</u>	<u>(2,222,131)</u>

(\*) The deferred tax assets (liabilities) classified as assets (liabilities) held for sale are not included.

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### 39. Income Tax Expenses, Continued

(5) Deferred income tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current income tax liabilities and assets, and they relate to income tax levied by the same tax authority and they intend to settle current income tax liabilities and assets on a net basis.

### 40. Earnings per Share

#### (1) Basic earnings per share

The Group's basic earnings per share for the years ended December 31, 2020 and 2019 are computed as follows:

##### (i) Basic earnings per share

	2020	2019
Profit for the year (in won)	₩ 1,961,346,700,227	279,147,208,760
Profit attributable to non-controlling interests (in won)	116,290,852,491	3,680,719,884
Profit attributable to ordinary shareholders of the Group (A) (in won)	1,845,055,847,736	275,466,488,876
Profit from continuing operations	2,008,407,469,852	31,706,443,497
Profit (loss) from discontinued operations	(163,351,622,116)	243,760,045,379
Weighted-average number of ordinary shares outstanding (B)	3,938,857,211	3,703,721,138
Basic earnings per share (A/B) (in won)	₩ 468	74
Basic earnings per share - continuing operations (in won)	510	9
Basic earnings per share - discontinued operations (in won)	(41)	66

##### (ii) Weighted-average number of ordinary shares outstanding

	2020		
	Number of ordinary shares	Days	Cumulative shares
Number of ordinary shares outstanding at the beginning of the year (A)	3,732,619,768	366	1,366,138,835,088
Increased paid-in capital (B)	90,100,000	273	24,597,300,000
Increased paid-in capital (C)	330,426,000	154	50,885,604,000
Cumulative shares (D = A+B+C)			1,441,621,739,088
Weighted-average number of ordinary shares outstanding (D/366)			3,938,857,211
	2019		
	Number of ordinary shares	Days	Cumulative shares
Number of ordinary shares outstanding at the beginning of the year (A)	3,621,619,768	365	1,321,891,215,320
Increased paid-in capital (B)	100,000,000	289	28,900,000,000
Increased paid-in capital (C)	11,000,000	97	1,067,000,000
Cumulative shares (D = A+B+C)			1,351,858,215,320
Weighted-average number of ordinary shares outstanding (D/365)			3,703,721,138

#### (2) Diluted earnings per share

Diluted and basic earnings per share for the years ended December 31, 2020 and 2019 are equal because there is no potential dilutive instrument.

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**41. Pledged Assets**

Assets pledged by the Group as collateral as of December 31, 2020 and 2019 are as follows:

	<b>December 31, 2020</b>		<b>December 31, 2019</b>	
	<u>Pledged assets</u>	<u>Related liabilities</u>	<u>Pledged assets</u>	<u>Related liabilities</u>
Cash and due from banks (*1)	₩ 81,883	79,091	351,525	349,036
Securities (*2)	6,228,271	7,621,493	6,465,185	7,871,611
Others (*3)	5,977,580	3,103,578	5,922,311	3,051,271
	₩ <u>12,287,734</u>	<u>10,804,162</u>	<u>12,739,021</u>	<u>11,271,918</u>

(\*1) Pledged as collateral for bidding deposits and others.

(\*2) Pledged as collateral for bonds sold under repurchase agreements, BOK loans and back overdrafts.

(\*3) Property and equipment, etc. are pledged as collateral for borrowings and new business.

**42. Guarantees and Commitments**

Guarantees and commitments as of December 31, 2020 and 2019 are as follows:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Confirmed acceptances and guarantees:		
Acceptances in foreign currency	₩ 414,928	335,261
Guarantees for bond issuance	2,281,329	2,427,525
Guarantees for loans	443,169	355,619
Letter of guarantee	38,540	51,277
Guarantees for on-lending debt	11,127	11,908
Others	3,367,313	3,631,490
	<u>6,556,406</u>	<u>6,813,080</u>
Unconfirmed acceptances and guarantees:		
Letter of credit	1,220,169	1,585,217
Others	1,226,209	963,290
	<u>2,446,378</u>	<u>2,548,507</u>
Commitments:		
Commitments on loans	37,468,997	30,089,200
Commitments on purchase of securities	2,097,659	2,954,171
Others	55,026	127,384
	<u>39,621,682</u>	<u>33,170,755</u>
Bills endorsed:		
With recourse	971	2,207
	₩ <u>48,625,437</u>	<u>42,534,549</u>

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**43. Leases****(1) Finance lease**

Details of finance lease receivables of the Group as lessor as of December 31, 2020 and 2019 are as follows:

	<b>December 31, 2020</b>		
	Finance lease receivables in Korean won	Finance lease receivables in foreign currency	Total
Within 1 year	₩ 394,305	76,153	470,458
Over 1 year through 5 years	1,005,488	97,001	1,102,489
Over 5 years	2,209	-	2,209
Gross investment in the lease	1,402,002	173,154	1,575,156
Unearned finance income	(144,897)	(19,480)	(164,377)
Net investment in the lease (*)	₩ 1,257,105	153,674	1,410,779
Contingent rent recognized in the current profit or loss	₩ (370)	-	(370)
	<b>December 31, 2019</b>		
	Finance lease receivables in Korean won	Finance lease receivables in foreign currency	Total
Within 1 year	₩ 304,882	50,547	355,429
Over 1 year through 5 years	786,792	75,695	862,487
Over 5 years	1,851	-	1,851
Gross investment in the lease	1,093,525	126,242	1,219,767
Unearned finance income	(3,294)	(12,977)	(16,271)
Net investment in the lease (*)	₩ 1,090,231	113,265	1,203,496
Contingent rent recognized in the current profit or loss	₩ (329)	-	(329)

(\*) Finance lease receivables are included in loans measured at amortized cost on the consolidated statements of financial position.

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**43. Leases, Continued****(2) Operating lease**

Future minimum lease receivables under non-cancellable operating leases as of December 31, 2020 and 2019 are as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Within 1 year	₩ 5,731	1,783
Over 1 year through 5 years	₩ 6,975	239
	<u>₩ 12,706</u>	<u>2,022</u>
Contingent rent recognized in the current loss	₩ -	(17)

**(3) Cancellable lease**

Cancellable lease as of December 31, 2020 and 2019 are as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Acquisition cost	₩ 4,854	5,040

**(4) Advanced payment for leased assets**

The amount of capital paid for a new lease that the Group enters into before the commencement of lease term as of December 31, 2020 and 2019 are as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Advanced payment for leased assets	₩ 6,783	6,409
Allowance for credit losses	₩ (24)	(30)
	<u>₩ 6,759</u>	<u>6,379</u>

**(5) Leasehold deposits**

The Group withholds collateral money received from the lessees as of December 31, 2020 and 2019 are as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Leasehold deposits	₩ 340,987	303,701

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**44. Trust Accounts**

(1) Trust accounts as of December 31, 2020 and 2019 are as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Accrued trust fees	₩ 7,530	6,555
Deposits	-	665
Borrowings from trust accounts	874,316	1,434,110
Accrued interest on deposits	878	1,555

(2) Transactions with trust accounts for the years ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Fees on trust accounts	₩ 27,744	25,991
Interest expenses on deposits	3	198
Interest expenses of borrowings from trust accounts	7,688	21,630

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#### 45. **Related Party Transactions**

(1) The Group's related parties as of December 31, 2020 are as follows:

<b><u>Classification</u></b>	<b><u>Corporate name</u></b>
Associates	Korea Electric Power Co., Ltd., Korea Tourism Organization, Korea Appraisal Board, GM Korea Company, HMM Co., Ltd., Hanjin Heavy Industries & Construction Co., Ltd., HANJIN KAL, Korea Ocean Business Corporation and 76 others, Troika Resources Investment PEF and 96 others, KIP Overseas Expansion Platform Fund and 117 others
Others	Key management personnel

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**45. Related Party Transactions, Continued**

(2) Significant outstanding balances with related parties as of December 31, 2020 and 2019 are as follows:

	<u>Account</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Associates:			
Korea Electric Power Co., Ltd.	Securities	₩ 5,779	26,263
	Loans	197,539	138,845
	Allowances for loan losses	(1,778)	(844)
	Derivative financial assets	80,203	10,719
	Other assets	20,631	11,777
	Deposits	135,837	82,202
	Borrowings	53,107	63,680
	Derivative financial liabilities	41,212	96,504
	Other liabilities	10,599	1,773
	Other provisions	10	3
KG Dongbu Steel Co., Ltd.	Loans	614,062	625,249
	Allowances for loan losses	(55,321)	(117,356)
	Other assets	622	369
	Deposits	3,871	-
	Other liabilities	129	415
	Other provisions	15,320	34,592
HMM Co., Ltd.	Securities	3,866,467	694,832
	Loans	1,040,638	513,801
	Allowances for loan losses	(93,017)	(97,777)
	Other assets	7,302	5,308
	Deposits	440,127	371,965
	Other liabilities	2,536	1,965
Hanjin Heavy Industries & Construction Co., Ltd.	Other provisions	8,200	-
	Loans	213,052	217,764
	Other assets	-	522
	Deposits	110,914	88,240
	Other liabilities	1,464	1,802
HANJIN KAL	Other provisions	128,819	119,882
	Securities	20,098	-
	Loans	390,902	-
Korea Ocean Business Corporation	Other assets	616	-
	Loans	15,464	18,031
	Allowances for loan losses	(1)	-
	Other assets	17	45
Others	Other liabilities	4	-
	Securities	-	5,665
	Loans	803,266	1,006,600
	Allowances for loan losses	(355,141)	(734,729)
	Other assets	6,390	161,575
	Deposits	439,113	632,700
Other liabilities	2,169	2,183	
Other provisions	60,070	105,880	

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**45. Related Party Transactions, Continued**

(3) Significant profit or loss from transactions with related parties for the years ended December 31, 2020 and 2019 are as follows:

	<u>Account</u>	<u>2020</u>	<u>2019</u>
Associates:			
Korea Electric Power Co., Ltd.	Interest income	₩ 4,125	4,830
	Reversal of allowance for loan losses	-	1,925
	Fees and commission income, other income	178,140	15,479
	Interest expenses	(2,180)	(2,152)
	Provision for loan losses	(934)	-
	Other operating expenses	(46,166)	(146,873)
KG Dongbu Steel Co., Ltd.	Interest income	12,687	39,387
	Reversal of allowance for loan losses	62,035	337,370
	Fees and commission income, other income	33,704	50,879
	Interest expenses	(41)	(345)
	Other operating expenses	(14,044)	(32,610)
	HMM Co., Ltd.	Interest income	41,080
HMM Co., Ltd.	Reversal of allowance for loan losses	4,761	-
	Fees and commission income, other income	558,057	188,357
	Interest expenses	(2,107)	(4,529)
	Provision for loan losses	-	(62,354)
	Other operating expenses	(11,334)	(1,118)
	Hanjin Heavy Industries & Construction Co., Ltd.	Interest income	5,704
Reversal of allowance for loan losses		-	62,892
Fees and commission income, other income		12,226	121,534
Interest expenses		(346)	(588)
Other operating expenses		(22,460)	(993)
Korea Ocean Business Corporation		Interest income	380
	Fees and commission income, other income	3	45
	Interest expenses	(19)	-
	Provision for loan losses	(1)	-
	Other operating expenses	(969)	(297)
	Others	Interest income	13,853
Dividend income		243,044	217,290
Reversal of allowance for loan losses		380,524	38,194
Fees and commission income, other income		73,290	31,434
Interest expenses		(3,481)	(6,442)
Provision for loan losses		(3,320)	(3,719)
Other operating expenses		(17,095)	(4,934)

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**45. Related Party Transactions, Continued**

(4) Details of guarantees and commitments to the related parties as of December 31, 2020 and 2019 are as follows:

	<u>Account</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Associates:			
KG Dongbu Steel Co., Ltd.	Confirmed acceptances and guarantees	₩ -	37,111
	Unconfirmed acceptances and guarantees	20,265	11,285
	Loan commitments	339,823	117,765
HMM Co., Ltd.	Confirmed acceptances and guarantees	13,056	-
Hanjin Heavy Industries & Construction Co., Ltd.	Confirmed acceptances and guarantees	414,630	358,785
	Unconfirmed acceptances and guarantees	3,337	3,062
	Loan commitments	22,614	-
Others	Confirmed acceptances and guarantees	76,628	113,256
	Unconfirmed acceptances and guarantees	28,431	106,422
	Loan commitments	244,384	347,391
		₩ <u>1,163,168</u>	<u>1,095,077</u>

(5) Details of compensation to key management personnel for the years ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Short-term employee benefits	₩ 4,798	6,088
Post-employment benefits	360	294
	₩ <u>5,158</u>	<u>6,382</u>

(6) The Group is not pledged any assets as collaterals to the related parties and from the related parties as of December 31, 2020 and 2019.

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**46. Disclosure of Interests in Other Entities**

(1) Commitments of financial support for consolidated structured entities

The contractual commitments offered by the Group to the consolidated structured entities as of December 31, 2020 and 2019 are as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
<b>Associates:</b>		
K-Five 7th Securitization Specialty Co., Ltd. (*) ₩	-	50,000
K-Five 8th Securitization Specialty Co., Ltd. (*)	40,000	40,000
U-BEST 5th Securitization Specialty Co., Ltd. (*)	95,000	95,000
Sinoker SF 1st Co., Ltd. (*)	43,200	43,200
KDB Mirae Seongjang ABCP 1st Inc. (*)	-	16,248
Corporate Liquidity Assistance Agency Co.,Ltd. (*)	780,000	-
₩	<u>958,200</u>	<u>244,448</u>

(\*) The Group made a commitment on loans for consolidated structured entities. According to the commitment, the Group guarantees loan to a subsidiary when the subsidiary has insufficient working capital.

(2) Nature and scope of interests in unconsolidated structured entities

Details of unconsolidated structured entities as of December 31, 2020 and 2019 are as follows:

<u>Type</u>	<u>Characteristics and objective</u>	<u>Financing method</u>
Investment funds and investment trusts (*1)	Investment and distribution	Equity investment and fund operations, etc.
Real estate finance (*2)	Real estate development and infrastructure investment, etc.	Equity investment and credit reinforcement, etc.
Asset-backed securitization	Securitization of underlying assets	Issuance of ABL and ABCP, etc.
Shipping and acquisition finance	Providing funds for acquisition of corporate or ships	Equity investment and fund operations, etc.

(\*1) PEF, investment association, beneficiary certificate, etc.

(\*2) SPC, PF, SOC, etc.

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**46. Disclosure of Interests in Other Entities, Continued**

## (3) Nature of related risks

The carrying amount of and maximum exposure to loss from interests in unconsolidated structured entities as of December 31, 2020 and 2019 are as follows:

		<b>December 31, 2020</b>					
		Investment funds and investment trusts	Real estate finance	Asset-backed securitization	Shipping and acquisition finance	Others	Total
<b>Assets:</b>							
Securities	₩	8,311,372	580,486	205,698	16,671	375	9,114,602
Loans		1,506,037	8,212,635	1,383,020	1,597,080	4,448,874	17,147,646
Derivatives		114,898	5,209	319	-	6,098	126,524
Others		25,709	16,481	2,909	3,035	20,170	68,304
		<u>9,958,016</u>	<u>8,814,811</u>	<u>1,591,946</u>	<u>1,616,786</u>	<u>4,475,517</u>	<u>26,457,076</u>
<b>Liabilities:</b>							
Provisions		237	2,929	661	48	6,545	10,420
Financial guarantees		-	-	1,094	-	550	1,644
Derivatives		44,912	-	47,753	-	-	92,665
Others		25,633	5,606	401	147	2,859	34,646
		<u>70,782</u>	<u>8,535</u>	<u>49,909</u>	<u>195</u>	<u>9,954</u>	<u>139,375</u>
Granting of credit and other commitments		<u>1,064,546</u>	<u>3,442,417</u>	<u>975,491</u>	<u>80,432</u>	<u>1,487,437</u>	<u>7,050,323</u>
Maximum exposure to loss (*)	₩	<u>11,022,562</u>	<u>12,257,228</u>	<u>2,567,437</u>	<u>1,697,218</u>	<u>5,962,954</u>	<u>33,507,399</u>
		<b>December 31, 2019</b>					
		Investment funds and investment trusts	Real estate finance	Asset-backed securitization	Shipping and acquisition finance	Others	Total
<b>Assets:</b>							
Securities	₩	6,784,053	262,647	91,474	37,367	375	7,175,916
Loans		996,090	6,852,510	1,036,029	1,847,606	3,461,317	14,193,552
Derivatives		47,411	2,468	409	-	2,653	52,941
Others		7,562	12,284	1,488	6,838	17,456	45,628
		<u>7,835,116</u>	<u>7,129,909</u>	<u>1,129,400</u>	<u>1,891,811</u>	<u>3,481,801</u>	<u>21,468,037</u>
<b>Liabilities:</b>							
Provisions		11	756	154	164	569	1,654
Financial guarantees		-	-	448	-	168	616
Derivatives		47,591	-	-	36	-	47,627
Others		7,314	5,609	504	68	7,234	20,729
		<u>54,916</u>	<u>6,365</u>	<u>1,106</u>	<u>268</u>	<u>7,971</u>	<u>70,626</u>
Granting of credit and other commitments		<u>959,359</u>	<u>2,619,945</u>	<u>953,149</u>	<u>82,650</u>	<u>1,071,336</u>	<u>5,686,439</u>
Maximum exposure to loss (*)	₩	<u>8,794,475</u>	<u>9,749,854</u>	<u>2,082,549</u>	<u>1,974,461</u>	<u>4,553,137</u>	<u>27,154,476</u>

(\*) Maximum exposure to loss is calculated by summarizing related assets (after adjusting impairment loss on securities, allowance for loan losses, etc.), granting of credit and other commitments.

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**46. Disclosure of Interests in Other Entities, Continued****(4) Significant non-controlling interests**

Details of significant non-controlling interests and summary of financial information as of December 31, 2020 and 2019 are as follows:

- Non-controlling interests:

	<b>December 31, 2020</b>			
	Non-controlling interests ownership (%)	Profit on non-controlling interests	Non-controlling interests	Dividend to non-controlling interests
Daewoo Engineering & Construction Co., Ltd.	48.66	₩ 79,891	1,450,298	-
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	44.32	38,370	3,003,427	-
	<b>December 31, 2019</b>			
	Non-controlling interests ownership (%)	Profit (loss) on non-controlling interests	Non-controlling interests	Dividend to non-controlling interests
Daewoo Engineering & Construction Co., Ltd.	48.66	₩ 47,432	1,429,326	-
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	44.28	(20,582)	2,963,450	-

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**46. Disclosure of Interests in Other Entities, Continued**

- Summary of financial information:

		<b>December 31, 2020</b>							
		Assets	Liabilities	Operating revenue	Profit for the year	Total comprehen- sive income	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities
Daewoo Engineering & Construction Co. Ltd.	₩	9,305,916	6,628,920	8,136,706	283,811	215,754	408,383	47,139	(419,033)
Daewoo Shipbuilding & Marine Engineering Co., Ltd.		10,320,775	6,451,804	7,030,175	86,573	114,107	(458,467)	137,834	(308,063)
		<b>December 31, 2019</b>							
		Assets	Liabilities	Operating revenue	Profit (loss) for the year	Total comprehen- sive income	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities
Daewoo Engineering & Construction Co. Ltd.	₩	9,697,697	7,209,448	8,651,852	208,615	176,773	(309,746)	254,195	107,630
Daewoo Shipbuilding & Marine Engineering Co., Ltd.		11,276,079	7,521,182	8,358,745	(46,485)	(85,325)	2,542,127	(484,549)	(395,101)

December 31, 2020 and 2019

(In millions of won)

**47. Statements of Cash Flows**

(1) Cash and cash equivalents in the consolidated statements of cash flows as of December 31, 2020 and 2019 are as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Continuing operations:		
Cash and due from banks:		
Cash and foreign currencies	₩ 481,957	306,152
Due from banks in Korean won	5,600,080	3,162,598
Due from banks in foreign currencies / off-shores	5,712,200	4,292,494
	<u>11,794,237</u>	<u>7,761,244</u>
Less: Restricted due from banks, others	(4,449,593)	(3,004,978)
Add: Financial instruments reaching maturity within three months from date of acquisition		
Call loans	465,485	1,423,090
Inter-bank loans	359,125	604,110
	<u>824,610</u>	<u>2,027,200</u>
Cash and cash equivalents	₩ <u>8,169,254</u>	<u>6,783,466</u>

(2) Significant transactions not involving cash flows for the years ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Decrease in loans due to write-offs	₩ 158,617	185,496
Increase in securities measured at FVOCI due to debt-to-equity swap and others	13,714	42,398
Increase in investments in subsidiaries and associates due to debt-to-equity swap, etc.	-	134,264
Increase (decrease) in accumulated other comprehensive income due to securities valuation	2,978,623	(1,034)
Reclassification of investments in associates to securities measured at FVTPL	-	4,100
Transfer from investment property to property and equipment	16,037	83,889
Reclassification to assets held for sale	182,728	4,392,071
Initial adoption of K-IFRS 1116	-	366,327
Reclassification of leasehold improvements and advance rent fee to right-of-use assets	-	10,631
Recognition of right-of-use assets and lease liabilities	36,209	263,814

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**48. Transfers of Financial Instruments**

Details of financial assets and liabilities related to repurchase agreements and loaned securities sold and loaned debt securities that do not qualify for derecognition as of December 31, 2020 and 2019 are as follows:

Characteristics of transactions	December 31, 2020		December 31, 2019	
	Carrying amounts for transferred assets	Carrying amounts for related liabilities	Carrying amounts for transferred assets	Carrying amounts for related liabilities
Repurchase agreements	₩ 2,762,065	1,865,504	3,273,273	2,070,284
Loaned securities	289,806	-	40,059	-
	₩ 3,051,871	1,865,504	3,313,332	2,070,284

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**49. Fair Value of Financial Assets and Liabilities**

The Group classifies and discloses fair value of the financial instruments into the following three-level hierarchy:

- Level 1: Financial instruments measured at quoted prices from active markets are classified as level 1.
- Level 2: Financial instruments measured using valuation techniques where all significant inputs are observable market data are classified as level 2.
- Level 3: Financial instruments measured using valuation techniques where one or more significant inputs are not based on observable market data are classified as level 3.

(1) Fair value hierarchy of financial instruments measured at fair value

(i) The fair value hierarchy of financial instruments measured at fair value as of December 31, 2020 and 2019 are as follows:

		<b>December 31, 2020</b>			
		Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>					
Securities measured at FVTPL	₩	1,089,969	504,027	8,668,833	10,262,829
Securities measured at FVOCI		3,074,629	17,099,653	14,746,377	34,920,659
Loans measured at FVTPL		-	-	1,434,514	1,434,514
Derivative financial assets		-	8,309,739	12,511	8,322,250
	₩	<u>4,164,598</u>	<u>25,913,419</u>	<u>24,862,235</u>	<u>54,940,252</u>
<b>Financial liabilities:</b>					
Financial liabilities designated at FVTPL	₩	-	1,694,957	-	1,694,957
Derivative financial liabilities		-	6,152,607	13,404	6,166,011
	₩	<u>-</u>	<u>7,847,564</u>	<u>13,404</u>	<u>7,860,968</u>
		<b>December 31, 2019</b>			
		Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>					
Securities measured at FVTPL	₩	1,550,532	3,905,713	7,835,600	13,291,845
Securities measured at FVOCI		4,507,079	16,492,769	10,992,817	31,992,665
Loans measured at FVTPL		-	-	605,077	605,077
Derivative financial assets		47	5,386,667	19,290	5,406,004
	₩	<u>6,057,658</u>	<u>25,785,149</u>	<u>19,452,784</u>	<u>51,295,591</u>
<b>Financial liabilities:</b>					
Financial liabilities designated at FVTPL	₩	-	2,465,541	-	2,465,541
Derivative financial liabilities		342	4,179,682	4,580	4,184,604
	₩	<u>342</u>	<u>6,645,223</u>	<u>4,580</u>	<u>6,650,145</u>

# Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

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### 49. Fair Value of Financial Assets and Liabilities, Continued

(ii) Changes in the fair value of level 3 financial instruments for the years ended December 31, 2020 and 2019 are as follows:

	2020							December 31, 2020
	January 1, 2020	Profit or loss	Other comprehensive loss	Acquisition / Issue	Sale/ Settlement	Reclassification	Others	
Financial assets:								
Securities measured at FVTPL	₩ 7,835,600	(5,070)	-	2,357,583	(811,964)	(683,789)	(23,527)	8,668,833
Securities measured at FVOCI	10,992,817	-	2,945,212	990,312	(168,777)	(5,792)	(7,395)	14,746,377
Loans measured at FVTPL	605,077	649,450	-	349,940	(169,256)	(697)	-	1,434,514
Derivatives financial assets	19,290	(3,849)	-	-	1,377	(3,087)	(1,220)	12,511
	₩ 19,452,784	640,531	2,945,212	3,697,835	(1,148,620)	(693,365)	(32,142)	24,862,235
Financial liabilities:								
Derivatives financial liabilities	₩ 4,580	9,563	-	-	-	-	(739)	13,404
	2019							December 31, 2019
	January 1, 2019	Profit or loss	Other comprehensive loss	Acquisition / Issue	Sale/ Settlement	Others		
Financial assets:								
Securities measured at FVTPL	₩ 7,795,104	54,641	-	1,332,635	(1,312,054)	(34,726)		7,835,600
Securities measured at FVOCI	10,331,304	-	(296,245)	1,030,685	(283,798)	210,871		10,992,817
Loans measured at FVTPL	779,520	42,921	-	33,500	(250,864)	-		605,077
Derivatives financial assets	142,490	3,716	-	-	(128,062)	1,146		19,290
	₩ 19,048,418	101,278	(296,245)	2,396,820	(1,974,778)	177,291		19,452,784
Financial liabilities:								
Derivatives financial liabilities	₩ 3,242	1,319	-	-	-	19		4,580

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**49. Fair Value of Financial Assets and Liabilities, Continued**

(iii) Changes in deferred day one profit or loss for the years ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Beginning balance	₩ 4,763	5,149
Amortization	(388)	(386)
Ending balance	<u>₩ 4,375</u>	<u>4,763</u>

(iv) Details of valuation technique and inputs used in the fair value measurement categorized within level 2 of the fair value hierarchy of financial instruments measured at fair value as of December 31, 2020 and 2019 are as follows:

	<u>Valuation technique</u>	<u>Input</u>
Securities measured at FVTPL:		
Equity securities	Net asset value approach	Underlying asset price
Debt securities	Discounted cash flow method	Discount rate
Securities measured at FVOCI:		
Equity securities	Net asset value approach	Underlying asset price
Debt securities	Discounted cash flow method	Discount rate
Derivatives financial assets:		
Interest rate swaps	Discounted cash flow method,	Discount rate, Exchange rate,
Currency forwards and swaps	Black-Scholes model, Modified	Volatility, Commodity index,
Currency options	Black model, Formula model	etc.
Commodities options		
Financial liabilities measured at FVTPL:		
Debentures	Discounted cash flow method	Discount rate

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**49. Fair Value of Financial Assets and Liabilities, Continued**

(v) Details of valuation technique and quantitative information about unobservable inputs used in the fair value measurement categorized within level 3 of the fair value hierarchy of financial instruments measured at fair value as of December 31, 2020 and 2019 are as follows:

	<b>December 31, 2020</b>		
	Valuation technique	Unobservable input	Range (%)
Securities measured at FVTPL:			
Equity securities	Discounted cash flow method, Relative value approach, Net asset value approach	Discount rate Rate of increase in liquidation value Rate of increase in property disposal price Volatility	0.72 ~ 19.05 - - 17.53 ~ 33.00
Securities measured at FVTPL:			
Equity securities	Discounted cash flow method, Relative value approach, Net asset value approach	Discount rate Growth rate Rate of increase in liquidation value Rate of increase in property disposal price Volatility	0.20 ~ 19.05 - - - 18.49 ~ 26.45
Loans measured at FVTPL			
Convertible bonds, etc.	Binomial model	Volatility	17.53 ~ 32.59
Derivatives financial assets:			
Interest rate swaps	Discounted cash flow method	Volatility Correlation coefficient	36.02 ~ 44.87 0.83 ~ 0.91
Interest rate options	Modified Black model	Volatility	36.02 ~ 44.87
Stock index options	Black-Scholes model	Volatility	17.20 ~ 27.30
Equity options	Discounted cash flow method and others	Volatility	18.49 ~ 33.00

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**49. Fair Value of Financial Assets and Liabilities, Continued**

	Valuation technique	December 31, 2019	
		Unobservable input	Range (%)
Securities measured at FVTPL:			
Equity securities	Discounted cash flow method, Relative value approach, Net asset value approach	Discount rate Rate of increase in liquidation value Rate of increase in property disposal price Volatility	3.91 ~ 9.69 - - 16.02 ~ 34.72
Securities measured at FVTPL:			
Equity securities	Discounted cash flow method, Relative value approach, Net asset value approach	Discount rate Growth rate Rate of increase in liquidation value Rate of increase in property disposal price Volatility	3.04 ~ 16.59 - - - 14.51 ~ 26.98
Loans measured at FVTPL			
Convertible bonds, etc.	Binomial model	Volatility	12.70 ~ 36.32
Derivatives financial assets:			
Interest rate swaps	Discounted cash flow method	Volatility Correlation coefficient	20.41 ~ 34.21 0.89 ~ 0.97
Interest rate options	Modified Black model	Volatility	20.41 ~ 34.21
Stock index options	Black-Scholes model	Volatility	12.77 ~ 21.80
Equity options	Discounted cash flow method and others	Volatility	14.51 ~ 21.85

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### 49. Fair Value of Financial Assets and Liabilities, Continued

#### (2) Fair value hierarchy of financial instruments disclosed by fair value

(i) The Group's policies for measuring fair value of financial instruments at amortized costs are as follows:

- Cash and due from banks: Fair value of cash is considered equivalent to the carrying amount. In the case of due from banks on demand, which do not have a set maturity and can be realized instantly, the carrying amount is a close estimate of the fair value and is assumed so. In the case of other ordinary due from banks, the cash flow discount method is used to estimate the fair value.
- Securities measured at amortized cost: The fair value of securities measured at amortized cost is computed by widely-accepted appraisal agencies upon request.
- Loans measured at amortized cost: The fair value of loans measured at amortized cost is the expected future cash flows, reflecting premature redemption ratio, discounted by the market interest rate, adjusted by a spread sheet considering the probability of default. Exceptions to this method include loans with credit line facilities, loans with a maturity of three months or less left and impaired loans, which the Group assumes the carrying amount as the fair value.
- Deposits: The fair value of deposits is computed using the discounted cash flow method. However, for deposits, whose cash flows cannot be estimated reasonably, the Bank assumes the carrying amount as the fair value.
- Borrowings: The fair value of industrial financial debentures is computed using the discounted cash flow method by the Group's Fair Value Evaluation System. However, for borrowings including call money whose contractual maturity is three months or less, the Group assumes the carrying amount as the fair value.
- Debentures: The fair value of industrial financial debentures is computed using the discounted cash flow method by the Group's Fair Value Evaluation System.
- Other financial assets and liabilities: The fair value of other financial assets and liabilities is computed using the discounted cash flow method. However, in cases cash flow cannot be estimated reasonably, the Group assumes the carrying amount as the fair value.

(ii) The fair value hierarchy of financial instruments disclosed by fair value as of December 31, 2020 and 2019 are as follows:

		<b>December 31, 2020</b>			
		Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>					
Cash and due from banks (*)	₩	-	11,794,237	-	11,794,237
Securities measured at amortized cost		665,183	1,455,295	-	2,120,478
Loans measured at amortized cost (*)		-	465,485	162,765,071	163,230,556
Other financial assets (*)		-	3,829,734	4,537,032	8,366,766
	₩	<u>665,183</u>	<u>17,544,751</u>	<u>167,302,103</u>	<u>185,512,037</u>
<b>Financial liabilities:</b>					
Deposits (*)	₩	-	3,173,702	43,799,938	46,973,640
Borrowings (*)		-	2,328,487	22,218,222	24,546,709
Debentures		-	145,070,521	-	145,070,521
Other financial liabilities (*)		-	3,104,889	6,730,862	9,835,751
	₩	<u>-</u>	<u>153,677,599</u>	<u>72,749,022</u>	<u>226,426,621</u>

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**49. Fair Value of Financial Assets and Liabilities, Continued**

		December 31, 2019			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Cash and due from banks (*)	₩	4,756,267	3,004,977	-	7,761,244
Securities measured at amortized cost		1,578,384	4,119,725	-	5,698,109
Loans measured at amortized cost (*)		-	1,423,090	152,612,495	154,035,585
Other financial assets (*)		-	4,043,080	5,513,371	9,556,451
	₩	<u>6,334,651</u>	<u>12,590,872</u>	<u>158,125,866</u>	<u>177,051,389</u>
Financial liabilities:					
Deposits (*)	₩	-	3,032,841	33,288,029	36,320,870
Borrowings (*)		-	2,099,688	22,496,142	24,595,830
Debentures		-	127,049,336	-	127,049,336
Other financial liabilities (*)		-	2,783,979	7,924,048	10,708,027
	₩	<u>-</u>	<u>134,965,844</u>	<u>63,708,219</u>	<u>198,674,063</u>

(\*) For financial instruments categorized as level 2, the carrying amount is considered as a reasonable approximation of the fair value and is thus, disclosed by fair value.

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**49. Fair Value of Financial Assets and Liabilities, Continued**

(iii) Details of valuation technique and inputs used in the fair value measurement categorized within level 2 and level 3 of the fair value hierarchy of financial instruments measured at amortized cost as of December 31, 2020 and 2019 are as follows:

	<u>Valuation technique</u>	<u>Input</u>
Level 2		
Financial assets:		
Securities measured at amortized cost	Discounted cash flow method	Discount rate
Financial liabilities:		
Debentures	Discounted cash flow method	Discount rate
Level 3		
Financial assets:		
Loans measured at amortized cost	Discounted cash flow method	Credit spread, Other spread, Prepayment rate
Other financial assets	Discounted cash flow method	Other spread
Financial liabilities:		
Deposits	Discounted cash flow method	Other spread, Prepayment rate
Borrowings	Discounted cash flow method	Other spread
Other financial liabilities	Discounted cash flow method	Other spread

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(In millions of won)

**50. Categories of Financial Assets and Liabilities**

Categories of financial assets and liabilities as of December 31, 2020 and 2019 are as follows:

	December 31, 2020							Total
	Cash and cash equivalents	Financial instruments measured at FVTPL	Financial instruments designated at FVTPL	Financial instruments measured at FVOCI	Financial instruments designated at FVOCI	Financial instruments measured at amortized cost	Hedging purpose derivative instruments	
<b>Financial assets:</b>								
Cash and due from banks	₩ 7,344,644	-	-	-	-	4,449,593	-	11,794,237
Securities measured at FVTPL	-	10,262,829	-	-	-	-	-	10,262,829
Securities measured at FVOCI	-	-	-	20,244,120	14,676,539	-	-	34,920,659
Securities measured at amortized cost	-	-	-	-	-	2,120,469	-	2,120,469
Loans measured at FVTPL	-	1,434,514	-	-	-	-	-	1,434,514
Loans measured at amortized cost	824,610	-	-	-	-	162,326,679	-	163,151,289
Derivative financial assets	-	6,898,939	-	-	-	-	1,423,311	8,322,250
Other financial assets	-	-	-	-	-	8,439,476	-	8,439,476
	₩ 8,169,254	18,596,282	-	20,244,120	14,676,539	177,336,217	1,423,311	240,445,723
<b>Financial liabilities:</b>								
<b>Financial liabilities measured at FVTPL</b>								
Deposits	₩ -	-	1,694,957	-	-	-	-	1,694,957
Borrowings	-	-	-	-	-	46,961,355	-	46,961,355
Debentures	-	-	-	-	-	24,542,788	-	24,542,788
Derivative financial liabilities	-	6,079,380	-	-	-	-	86,631	6,166,011
Other financial liabilities	-	-	-	-	-	9,747,271	-	9,747,271
	₩ -	6,079,380	1,694,957	-	-	224,580,712	86,631	232,441,680

# Korea Development Bank and Subsidiaries

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**50. Categories of Financial Assets and Liabilities, Continued**

	December 31, 2019							Total
	Cash and cash equivalents	Financial instruments measured at FVTPL	Financial instruments designated at FVTPL	Financial instruments measured at FVOCI	Financial instruments designated at FVOCI	Financial instruments measured at amortized cost	Hedging purpose derivative instruments	
<b>Financial assets:</b>								
Cash and due from banks	₩ 4,756,267	-	-	-	-	3,004,977	-	7,761,244
Securities measured at FVTPL	-	13,291,845	-	-	-	-	-	13,291,845
Securities measured at FVOCI	-	-	-	20,734,082	11,258,583	-	-	31,992,665
Securities measured at amortized cost	-	-	-	-	-	5,551,600	-	5,551,600
Loans measured at FVTPL	-	605,077	-	-	-	-	-	605,077
Loans measured at amortized cost	2,027,200	-	-	-	-	147,294,651	-	149,321,851
Derivative financial assets	-	4,470,174	-	-	-	-	935,830	5,406,004
Other financial assets	-	-	-	-	-	9,639,501	-	9,639,501
	₩ 6,783,467	18,367,096	-	20,734,082	11,258,583	165,490,729	935,830	223,569,787
<b>Financial liabilities:</b>								
<b>Financial liabilities measured at FVTPL</b>								
Deposits	₩ -	-	2,465,541	-	-	-	-	2,465,541
Borrowings	-	-	-	-	-	36,315,343	-	36,315,343
Debentures	-	-	-	-	-	24,968,407	-	24,968,407
Derivative financial liabilities	-	3,981,973	-	-	-	-	202,631	4,184,604
Other financial liabilities	-	-	-	-	-	10,612,043	-	10,612,043
	₩ -	3,981,973	2,465,541	-	-	197,102,602	202,631	203,752,747

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(In millions of won)

**51. Offsetting of Financial Assets and Liabilities**

Details of financial instruments subject to offsetting, enforceable master netting agreements or similar agreements as of December 31, 2020 and 2019 are as follows:

<b>December 31, 2020</b>							
		Gross amounts of recognized financial asset	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amounts
					Financial instruments	Cash collateral received	
Derivative financial assets (*)	₩	8,322,250	-	8,322,250	5,404,572	526,333	2,391,345
Unsettled spot exchange receivables (*)		2,517,131	-	2,517,131	2,516,540	-	591
Unsettled domestic exchange receivables		2,729,982	1,417,378	1,312,604	-	-	1,312,604
Security pledged as collateral for repurchase agreements		2,762,065	-	2,762,065	1,865,504	-	896,561
Reverse repurchase agreements		1,463,755	-	1,463,755	1,463,755	-	-
Loaned securities		289,806	-	289,806	289,806	-	-
Receivables from securities transaction		18,519	-	18,519	18,519	-	-
	₩	<u>18,103,508</u>	<u>1,417,378</u>	<u>16,686,130</u>	<u>11,558,696</u>	<u>526,333</u>	<u>4,601,101</u>
<b>December 31, 2020</b>							
		Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amounts
					Financial instruments	Cash collateral pledged	
Derivative financial liabilities (*)	₩	6,166,011	-	6,166,011	4,252,041	40,158	1,873,812
Unsettled spot exchange payables (*)		2,517,695	-	2,517,695	2,516,540	-	1,155
Unsettled domestic exchange payables		2,004,572	1,417,378	587,194	-	-	587,194
Repurchase agreements		1,865,504	-	1,865,504	1,865,504	-	-
Payables from securities transaction		14,766	-	14,766	14,766	-	-
	₩	<u>12,568,548</u>	<u>1,417,378</u>	<u>11,151,170</u>	<u>8,648,851</u>	<u>40,158</u>	<u>2,462,161</u>

# Korea Development Bank and Subsidiaries

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(In millions of won)

**51. Offsetting of Financial Assets and Liabilities, Continued**

December 31, 2019						
	Gross amounts of recognized financial asset	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amounts
				Financial instruments	Cash collateral received	
Derivative financial assets (*) ₩	5,406,004	-	5,406,004	3,590,373	232,372	1,583,259
Unsettled spot exchange receivables (*)	2,420,953	-	2,420,953	2,417,633	-	3,320
Unsettled domestic exchange receivables	2,970,326	1,348,198	1,622,128	-	-	1,622,128
Security pledged as collateral for repurchase agreements	3,273,273	-	3,273,273	2,070,284	-	1,202,989
Reverse repurchase agreements	969,769	-	969,769	969,769	-	-
Loaned securities	40,059	-	40,059	40,059	-	-
Receivables from securities transaction	19,520	-	19,520	19,520	-	-
Reinsurance receivables	30,861	-	30,861	30,406	-	455
₩	<u>15,130,765</u>	<u>1,348,198</u>	<u>13,782,567</u>	<u>9,138,044</u>	<u>232,372</u>	<u>4,412,151</u>

December 31, 2019						
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amounts
				Financial instruments	Cash collateral pledged	
Derivative financial liabilities (*) ₩	4,184,604	-	4,184,604	3,168,904	48,392	967,308
Unsettled spot exchange payables (*)	2,420,433	-	2,420,433	2,417,633	-	2,800
Unsettled domestic exchange payables	1,711,744	1,348,198	363,546	-	-	363,546
Repurchase agreements	2,070,284	-	2,070,284	2,070,284	-	-
Payables from securities transaction	31,023	-	31,023	31,023	-	-
Reinsurance payables	31,408	-	31,408	30,406	-	1,002
₩	<u>10,449,496</u>	<u>1,348,198</u>	<u>9,101,298</u>	<u>7,718,250</u>	<u>48,392</u>	<u>1,334,656</u>

(\*) For the derivatives covered by the ISDA derivative contracts, all contracts are settled and the net amount of derivative contracts is measured and paid based on the liquidation value if the counterparty files for bankruptcy or has any credit issues.

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**52. Operating Segments**

(1) The Group has seven reportable segments, as described below, which are the Group's strategic business units. They are managed separately because each business requires different technology and marketing strategies. The following summary describes general information about each of the Group's reportable segments:

<u>Segments</u>	<u>General information</u>
Bank industry	Provides trading services and loans to corporate customers
Corporate finance	Provides consulting services to corporate such as capital finance, restructuring, etc.
Investment finance	Provides asset management services to individual and corporate customers
Asset management	Any other segment not mentioned above
Others	Subsidiaries that conduct insurance business (KDB Life Insurance Co., Ltd.)
Insurance	Subsidiaries located in foreign countries
Overseas	Subsidiaries except for overseas subsidiaries and subsidiaries conducting insurance business
Other subsidiaries	

(2) Operating income (loss) from external customers and among operating segments for the years ended December 31, 2020 and 2019 are as follows:

	<b>2020</b>							
	<u>Bank industry</u>				Overseas	Other subsidiaries	Adjustment	Total(*)
	Corporate finance	Investment finance	Asset management	Others				
Operating income (loss) from external customers	₩ (324,639)	1,005,901	20,683	(298,796)	(9,707)	709,102	-	1,102,544
Operating income (loss) from intersegment transactions	129,750	(80,335)	-	441,948	27,264	52,767	(571,394)	-
	₩ (194,889)	925,566	20,683	143,152	17,557	761,869	(571,394)	1,102,544

(\*) Profit from discontinued operations is not included.

	<b>2019</b>							
	<u>Bank industry</u>				Overseas	Other subsidiaries	Adjustment	Total(*)
	Corporate finance	Investment finance	Asset management	Others				
Operating income (loss) from external customers	₩ 866,698	373,982	28,028	(552,917)	53,710	412,596	-	1,182,097
Operating income (loss) from intersegment transactions	166,211	(283,956)	-	570,590	7,637	67,713	(528,195)	-
	₩ 1,032,909	90,026	28,028	17,673	61,347	480,309	(528,195)	1,182,097

(\*) Profit from discontinued operations is not included.

# Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

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**52. Operating Segments, Continued**

(3) Details of segment results for the Group's reportable segments for the years ended December 31, 2020 and 2019 are as follows:

	2020							
	Bank industry				Overseas	Other subsidiaries	Adjustment	Total(*3)
	Corporate finance	Investment finance	Asset management	Others				
Net interest income (expense)	₩ 1,215,271	45,289	(825)	19,838	71,124	243,992	(28,124)	1,566,565
Non-interest income (expense)								
Income (expense) related to securities (*1)	(9,932)	116,096	-	28,699	8,401	66,117	(33,694)	175,687
Other non-interest income (expense)	352,061	439,910	34,534	112,290	4,679	1,063,339	(402,711)	1,604,102
	342,129	556,006	34,534	140,989	13,080	1,129,456	(436,405)	1,779,789
Provision for loan losses and others (*2)	(1,095,754)	431,878	-	(5,506)	(20,902)	5,850	(105,288)	(789,722)
General and administrative expenses	(656,535)	(107,607)	(13,026)	(12,169)	(45,745)	(617,429)	(1,577)	(1,454,088)
Operating income (loss)	₩ (194,889)	925,566	20,683	143,152	17,557	761,869	(571,394)	1,102,544
	2019							
	Bank industry				Overseas	Other subsidiaries	Adjustment	Total(*3)
	Corporate finance	Investment finance	Asset management	Others				
Net interest income (expense)	₩ 1,496,342	(518,643)	6,407	78,217	81,065	270,002	(34,609)	1,378,781
Non-interest income (expense)								
Income (expense) related to securities (*1)	10,629	244,021	-	7,195	8,318	173,859	30,903	474,925
Other non-interest income (expense)	329,547	451,904	33,832	(55,758)	3,978	817,396	(915,712)	665,187
	340,176	695,925	33,832	(48,563)	12,296	991,255	(884,809)	1,140,112
Provision for loan losses and others (*2)	(188,465)	20,239	-	101	11,431	58,824	287,626	189,756
General and administrative expenses	(615,144)	(107,495)	(12,211)	(12,082)	(43,445)	(734,955)	(1,220)	(1,526,552)
Operating income (loss)	₩ 1,032,909	90,026	28,028	17,673	61,347	585,126	(633,012)	1,182,097

(\*1) Income related to securities is composed of net gain (loss) on securities measured at FVTPL, securities measured at FVOCI and securities measured at amortized cost.

(\*2) Provision for loan losses and others comprises provision for loan losses, provision for derivative credit risks, gains (losses) on sales of loans, and increase (reversal) of provision.

(\*3) Profit from discontinued operations is not included.

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**52. Operating Segments, Continued**

- (4) Geographical revenue information for the years ended December 31, 2020 and 2019 and the geographical non-current asset information as of December 31, 2020 and 2019 are as follows:

	Revenues (*1)		Non-current assets (*2)	
	2020	2019	December 31, 2020	December 31, 2019
Domestic	₩ 40,671,132	37,205,827	32,310,211	31,229,110
Overseas	1,041,060	1,236,015	54,273	58,358
	₩ 41,712,192	38,441,842	32,364,484	31,287,468

(\*1) Revenues consist of interest income, fees and commission income, dividend income, income related to securities, foreign currency transaction gain, gain on derivative, other operating income and provision for loan losses.

(\*2) Non-current assets consist of investments in associates, property and equipment, investment properties and intangible assets.

# Korea Development Bank and Subsidiaries

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### 53. Risk Management

#### (1) Introduction

##### (i) Objectives and principles

The Group's risk management aims to maintain financial soundness and effectively manage various risks pertinent to the nature of the Group's business. The Group has set up and fulfilled policies to manage risks timely and effectively. Pursuant to the policies, the Group's risks shall be

- managed comprehensively and independently,
- recognized timely, evaluated exactly and managed effectively,
- maintained to the extent that the risks balance with profit,
- diversified appropriately to avoid concentration on specific segments,
- managed to prevent excessive exposure by the setting up and managing of tolerance limits and guidelines.

##### (ii) Risk management strategy and process

The Group's risk management business is separated into two different stages; the 'metrification stage,' in which risks are estimated and monitored, and the 'integration stage,' in which information gained during the risk management process is integrated and used in management strategies. Risk management is recognized as a key component of the Group's management, and seeks to change from its previously adaptive and limited role to more leading and comprehensive role.

Furthermore, the Group focuses on consistent communication among different departments in order to establish a progressive consensus on risk management.

##### (iii) Risk management governance

###### *Risk Management Committee*

The Group's Risk Management Committee (the "Committee") is composed of the President of the committee (an outside director), and three other commissioners including the CEO of the Bank. The Committee functions to establish policies of risk management, evaluate the capital adequacy of the Group, discuss material issues relating to risk management, and present preliminary decisions on such matters.

###### *The CEO of the Bank and the head of Risk Management Segment*

The CEO of the Bank, according to the policies of risk management, performs his or her role to manage and direct risk management in order to sustain efficiency and internal control. The head of the Risk Management Segment is responsible for supervising the overall administration of the Group's risk management business and providing risk-related information to members of the board of directors and the Group's management.

###### *Risk Management Policy Committee and Risk Management Practice Committee*

The Group's Risk Management Policy Committee is composed of the leaders of all business segments, and exercises its role to decide important matters relating to the Group's portfolio including allocating internal capital limits by segment and setting exposure limits by industry within the scope that Risk Management Committee regulated.

The Group's Risk Management Practice Committee is composed of the planning department's leaders of main business segments. The Risk Management Practice Committee decides the guidelines of review and approval on retail loan and exercises its role to preliminarily review matters for main decision of the Risk Management Committee.

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### 53. **Risk Management, Continued**

#### ***(iv) Performance of risk management committee***

The Risk Management Committee performs comprehensive reviews of all the affairs related to risk management and deliberates the decisions of the board of directors. For the year ended December 31, 2019, the key activities of the Risk Management Committee are as follows:

- Major decision
  - Risk management plan for 2020
  - Setting and managing exposure limits by country for 2020
  - Contingency funding plan for 2020
- Major reporting
  - Improvement of credit portfolio management in 2020
  - Result of operation of corporate credit rating system in 2020
  - Verification of risk-weighted assets for BIS ratio as of December 31, 2019
  - Result of integrated crisis analysis for the second half of 2019
  - Result of assessment of suitability for internal capital for 2019
  - Result of integrated crisis analysis against COVID-19
  - Setting major limit of credit portfolios
  - Allocation of internal capital limits
  - Result of BCP training against COVID-19
  - Resolution of Credit Committee

#### ***(v) Improvement of risk management system***

For the continuous improvement of risk management, financial soundness and capital adequacy, the Group performs the following:

- Continuous improvement of Basel
  - Improvements in the internal capital adequacy assessment system, in line with the guidelines set by the Financial Supervisory Service (FSS) in 2008, to manage capital adequacy more effectively
  - Improvements in the credit assessment system on Low Default Portfolio (LDP)
  - Elaboration of risk measuring criteria including credit risk parameters and measurement logics
  - Establishment of system for timely calculation of LCR and NSFR
  - Redevelopment and application of Corporate Credit Rating System (approved by Financial Supervisory Service on October 26, 2017)
  - Establishment of the application system for Interest Rate Risk in The Banking Book by the Basel Committee in September 2018
- Expansion of risk management infrastructure to the global IB level
  - Establishment of the RAPM system in order to reflect risks to the Bank's business and support decision-making upon management, and application of performance assessment at the branch level since 2010
  - Enforcement of risk management related to irregular compound derivatives and validation of the derivative pricing model developed by the Bank's Front Office
  - Establishment of IFRS 9 accounting system to calculate a loan loss allowances under IFRS 9 in March 2017 and, since then, parallel run of IFRS 9 accounting system with the current IAS 39 accounting system for mandatory implementation of IFRS 9 in January 2018

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**53. Risk Management, Continued****(vi) Risk management reporting and measuring system**

The Group endeavours consistently to objectively and rationally measure and manage all significant risks considering the characteristics of operational areas, assets and risks. In relation to reporting and measurement, the Group has developed application systems as follows:

Application system	Approach	Completion date	Major function
Corporate Credit Rating System	Logit Model	Oct. 2017	Rebuilding the Corporate Credit Rating System
Market Risk Management System	Risk Watch	Jun. 2002	Summarize position, manage exposure limits and calculate Market VaR
	RS Model	Feb. 2019 Sep. 2012	Calculate regulatory capital by Standardized Approach
	Murex M/O	Apr. 2013	Supplement of RiskWatch to calculate VaR
Interest/Liquidity Risk Management System	In-house	May. 2019	Calculation of interest risk, liquidity risk, etc.
Operational Risk Management System	Standardized Approach AMA	May. 2006	Manage process and calculate CSA, KRI and OP VaR, etc.
		May. 2009	Measure by Advanced Measurement Approach
BIS Capital Ratio Calculation System	Fermat	Sep. 2006	Calculate equity and credit risk-weighted assets
	RaY	Dec. 2013	
Loan Loss Allowance Calculation System	IFRS	Jan. 2011	Incurred loss model
	IFRS 9	Mar. 2017	Expected loss model

**(vii) Response to Basel**

The Korean financial authorities have implemented Basel II since January 2008, and adopted the Standardized Approach and the Foundation Internal Ratings-Based Approach.

In conformity with the implementation roadmap of Basel II, the Group obtained the approval to use the Foundation Internal Ratings-Based Approach on credit risk from the FSS in July 2008 and has applied the approach since late June 2008. The Group applies the Standardized Approach on market risks and operational risks.

The Group completed the Basel III standard risk management system in preparation of the adoption of the Basel III regulations announced on December 1, 2013. Starting from 2013 year-end, the BIS capital adequacy ratio has been measured in accordance to the Basel III regulations.

Responding to the requirement of the financial authorities, the Group recognizes interest rate risk, liquidity risk, credit bias risk and reputational risk as well as Pillar I risks (credit risk, market risk and operational risk). Since 2015, the Group has responded to Pillar II regulations including additional capital requirements based on comprehensive assessment on bank risk management level. In addition, from the end of 2015, the Group has applied the uniform standards for the public announcement of financial business for Basel compliance.

The Group completed revised standards such as capital requirements for banks' investments in funds in 2017, capital requirements for securitization in 2018, and the Standardised Approach for measuring counterparty credit risk (SA-CCR) in 2019.

To comply with the amended regulation relating to risk-weighted assets under Basel III, the Group is receiving the consultation and establishing the relevant systems.

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### **53. Risk Management, Continued**

#### ***(viii) Internal capital adequacy assessment process***

Internal capital adequacy assessment process is defined as the process that the Group aggregates significant risks, calculates its internal capital, compares the internal capital with the available capital and assesses its internal capital adequacy. The internal capital adequacy report including the assessment results at the end of the year is prepared and reported to the Risk Management Policy Committee.

#### **- Internal capital adequacy assessment**

For the internal capital adequacy assessment, the Group calculates its aggregated internal capital by evaluating all significant risks and available capital considering the quality and components of capital, and then assesses the internal capital adequacy by comparing the aggregated internal capital with the available capital.

In addition, the Group conducts periodic stress tests more than once every six months to assess potential weakness in crisis situations and uses its results to assess the internal capital adequacy. The Group assumes the macroeconomic situation as three stages of 'normal-pessimistic-serious' and is preparing countermeasures such as checking the adequacy of capital by each stage.

#### **- Goal setting of internal capital management**

The Group sets up and manages an internal capital limit on an annual basis, through the approval of the Risk Management Committee, to maintain internal capital adequacy by managing internal capital (integrated risks) within the extent of available capital.

The prior year's internal capital, analysis of domestic and foreign environment changes in the current year, and the direction and size of operations are all reflected in the goal setting of internal capital management to calculate the integrated internal capital scale. Moreover, Bank for International Settlements(BIS) capital adequacy ratio and risk appetite are taken into consideration in the goal setting of internal capital management.

#### **- Allocation of internal capital**

The Group's Risk Management Committee approves entire internal capital and the Risk Management Policy Committee allocates the capital to each segment and department, considering the extent of possible risk faced and size of operations. The allocated internal capital is monitored regularly and managed using various management methods. The results of monitoring and managing the allocated internal capital are reported to the Risk Management Committee. In case of any material changes in the Group's business plan or risk operation strategy, the Group adjusts the allocations elastically.

#### **- Composition of internal capital**

Internal capital comprises all the significant risks of the Group and is composed of quantifiable and non-quantifiable risks. Quantifiable risks are composed of credit risk, market risk, interest rate risk, operational risk and credit concentration risk, foreign currency settlement risk, and are risks measured quantitatively by applying reasonable methodology using objective data. Non-quantifiable risks are composed of strategy risk, reputation risk, residual risk on asset securitization and furthermore. Non-quantifiable risks are those risks that cannot be measured quantitatively because of lack of data or the absence of appropriate measuring methodologies.

### **(2) Credit Risk**

#### ***(i) Concept***

Credit risk can be defined as potential loss resulting from the refusal to perform obligations or default of counterparties. More generally, it is used to refer to the possibility of loss from engaged bonds that cannot be redeemed properly or from substitute payments.

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**53. Risk Management, Continued***(ii) Approach to credit risk management**Summary of credit risk management*

The Group regards credit risk as the most significant risk area in its business operations, and accordingly, closely monitors its credit risk exposure. The Group manages both credit risks at portfolio level and at individual credit level. At portfolio level, the Group reduces credit concentration and restructures the portfolio in such a way to maximize profitability considering the risk level. To avoid credit concentration on a particular sector, the Group manages credit limits by client, group, and industry. The Group also resets exposure management directives for each industry by conducting an industry credit evaluation twice a year.

At the individual credit level, the relationship manager (RM), the credit officer (CO) and the Credit Review Committee manage each borrower's credit risk.

*Post management and insolvent borrower management*

The Group monitors the borrower's credit rating from the date of the loan to the date of the final collection of debt consistently, and inspects the borrower's status regularly and frequently in order to prevent the generation of new bad debts and to stabilize the number of debt recoveries.

In addition, an early warning system is operated to spot borrowers that are highly likely to be insolvent. The early warning system provides financial information, financial transaction information, public information and market information of the borrower, and such information is used by the RM and the CO to monitor and manage changes in the borrower's credit rating.

Under the early warning system, a borrower that is highly likely to be insolvent is classified as an early warning borrower or a precautionary borrower. The Group sets up a specific and applicable stabilization plan for such a borrower considering the borrower's characteristics. Furthermore, sub-standard borrowers are classified as insolvent borrowers, and are managed intensively by the Group, which takes legal proceedings, disposals or corporate turnaround measures if necessary.

*Classification of asset soundness and provision of allowance for loss*

Classification of asset soundness is fulfilled by the analysis and assessment of credit risk. The classification is used in order to provision an appropriate allowance, prevent further occurrences of insolvent assets and promote the normalization of existing insolvent assets to enhance the stabilization of asset operations.

Based on the Financial Supervisory Regulations of the Republic of Korea, the Group has established standards and guidelines on the classification of asset soundness, according to the Forward-Looking Criteria (FLC), which reflects not only the borrower's past records of repayment but also their future debt repayment capability.

In conformity with these standards, the Group classifies the soundness of its assets as "normal", "precautionary", "substandard", "doubtful", or "estimated loss" and differentiates the coverage ratio by the level of classification.

Details of loans by credit rating as of December 31, 2020 and 2019 are as follows:

< Corporate >

	<b>December 31, 2020</b>			
	<u>Carrying amounts</u>	<u>12-month expected credit loss</u>	<u>Lifetime expected credit losses</u>	
			<u>Non credit- impaired loans</u>	<u>Credit- impaired loans</u>
AAA ~ BBB1	₩ 125,821,517	122,999,390	2,794,429	27,698
BBB2 ~ CCC	37,466,918	24,451,474	12,993,663	21,781
Below CC	2,449,407	141,696	101,078	2,206,633
	<u>₩ 165,737,842</u>	<u>147,592,560</u>	<u>15,889,170</u>	<u>2,256,112</u>

December 31, 2020 and 2019

(In millions of won)

**53. Risk Management, Continued**

<b>December 31, 2019</b>				
	Carrying amounts	12-month expected credit loss	Lifetime expected credit losses	
			Non credit-impaired loans	Credit-impaired loans
AAA ~ BBB1	₩ 116,273,386	114,241,910	2,020,614	10,862
BBB2 ~ CCC	30,610,456	20,580,529	9,873,112	156,815
Below CC	2,382,816	130,032	85,797	2,166,987
	₩ <u>149,266,658</u>	<u>134,952,471</u>	<u>11,979,523</u>	<u>2,334,664</u>

&lt; Non-corporate &gt;

<b>December 31, 2020</b>				
	Carrying amounts	12-month expected credit loss	Lifetime expected credit losses	
			Non credit-impaired loans	Credit-impaired loans
Grade 1~ Grade 6	₩ 570,652	502,530	67,467	655
Grade 7~ Grade 8	7,547	2,014	5,292	241
Grade 9~ Grade 10	20,420	276	2,667	17,477
	₩ <u>598,619</u>	<u>504,820</u>	<u>75,426</u>	<u>18,373</u>

<b>December 31, 2019</b>				
	Carrying amounts	12-month expected credit loss	Lifetime expected credit losses	
			Non credit-impaired loans	Credit-impaired loans
Grade 1~ Grade 6	₩ 1,485,098	1,463,450	20,965	683
Grade 7~ Grade 8	1,022,349	1,013,168	8,237	944
Grade 9~ Grade 10	33,903	676	3,958	29,269
	₩ <u>2,541,350</u>	<u>2,477,294</u>	<u>33,160</u>	<u>30,896</u>

Details of payment guarantees (including financial guarantees) and unused commitments by credit rating as of December 31, 2020 and 2019 are as follows:

&lt; Corporate &gt;

<b>December 31, 2020</b>				
	Exposures	12-month expected credit loss	Lifetime expected credit losses	
			Non credit-impaired exposures	Credit-impaired exposures
Unused commitments:				
AAA ~ BBB1	₩ 32,836,087	32,416,559	419,528	-
BBB2 ~ CCC	4,604,314	3,255,445	1,348,869	-
Below CC	119	22	97	-
	₩ <u>37,440,520</u>	<u>35,672,026</u>	<u>1,768,494</u>	<u>-</u>
Payment guarantees (including financial guarantees):				
AAA ~ BBB1	₩ 5,943,405	5,612,067	331,338	-
BBB2 ~ CCC	2,883,812	2,315,839	563,602	4,371
Below CC	176,538	-	1,351	175,187
	₩ <u>9,003,755</u>	<u>7,927,906</u>	<u>896,291</u>	<u>179,558</u>

## Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

(In millions of won)

**53. Risk Management, Continued**

<b>December 31, 2019</b>					
		Exposures	12-month expected credit loss	Lifetime expected credit losses	
				Non credit- impaired exposures	Credit- impaired exposures
Unused commitments:					
AAA ~ BBB1	₩	27,158,564	26,946,768	211,796	-
BBB2 ~ CCC		2,972,691	1,964,241	1,008,450	-
Below CC		1,805	820	-	985
	₩	<u>30,133,060</u>	<u>28,911,829</u>	<u>1,220,246</u>	<u>985</u>
Payment guarantees (including financial guarantees):					
AAA ~ BBB1	₩	6,987,237	6,951,232	36,005	-
BBB2 ~ CCC		2,085,654	1,481,657	597,857	6,140
Below CC		290,903	-	-	290,903
	₩	<u>9,363,794</u>	<u>8,432,889</u>	<u>633,862</u>	<u>297,043</u>

&lt; Non-corporate &gt;

<b>December 31, 2020</b>					
		Exposures	12-month expected credit loss	Lifetime expected credit losses	
				Non credit- impaired exposures	Credit- impaired exposures
Unused commitments:					
Grade 1~ Grade 6	₩	83,432	82,052	1,380	-
Grade 7~ Grade 8		59	-	59	-
Grade 9~ Grade 10		12	12	-	-
	₩	<u>83,503</u>	<u>82,064</u>	<u>1,439</u>	<u>-</u>

<b>December 31, 2019</b>					
		Exposures	12-month expected credit loss	Lifetime expected credit losses	
				Non credit- impaired exposures	Credit- impaired exposures
Unused commitments:					
Grade 1~ Grade 6	₩	83,487	83,154	333	-
Grade 7~ Grade 8		11	-	11	-
Grade 9~ Grade 10		26	26	-	-
	₩	<u>83,524</u>	<u>83,180</u>	<u>344</u>	<u>-</u>

December 31, 2020 and 2019

### 53. Risk Management, Continued

#### (iii) Measurement methodology of credit risk

Pursuant to Basel II, the Group selects the measurement methodology of credit risk considering the complexity of measurement, measurement factors, estimating methods and others. Measurement approaches are divided into Standardized Approach and Internal Ratings-Based Approach.

#### Standardized Approach (SA)

In the case of the Standardized Approach, the risk weights are applied according to the credit rating assessed by External Credit Assessment Institution (ECAI). Risk weights in each credit rating are as follows:

Credit rating	Corporate	Country	Bank
AAA ~ AA-	20.00%	0.00%	20.00%
A+ ~ A-	50.00%	20.00%	50.00%
BBB+ ~ BBB-	100.00%	50.00%	100.00%
BB+ ~ BB-	100.00%	100.00%	100.00%
B+ ~ B-	150.00%	100.00%	100.00%
Below B-	150.00%	150.00%	150.00%
Unrated	100.00%	100.00%	100.00%

The OECD is designated as foreign ECAI and Korea Investors Service Co., Ltd., NICE Investors Services Co., Ltd. and the Korea Ratings Co., Ltd. are designated as domestic ECAI.

The Group applies the credit rating based on the corresponding loan and same borrower's unsecured senior loans. In the case the borrower's risk weight is higher than the unrated exposure's risk weight (100%), the higher weight is applied. In the case the borrower has more than one rating, the higher weight of the two lowest weights (Second Best Criteria) is applied.

## Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

**53. Risk Management, Continued***Internal Ratings-Based Approach (IRB)*

To use the Internal Ratings-Based Approach, a bank must be approved by the FSS and should also meet the requirement pre-set by the FSS.

In relation to Basel II that has been adopted domestically as of January 2008, the Group gained approval from the FSS to use the Foundation Internal Ratings-Based Approach in July 2008. The Group has calculated credit risk-weighted assets using the approach since late June 2008.

*Measurement method of credit risk-weighted asset*

The Group calculates credit risk-weighted assets of corporate exposures and asset securitization exposures using the Foundation Internal Ratings-Based Approach as of December 31, 2019.

The Standard Approach is applied to special finance, non-residents, non-banking financial institutions currently, and will be replaced by the Internal Ratings-Based Approach in the future.

The Standardized Approach is applied to country exposures, public institution exposures and bank exposures permanently and applied to overseas subsidiary and the Bank's branch pursuant to prior consultation with the FSS.

<Approved measurement method>

Measurement method		Exposure
Standardized Approach	Permanent SA	- Countries, public institutions and banks
	SA	- Overseas subsidiaries and branches, other assets, retail, residential property, commercial real estate, overdue loans (limited in loans for households)
Foundation Internal Ratings-Based Approach		- Corporate, small and medium enterprises, asset securitization and equity
Application of IRB by phase		- Special lending, non-residence, non-bank financial institutions

The mitigated effect of credit risks reflects the related policies which consider eligible collateral and guarantees. The Group calculates the credit risk-weighted assets using the capital adequacy ratio.

Upon the calculation of credit risk-weighted assets for derivatives, the Group takes into consideration the set-off effects of transactions under legally enforceable rights to set-off to calculate exposures.

December 31, 2020 and 2019

(In millions of won)

**53. Risk Management, Continued***Credit rating model*

The results of credit rating are presented as grades through an assessment of the debt repayment capacity that the principal and interest of debt securities or loans are redeemed while complying with contractual redemption schedule.

Using the Group's internal credit rating model, the Group classifies debtors' credit rating into 14 grades (AAA~D). To distinguish the difference between credits in the same grade, the Group uses 20 stages as auxiliaries to 14 grades.

The Group's regular credit rating process is carried out once a year and in the case of the change of debtor's credit condition, the credit rating is frequently adjusted as necessary to retain the adequacy of credit rating.

The results of credit rating are applied to various areas such as discrimination of loan processes, loan limit, loan interest rate, post loan management standard process, credit risk measurement, and allowance for loan losses assessment.

*Credit rating process control structure*

According to the Principle of Checks and Balances, the Group has established the credit rating process control structure by which the credit rating system operates appropriately.

- Independent assessment of credit rating: The Bank's business segment (RM) and credit rating assessment segment (Credit Rating Officer) are independently operated.
- Independent control of credit rating system: The control of credit rating system including the development of credit rating model is independently implemented by the Bank's Risk Management Department.
- Independent verification of credit rating system: Credit rating system is independently verified by Risk Validation Team of the Financial Planning Department.
- Internal audit of credit rating process: Credit rating process is audited by the Bank's internal audit department.
- Role of the Board of Directors and the Bank's management: Major issues relating to credit rating process are approved by the Board of Directors and are regularly monitored by the Bank's top management.

The Group reviews debt serviceability based on a credit analysis when handling loans. Depending on the results, credit loan preservation is adjusted as necessary using such methods as interest rate preservation due to credit risk.

The Group evaluates the value of the collateral, performing ability and legal validity of the guarantee at the initial acquisition. The Group re-evaluates the provided collateral and guarantees regularly for them to be reasonably preserved.

For guarantees, the Group demands a corresponding written guarantee according to loan handling standards and the guarantor's credit rating is independently calculated when in conformance with the credit rating endowment method.

The quantification of the extent to which collateral and other credit enhancements mitigate credit risk of impaired financial assets as of December 31, 2020 and 2019 are as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Securities measured at FVTPL	₩ 735	1,342
Securities measured at FVOCI	70,397	71,336
Loans measured at amortized cost	2,312,776	2,345,021
Other assets	10,845	157,256

# Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

(In millions of won)

**53. Risk Management, Continued****(iv) Credit exposure**

Geographical information of credit exposure as of December 31, 2020 and 2019 are as follows:

	<b>December 31, 2020</b>									
	Korea	Hong Kong	Ireland	Uzbekistan	Brazil	Hungary	UK	US	Others	Total
Due from banks (excluding due from BOK) ₩	5,526,134	14,672	46	14,194	4,201	246,344	29,229	270,568	806,894	6,912,282
Securities measured at FVOCI:										
Bonds (excluding government bonds)	9,977,191	47,946	17,222	-	608	99,389	1,150,705	639,256	1,663,142	13,595,459
Securities measured at amortized cost:										
Bonds (excluding government bonds)	1,332,527	-	-	-	2,678	-	-	-	-	1,335,205
Loans	149,022,797	1,046,840	-	99,882	39,198	292,171	1,277,056	1,161,937	11,679,037	164,618,918
Derivative financial assets	1,432,559	-	-	-	-	296	-	-	16,391	1,449,246
Other financial assets	7,444,341	23,693	309	990	214	7,430	80,257	8,314	6,504,724	14,070,272
	<u>174,735,549</u>	<u>1,133,151</u>	<u>17,577</u>	<u>115,066</u>	<u>46,899</u>	<u>645,630</u>	<u>2,537,247</u>	<u>2,080,075</u>	<u>20,670,188</u>	<u>201,981,382</u>
Guarantees	8,820,102	-	-	51,240	-	10,420	-	82,408	39,585	9,003,755
Commitments	<u>36,417,852</u>	<u>32,640</u>	<u>-</u>	<u>15,209</u>	<u>-</u>	<u>17,312</u>	<u>287,840</u>	<u>128,131</u>	<u>625,039</u>	<u>37,524,023</u>
	<u>45,237,954</u>	<u>32,640</u>	<u>-</u>	<u>66,449</u>	<u>-</u>	<u>27,732</u>	<u>287,840</u>	<u>210,539</u>	<u>664,624</u>	<u>46,527,778</u>
₩	<u>219,973,503</u>	<u>1,165,791</u>	<u>17,577</u>	<u>181,515</u>	<u>46,899</u>	<u>673,362</u>	<u>2,825,087</u>	<u>2,290,614</u>	<u>21,334,812</u>	<u>248,509,160</u>

December 31, 2020 and 2019

(In millions of won)

**53. Risk Management, Continued**

	December 31, 2019									
	Korea	Hong Kong	Ireland	Uzbekistan	Brazil	Hungary	UK	US	Others	Total
Due from banks (excluding due from BOK) ₩	4,150,279	18,308	201	35,262	2	136,115	10,873	550,546	628,395	5,529,981
Securities measured at FVTPL:										
Bonds (excluding government bonds)	2,541	-	-	-	-	-	-	-	-	2,541
Securities measured at FVOCI:										
Bonds (excluding government bonds)	9,982,804	50,472	18,062	-	-	109,444	901,412	675,968	2,042,441	13,780,603
Securities measured at amortized cost:										
Bonds (excluding government bonds)	2,648,355	-	-	-	3,843	-	-	-	-	2,652,198
Loans	136,966,208	710,579	-	89,388	9,069	281,932	1,227,215	1,030,789	10,363,234	150,678,414
Derivative financial assets	932,084	-	-	-	-	1,101	169	23	8,088	941,465
Other financial assets	9,174,261	3,295	323	1,581	2,651	-	82,537	19,492	130,212	9,414,352
	<u>163,856,532</u>	<u>782,654</u>	<u>18,586</u>	<u>126,231</u>	<u>15,565</u>	<u>528,592</u>	<u>2,222,206</u>	<u>2,276,818</u>	<u>13,172,370</u>	<u>182,999,554</u>
Guarantees	9,198,984	-	-	30,487	-	9,900	-	88,031	36,392	9,363,794
Commitments	27,769,873	49,874	-	8,086	-	44,696	282,705	244,913	1,816,437	30,216,584
	<u>36,968,857</u>	<u>49,874</u>	<u>-</u>	<u>38,573</u>	<u>-</u>	<u>54,596</u>	<u>282,705</u>	<u>332,944</u>	<u>1,852,829</u>	<u>39,580,378</u>
₩	<u>200,825,389</u>	<u>832,528</u>	<u>18,586</u>	<u>164,804</u>	<u>15,565</u>	<u>583,188</u>	<u>2,504,911</u>	<u>2,609,762</u>	<u>15,025,199</u>	<u>222,579,932</u>

## Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

(In millions of won)

**53. Risk Management, Continued**

Industry information of credit exposure as of December 31, 2020 and 2019 are as follows:

	<b>December 31, 2020</b>			
	Manufacturing	Service	Others	Total
Due from banks (excluding due from BOK)	₩ 56,982	5,265,658	1,589,642	6,912,282
Securities measured at FVOCI:				
Bonds (excluding government bonds)	2,643,736	8,042,109	2,909,614	13,595,459
Securities measured at amortized cost:				
Bonds (excluding government bonds)	1,293,889	1,236	40,080	1,335,205
Loans	71,588,236	77,215,411	15,815,271	164,618,918
Derivative financial assets	-	1,449,246	-	1,449,246
Other financial assets	2,550,085	2,071,423	9,448,764	14,070,272
	<u>78,132,928</u>	<u>94,045,083</u>	<u>29,803,371</u>	<u>201,981,382</u>
Guarantees	5,841,317	2,223,153	939,285	9,003,755
Commitments	16,300,667	15,933,837	5,289,519	37,524,023
	<u>22,141,984</u>	<u>18,156,990</u>	<u>6,228,804</u>	<u>46,527,778</u>
	<u>₩ 100,274,912</u>	<u>112,202,073</u>	<u>36,032,175</u>	<u>248,509,160</u>

December 31, 2020 and 2019

(In millions of won)

**53. Risk Management, Continued**

	<b>December 31, 2019</b>			
	<u>Manufacturing</u>	<u>Service</u>	<u>Others</u>	<u>Total</u>
Due from banks (excluding due from BOK)	₩ 20,848	3,843,743	1,665,390	5,529,981
Securities measured at FVTPL:				
Bonds (excluding government bonds)	2,541	-	-	2,541
Securities measured at FVOCI:				
Bonds (excluding government bonds)	2,591,484	8,291,847	2,897,272	13,780,603
Securities measured at amortized cost:				
Bonds (excluding government bonds)	-	2,526,535	125,663	2,652,198
Loans	64,713,135	70,728,195	15,237,084	150,678,414
Derivative financial assets	-	941,284	181	941,465
Other financial assets	187,804	1,273,805	7,952,743	9,414,352
	<u>67,515,812</u>	<u>87,605,409</u>	<u>27,878,333</u>	<u>182,999,554</u>
Guarantees	6,634,919	2,179,821	549,054	9,363,794
Commitments	23,666,920	5,637,153	912,511	30,216,584
	<u>30,301,839</u>	<u>7,816,974</u>	<u>1,461,565</u>	<u>39,580,378</u>
	<u>₩ 97,817,651</u>	<u>95,422,383</u>	<u>29,339,898</u>	<u>222,579,932</u>

# Korea Development Bank and Subsidiaries

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(In millions of won)

**53. Risk Management, Continued**

The detail of credit exposures by industry affected by the pandemic of COVID-19 as of December 31, 2020 is as follows and the exposures by industries could be changed according to economic fluctuations.

	December 31, 2020									
	Due from banks (excluding due from BOK)	Securities measured at FVOCI Bonds (excluding government bonds)	Loans	Derivative financial assets	Other assets	Subtotal	Guarantees	Commitments	Subtotal	Total
<b>Manufacturing:</b>										
Display	₩ -	-	739,944	-	3,016	742,960	168,168	236,421	404,589	1,147,549
Semiconductor										
/Mobile phone	-	146,790	4,403,204	-	8,850	4,558,844	104,489	399,119	503,608	5,062,452
Automotive	-	176,401	10,602,271	-	13,778	10,792,450	314,583	1,363,455	1,678,038	12,470,488
Refinery/Chemical										
/Energy	-	623,842	11,147,364	-	20,666	11,791,872	158,665	4,010,584	4,169,249	15,961,121
Steel/Metal	-	182,011	10,269,067	-	14,946	10,466,024	684,582	1,905,452	2,590,034	13,056,058
Others	-	1,441,539	32,928,066	-	54,092	34,423,697	6,192,007	8,296,783	14,488,790	48,912,487
	-	2,570,583	70,089,916	-	115,348	72,775,847	7,622,494	16,211,814	23,834,308	96,610,155
<b>Service:</b>										
Air transportation	-	3,156	3,437,648	-	7,991	3,448,795	287,309	28,000	315,309	3,764,104
Sea transportation	-	-	2,331,411	-	16,875	2,348,286	28,297	327,689	355,986	2,704,272
Other transportation	-	90,643	5,543,443	-	9,307	5,643,393	32,136	2,269,016	2,301,152	7,944,545
Leisure/Travel industry	-	-	177,498	-	403	177,901	-	3,315	3,315	181,216
Food/Accommodation	-	104,057	2,093,370	-	3,917	2,201,344	48,226	281,437	329,663	2,531,007
Automotive-related	-	-	475,921	-	669	476,590	18,174	35,615	53,789	530,379
Finance/Insurance	2,013	139,662	8,948	-	944	151,567	-	300	300	151,867
Others	5,907,537	7,424,572	61,714,679	1,448,906	136,647	76,632,341	1,782,918	12,840,286	14,623,204	91,255,545
	5,909,550	7,762,090	75,782,918	1,448,906	176,753	91,080,217	2,197,060	15,785,658	17,982,718	109,062,935
<b>Other:</b>										
Construction	-	210,744	2,505,959	-	3,806	2,720,509	160,829	1,110,573	1,271,402	3,991,911
Others	391,906	2,310,569	9,244,517	-	4,281,451	16,228,443	118,722	9,734,095	9,852,817	26,081,260
	391,906	2,521,313	11,750,476	-	4,285,257	18,948,952	279,551	10,844,668	11,124,219	30,073,171
₩	6,301,456	12,853,986	157,623,310	1,448,906	4,577,358	182,805,016	10,099,105	42,842,140	52,941,245	235,746,261

Responding to the COVID-19 pandemic, the Group recalculates the forward-looking information and recognises additional allowance for loan losses and provisions amounting to ₩948,225 million.

December 31, 2020 and 2019

(In millions of won)

**53. Risk Management, Continued**

Credit exposures of debt securities by credit rating as of December 31, 2020 and 2019 are as follows:

<b>December 31, 2020</b>				
	<u>Carrying amounts</u>	<u>12-month expected credit loss</u>	<u>Lifetime expected credit losses</u>	
			<u>Non credit- impaired debt securities</u>	<u>Credit- impaired debt securities</u>
AAA ~ BBB1	₩ 21,749,289	21,570,928	178,361	-
BBB2 ~ CCC	619,289	609,226	10,063	-
Below CC	258	258	-	-
	<u>₩ 22,368,836</u>	<u>22,180,412</u>	<u>188,424</u>	<u>-</u>
<b>December 31, 2019</b>				
	<u>Carrying amounts</u>	<u>12-month expected credit loss</u>	<u>Lifetime expected credit losses</u>	
			<u>Non credit- impaired debt securities</u>	<u>Credit- impaired debt securities</u>
AAA ~ BBB1	₩ 25,838,418	25,806,408	32,010	-
BBB2 ~ CCC	332,973	332,973	-	-
Below CC	116,856	116,856	-	-
	<u>₩ 26,288,247</u>	<u>26,256,237</u>	<u>32,010</u>	<u>-</u>

Korea Development Bank and Subsidiaries

# Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

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**53. Risk Management, Continued****(3) Capital management activities****(i) Capital adequacy**

The FSS approved the Group's use of the Foundation Internal Ratings-Based Approach in July 2008. The Group has been using the same approach when calculating credit risk-weighted assets since the end of June 2008. The equity capital ratio and equity capital according to the standards of the Bank for International Settlements are calculated for such disclosure. The equity capital ratio and equity capital are calculated on a consolidated basis. In conformity with the Banking Act, which is based on the implementation of Basel III on December 2013, the regulatory capital is divided into the following two categories.

*Tier 1 capital (Common Equity Tier 1 + Additional Tier 1 capital)***- Common Equity Tier 1**

Regulatory capital that represents the most subordinated claim in liquidation of the Group, takes the first and proportionately greatest share of any losses as they occur, and which principal is never repaid outside of liquidation meets the criteria for classification as common equity, including capital stock, capital surplus, retained earnings, and accumulated other comprehensive income as common equity Tier 1.

**- Additional Tier 1 capital**

Capital stock and capital surplus related to issuance of capital securities that are subordinated, have non-cumulative and conditional dividends or interests, and have no maturity or step-up conditions.

*Tier 2 capital (Supplementary Tier 2 capital)*

Regulatory capital that fulfils supplementary capital adequacy requirements, and includes subordinated debt with maturities over 5 years and allowance for loan losses in conformity with external regulatory standards and internal standards.

December 31, 2020 and 2019

(In millions of won)

**53. Risk Management, Continued**

The BIS capital adequacy ratio and capital in accordance to Basel III standards as of December 31, 2020 and 2019 are as follows:

*BIS capital adequacy ratio*

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Equity capital based on BIS (A):		
Tier 1 capital:		
Common Equity Tier 1	₩ 36,021,786	30,215,602
Additional Tier 1 capital	-	-
	<u>36,021,786</u>	<u>30,215,602</u>
Tier 2 capital	4,312,476	4,785,803
	<u>₩ 40,334,262</u>	<u>35,001,405</u>
Risk-weighted assets (B):		
Credit risk-weighted assets	₩ 246,279,611	242,573,920
Market risk-weighted assets	1,490,013	1,933,641
Operational risk-weighted assets	4,880,008	4,574,554
	<u>₩ 252,649,632</u>	<u>249,082,115</u>
BIS capital adequacy ratio (A/B):	15.96%	14.05%
Tier 1 capital ratio:	14.26%	12.13%
Common Equity Tier 1 ratio	14.26%	12.13%
Additional Tier 1 capital ratio	-	-
Tier 2 capital ratio	1.71%	1.92%

*Equity capital based on BIS*

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Tier 1 capital (A=C+D):		
Common Equity Tier 1 (C)		
Capital stock	₩ 20,765,729	18,663,099
Capital surplus	1,036,196	979,359
Retained earnings	12,326,526	10,642,865
Non-controlling interests	-	-
Accumulated other comprehensive income	2,324,417	310,138
Common stock deductibles	(431,082)	(379,859)
	<u>36,021,786</u>	<u>30,215,602</u>
Additional Tier 1 capital (D)		
Non-controlling interests	-	-
	<u>36,021,786</u>	<u>30,215,602</u>
Tier 2 capital (B):		
Allowance for doubtful accounts, etc.	1,057,559	951,624
Qualified capital securities	2,780,000	3,060,000
Non-qualified capital securities	516,119	774,179
Non-controlling interests	-	-
Additional stock deductibles	(41,202)	-
	<u>4,312,476</u>	<u>4,785,803</u>
Equity capital (A+B)	<u>₩ 40,334,262</u>	<u>35,001,405</u>

# Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

(In millions of won)

### 53. Risk Management, Continued

#### (4) Market risk

##### (i) Concept

Market risk is defined as the possibility of potential loss on a trading position resulting from fluctuations in interest rates, foreign exchange rates and the price of stocks and derivatives. Trading position is exposed to risks, such as interest rate, stock price, and foreign exchange rate, etc. Non-trading position is mostly exposed to interest rates. Accordingly, the Group classifies market risks into those exposed from trading position or those exposed from non-trading position.

##### (ii) Market risks of trading positions

###### Management method on market risks arising from trading positions

In estimating market risk, the Standardized Approach and the internal model are used. The Standardized Approach is used to calculate the required capital from market risk and the internal model is used to manage risks internally. Since July 2007, the Group has measured one-day VaR through the historical simulation method using the time series data of past 250 days under a 99% confidence level. The calculated VaR is monitored daily.

The Group sets total limit of market risk based on annual business plan, risk appetite and others and monitors VaR limit of each department on a daily basis.

###### Capital Requirements for Market risk

The Group's Capital Requirements for Market risk as of December 31, 2020 and 2019 are as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Interest rate	₩ 58,154	76,814
Stock price	33	848
Foreign exchange rate	30,959	15,287
Option	30,055	61,742
	<u>₩ 119,201</u>	<u>154,691</u>

##### (iii) Market risks of non-trading positions

###### Management method on market risks arising from non-trading positions

The most critical market risk that arises in non-trading position is the interest rate risk. Interest rate risk is defined as the likely loss resulting from the unfavorable fluctuation of interest rate in the Group's financial condition and is measured by interest rate VaR and interest rate EaR.

Interest rate VaR is the maximum amount of decrease in net asset value resulting from the unfavorable fluctuation of interest rate. Interest rate EaR is the maximum amount of decrease in net interest income resulting from the unfavorable fluctuation of interest rate for a year.

The Group's interest rate VaR and interest rate EaR are measured through the simulation of conclusive interest rate scenario and are monthly reported to the Risk Management Committee. The Management's target of interest rate VaR and interest rate EaR are approved at the beginning of the year. To disclose the Group's interest risk, interest rate VaR and interest rate EaR are disclosed calculating change in economic value of equity ("△EVE") and in net interest income ("△NII") based on the application of IRRBB ("Interest Rate Risk in Banking Book") method.

△EVE and △NII of the Group's non-trading positions as of December 31, 2020 and 2019 are as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
△EVE	₩ 432,832	998,877
△NII	97,677	89,253

December 31, 2020 and 2019

(In millions of won)

**53. Risk Management, Continued****(iv) Foreign currency risk**

Outstanding balances by currency with significant exposure as of December 31, 2020 and 2019 are as follows:

	<b>December 31, 2020</b>					
	USD	EUR	JPY	GBP	Others	Total
<b>Financial assets:</b>						
Cash and due from banks ₩	5,504,821	80,738	72,037	20,293	478,906	6,156,795
Securities measured at FVTPL	583,265	-	316	-	52,256	635,837
Securities measured at FVOCI	5,949,060	25	206,249	-	410,497	6,565,831
Securities measured at amortized cost	-	-	-	-	2,705	2,705
Loans	34,533,735	2,653,117	1,281,467	453,210	2,229,466	41,150,995
Derivative financial assets	1,738,926	86,654	353	72,523	37,616	1,936,072
Other financial assets	887,857	249,161	12,274	32,865	304,023	1,486,180
	<u>49,197,664</u>	<u>3,069,695</u>	<u>1,572,696</u>	<u>578,891</u>	<u>3,515,469</u>	<u>57,934,415</u>
<b>Financial liabilities:</b>						
Financial liabilities designated at FVTPL	116,412	-	-	-	-	116,412
Deposits	8,528,349	534,133	305,890	1,360	710,747	10,080,479
Borrowings	13,081,763	409,349	679,538	13,707	285,553	14,469,910
Debentures	21,571,854	1,925,105	706,318	818,290	5,919,496	30,941,063
Derivative financial liabilities	1,136,578	10,475	6,639	32,573	36,849	1,223,114
Other financial liabilities	2,566,952	74,001	13,338	26,680	360,224	3,041,195
	<u>47,001,908</u>	<u>2,953,063</u>	<u>1,711,723</u>	<u>892,610</u>	<u>7,312,869</u>	<u>59,872,173</u>
Net financial position ₩	<u>2,195,756</u>	<u>116,632</u>	<u>(139,027)</u>	<u>(313,719)</u>	<u>(3,797,400)</u>	<u>(1,937,758)</u>

# Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

(In millions of won)

**53. Risk Management, Continued**

	<b>December 31, 2019</b>					
	USD	EUR	JPY	GBP	Others	Total
<b>Financial assets:</b>						
Cash and due from banks ₩	4,070,531	50,587	28,043	15,280	397,055	4,561,496
Securities measured at FVTPL	1,098,028	32,508	391	-	62,946	1,193,873
Securities measured at FVOCI	5,740,121	557,245	200,191	-	565,855	7,063,412
Securities measured at amortized cost	1,203,104	229,645	-	-	1,318	1,434,067
Loans	36,629,441	2,057,006	1,128,441	500,821	1,430,342	41,746,051
Derivative financial assets	856,929	73,773	558	26,090	23,519	980,869
Other financial assets	1,910,483	66,998	28,173	21	25,258	2,030,933
	<u>51,508,637</u>	<u>3,067,762</u>	<u>1,385,797</u>	<u>542,212</u>	<u>2,506,293</u>	<u>59,010,701</u>
<b>Financial liabilities:</b>						
Financial liabilities designated at FVTPL	237,384	-	-	-	-	237,384
Deposits	8,250,125	268,334	288,531	734	409,528	9,217,252
Borrowings	14,664,968	527,671	745,691	155,984	112,638	16,206,952
Debentures	19,664,075	1,955,443	499,505	737,037	4,973,347	27,829,407
Derivative financial liabilities	589,970	14,870	3,296	1,436	16,077	625,649
Other financial liabilities	1,906,780	16,446	34,320	2,767	92,588	2,052,901
	<u>45,313,302</u>	<u>2,782,764</u>	<u>1,571,343</u>	<u>897,958</u>	<u>5,604,178</u>	<u>56,169,545</u>
Net financial position ₩	<u>6,195,335</u>	<u>284,998</u>	<u>(185,546)</u>	<u>(355,746)</u>	<u>(3,097,885)</u>	<u>2,841,156</u>

December 31, 2020 and 2019

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### 53. **Risk Management, Continued**

#### **(5) Liquidity risk management**

##### *(i) Concept*

Liquidity risk is defined as the possibility of potential loss due to a temporary shortage in funds caused by a maturity mismatch or an unexpected capital outlay. Liquidity risk soars when funding rates rise, assets are sold below a normal price, or a good investment opportunity is missed.

##### *(ii) Approach to liquidity risk management*

The Group manages its liquidity risks as follows:

##### *Allowable limit for liquidity risk*

- The allowable limit for liquidity risk sets LCR, NSFR and Mid- to long-term foreign currency fund management ratio
- The management standards with regards to the allowable limit for liquidity risk should be set using separate and stringent set ratios in accordance with the FSS guidelines.

##### *<Measurement Methodology>*

- LCR: (High quality liquid assets / Total net cash outflows over the next 30 calendar days) X 100
- NSFR: Available Stable Funding / Required Stable Funding X 100
- Mid- to long-term foreign currency fund management ratio: Foreign currency funding being repaid after 1 year / Foreign currency lending being collected after 1 year X 100

##### *Early warning indicator*

In order to identify prematurely and cope with worsening liquidity risk trends, the Group has set up 16 indexes such as the “Foreign Exchange Stabilization Bond CDS Premium,” and measures the trend monthly, weekly and daily as a means for establishing the allowable liquidity risk limit complementary measures.

##### *Stress-Test analysis and contingency plan*

- The Group evaluates the effects on the liquidity risk and identifies the inherent flaws. In the case where an unpredictable and significant liquidity crisis occurs, the Group executes risk situation analysis quarterly based on crisis specific to the Group, market risk and complex emergency, and reports to the Risk Management Committee for the purpose of the Group’s solvency securitization.
- The Group established detailed contingency plan to manage the liquidity risks at every risk situations.

# Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

(In millions of won)

### 53. Risk Management, Continued

#### (iii) Analysis on remaining contractual maturity of financial instruments

Remaining contractual maturity analysis for non-derivative financial instruments as of December 31, 2020 and 2019 are as follows:

		December 31, 2020					
		Within 1 month	1~3 months	3~12 months	1~5 Years	Over 5 years	Total
Financial assets:							
Cash and due from banks	₩	10,035,967	873,540	917,523	773,441	21,268	12,621,739
Securities measured at FVTPL		825,526	136,115	987,616	3,718,949	8,263,238	13,931,444
Securities measured at FVOCI		825,842	1,145,333	4,913,538	11,588,463	13,768,942	32,242,118
Securities measured at amortized cost		739	-	210,000	1,866,567	37,900	2,115,206
Loans		9,501,214	14,208,213	60,312,033	65,950,722	15,495,735	165,467,917
Other financial assets		4,921,864	159,585	4,737,514	1,162,162	708,626	11,689,751
	₩	<u>26,111,152</u>	<u>16,522,786</u>	<u>72,078,224</u>	<u>85,060,304</u>	<u>38,295,709</u>	<u>238,068,175</u>
Financial liabilities:							
Financial liabilities							
designated at FVTPL	₩	49,541	-	500,167	605,760	238,914	1,394,382
Deposits		22,756,408	7,472,723	12,976,422	4,648,349	532,255	48,386,157
Borrowings		3,947,935	3,926,958	10,885,593	3,230,507	1,173,165	23,164,158
Debentures		4,944,821	10,286,440	47,467,533	73,253,236	7,428,100	143,380,130
Other financial liabilities		4,493,683	1,790,874	3,491,587	1,252,429	1,220,848	12,249,421
	₩	<u>36,192,388</u>	<u>23,476,995</u>	<u>75,321,302</u>	<u>82,990,281</u>	<u>10,593,282</u>	<u>228,574,248</u>
		December 31, 2019					
		Within 1 month	1~3 months	3~12 months	1~5 years	Over 5 years	Total
Financial assets:							
Cash and due from banks	₩	6,023,177	1,008,691	807,090	812,151	41,158	8,692,267
Securities measured at FVTPL		2,194,420	673,057	658,664	3,618,924	9,656,076	16,801,141
Securities measured at FVOCI		593,590	838,062	4,350,887	8,287,797	18,318,386	32,388,722
Securities measured at amortized cost		40,624	461,583	1,064,150	784,056	3,199,028	5,549,441
Loans		9,474,614	13,444,328	49,681,259	58,684,415	19,207,699	150,492,315
Other financial assets		5,258,432	100,173	4,730,263	2,268,417	700,722	13,058,007
	₩	<u>23,584,857</u>	<u>16,525,894</u>	<u>61,292,313</u>	<u>74,455,760</u>	<u>51,123,069</u>	<u>226,981,893</u>
Financial liabilities:							
Financial liabilities							
designated at FVTPL	₩	70,513	318,570	617,318	935,081	287,145	2,228,627
Deposits		16,725,504	5,390,010	10,884,301	3,547,856	569,834	37,117,505
Borrowings		2,886,072	5,719,382	9,898,736	3,660,040	1,299,006	23,463,236
Debentures		4,098,854	9,769,472	35,714,030	66,793,225	8,830,710	125,206,291
Other financial liabilities		4,964,457	2,151,781	3,535,609	2,481,269	762,357	13,895,473
	₩	<u>28,745,400</u>	<u>23,349,215</u>	<u>60,649,994</u>	<u>77,417,471</u>	<u>11,749,052</u>	<u>201,911,132</u>

December 31, 2020 and 2019

(In millions of won)

**53. Risk Management, Continued**

Remaining contractual maturity analysis for derivative financial instruments as of December 31, 2020 and 2019 are as follows:

*Net settlement of derivative financial instruments*

		<b>December 31, 2020</b>					
		Within 1 month	1~3 months	3~12 months	1~5 Years	Over 5 years	Total
Trading purpose derivatives:							
	Currency	₩ (1,172)	622	-	29	-	(521)
	Interest rate	(12,099)	(8,786)	(21,631)	(138,720)	311,267	130,031
Hedging purpose derivatives:							
	Interest rate	60,484	118,050	397,587	679,232	596,098	1,851,451
		₩ 47,213	109,886	375,956	540,541	907,365	1,980,961
		<b>December 31, 2019</b>					
		Within 1 month	1~3 months	3~12 months	1~5 Years	Over 5 years	Total
Trading purpose derivatives:							
	Currency	₩ 538	927	577	-	-	2,042
	Interest rate	(5,667)	9,571	(67,109)	52,896	145,892	135,583
	Stock	49	-	-	-	-	49
Hedging purpose derivatives:							
	Interest rate	16,579	26,520	256,124	1,147,552	1,530,040	2,976,815
		₩ 11,499	37,018	189,592	1,200,448	1,675,932	3,114,489



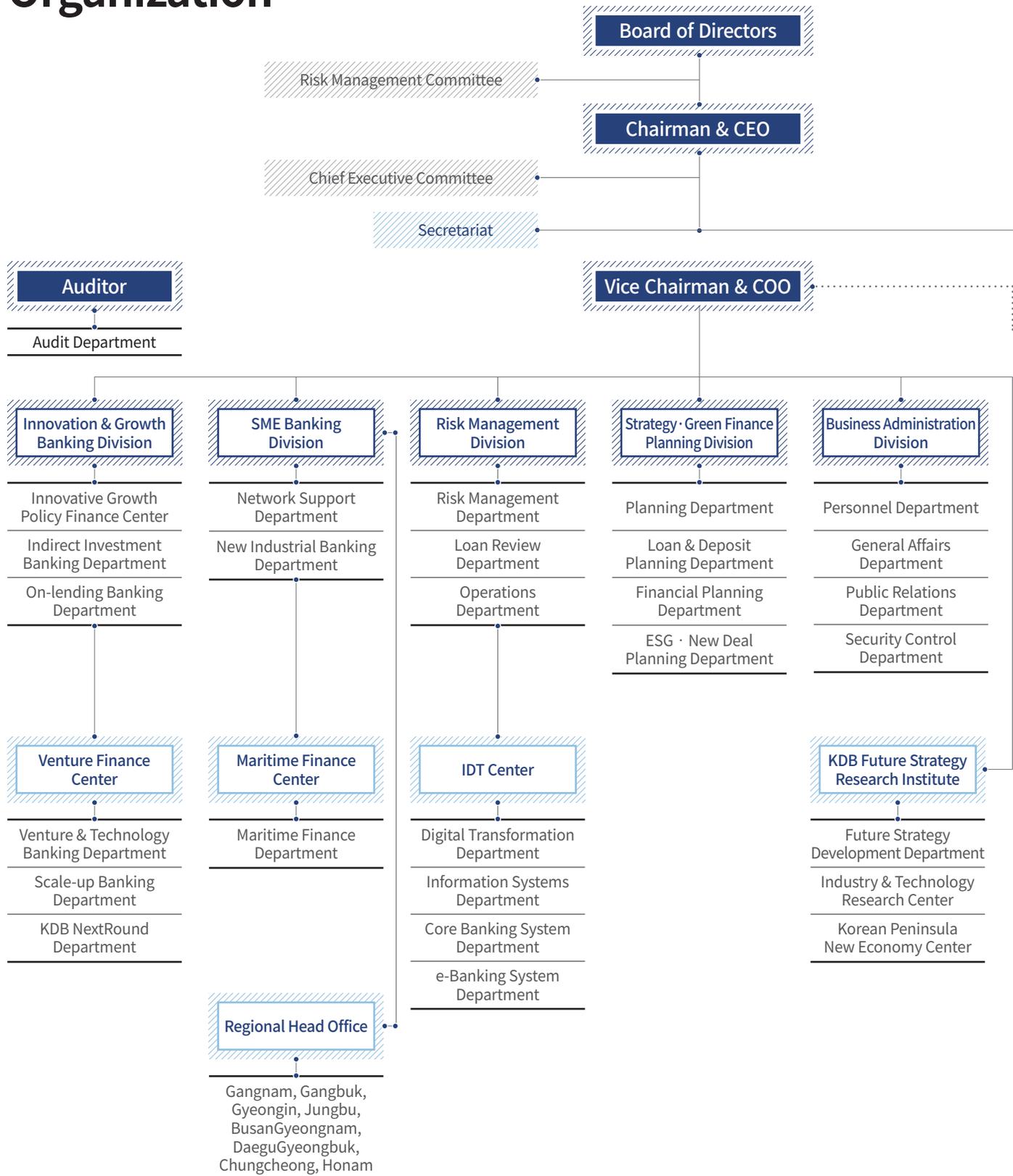
December 31, 2020 and 2019

(In millions of won)

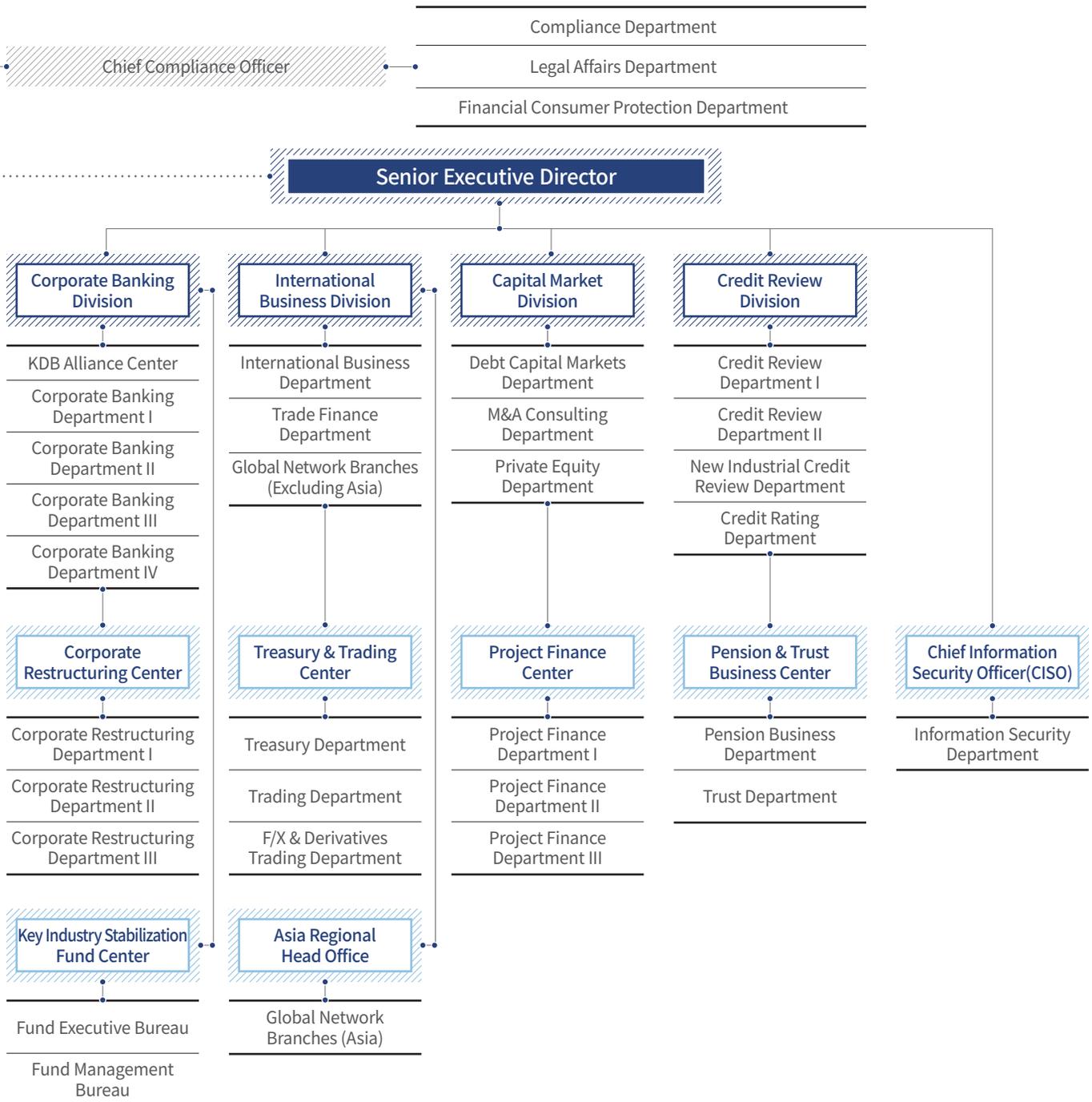
Remaining contractual maturity analysis for guarantees and commitments as of December 31, 2020 and 2019 are as follows:

		<b>December 31, 2020</b>					
		Within 1 month	1~3 months	3~12 months	1~5 years	Over 5 years	Total
Guarantees	₩	943,987	814,943	1,945,117	3,640,339	1,659,369	9,003,755
Commitments		486,992	84,076	729,845	2,242,224	36,078,545	39,621,682
	₩	<u>1,430,979</u>	<u>899,019</u>	<u>2,674,962</u>	<u>5,882,563</u>	<u>37,737,914</u>	<u>48,625,437</u>
		<b>December 31, 2019</b>					
		Within 1 month	1~3 months	3~12 months	1~5 years	Over 5 years	Total
Guarantees	₩	1,022,604	972,189	2,093,146	3,506,244	1,769,611	9,363,794
Commitments		99,762	98,347	1,078,500	2,680,167	26,259,808	30,216,584
	₩	<u>1,122,366</u>	<u>1,070,536</u>	<u>3,171,646</u>	<u>6,186,411</u>	<u>28,029,419</u>	<u>39,580,378</u>

# Organization



\* Domestic Network



# Global Network



## Overseas Branches

### Tokyo Branch

GranTokyo North Tower 36F,  
1-9-1, Marunouchi, Chiyoda-ku,  
Tokyo, 100-6736, Japan  
Tel: +81-3-3214-4541  
Fax: +81-3-3214-6933

### Beijing Branch

27<sup>th</sup> Floor, West Tower, Twin Towers,  
B-12 Jianguomenwai Ave, Chaoyang  
District, Beijing, China 100022  
Tel: +86-10-6568-8858  
Fax: +86-10-6568-6078

### Shanghai Branch

Room 3810, 38<sup>th</sup> Floor, SWFC, 100  
Century Avenue, Pudong New Area,  
Shanghai, China 200120  
Tel: +86-21-6887-1234  
Fax: +86-21-6877-5556

### Guangzhou Branch

3201, International Finance Place,  
No.8 Huaxia Road, Pearl River New  
Town, Guangzhou, China 510623  
Tel: +86-20-8550-6008  
Fax: +86-20-8550-6010

### Shenyang Branch

31F, CR Building, No.286 Qingnian  
Street, Heping District, Shenyang,  
Liaoning Province, China 110004  
Tel: +86-24-3125-9988  
Fax: +86-24-3125-5096

### Singapore Branch (Asia Regional Head Office)

138 Market Street, #35-02/03,  
CapitaGreen, Singapore 048946  
Tel: +65-6320-7400 (+65-6322-1700)  
Fax: +65-6320-7413 (+65-6322-1709)

### London Branch

16<sup>th</sup> Floor, 99 Bishopsgate, London,  
EC2M 3XD, United Kingdom  
Tel: +44-20-7426-3550  
Fax: +44-20-7426-3555

### New York Branch

320 Park Ave. 32<sup>nd</sup> Floor, New York,  
NY 10022, U.S.  
Tel: +1-212-688-7686  
Fax: +1-212-758-3296

### Qingdao Branch

Room 01-06, 43<sup>rd</sup> Floor, The HNA  
Center, No.234 Yan'an 3<sup>rd</sup> Road,  
Shinan District, Qingdao, Shandong,  
China 266071  
Tel: +86-532-8288-7700  
Fax: +86-532-8288-7318

### Yangon Branch

Unit #19-08 to 10, 19<sup>th</sup> floor Junction  
City Tower, No.3/A, Corner of  
Bogyoke Aung San Road, Pabedan  
Township, Yangon, Myanmar  
Tel: +95-1-925-3670  
Fax: +95-1-925-3679

## Representative Offices

### Jakarta Representative Office

Prosperity Tower Lantai 16,  
Unit G, Jl.Jend. Sudirman  
Kav 52-53, Kota Administrasi Jakarta  
Selatan 12190, Indonesia  
Tel: +62-21-5011-2077  
Fax: +62-21-5011-2177



## Headquarters

14 Eunhaeng-ro, Yeongdeungpo-gu,  
Seoul 07242, Korea

## KDB Digital Square

177 Misagangbyeonhangang-ro,  
Hanam-si, Gyeonggi-do 12902, Korea

- Headquarters
- Branch
- Subsidiary
- Representative Office

New York

São Paulo

## Subsidiaries

### Hochiminh Representative Office

Unit 604, M(Kumho Asiana) Plaza, 39  
Le Dusan St., District1, Hochiminh City,  
Vietnam

Tel: +84-28-6291-7870  
Fax: +84-28-6291-7672

### Abu Dhabi Representative Office

Unit 1302, Etihad Towers 3, Abu Dhabi,  
U.A.E. P.O. Box. 63057  
Tel: +971-2-666-7173

### Moscow Representative Office

#804C, Entrance 3, World Trade Center,  
Krasnopresnenskaya nab.12, 123610,  
Moscow, Russia  
Tel: +7-916-165-4112

### Bangkok Representative Office

15<sup>th</sup> FL Athenee Tower,  
63 Wireless Road (Witthayu), Lumpini,

Pathumwan, Bangkok 10330, Thailand  
Tel: +66-2-168-8498  
Fax: +66-2-168-8500

### Manila Representative Office

18F, Tower 1, The Enterprise Center,  
6766 Ayala Avenue, Makati City, Metro  
Manila, Philippines

Tel: +63-2-8556-2267  
Fax: +63-2-8556-0912

### Sydney Representative Office

Suite 3304, Level 33, MLC Centre, 19-29  
Martin Place, Sydney NSW2000, Australia  
Tel: +61-2-9221-3638  
Fax: +61-2-9221-9332

### Frankfurt Representative Office

Bockenheimer Landstrasse 51-53, 60325  
Frankfurt am Main, Germany  
Tel: +49-69-9207-1300  
Fax: +49-69-9207-1399

### KDB Asia Ltd. (Hong Kong)

Suites 2005-10, Two International  
Finance Center, 8 Finance Street,  
Central, Hong Kong  
Tel: +852-2524-7011  
Fax: +852-2810-4447

### KDB Ireland DAC

Ground Floor, Russell House,  
Strokes Place, St Stephen's Green,  
Dublin 2, Ireland  
Tel: +353-1-4753-644  
Fax: +353-1-4753-658

### KDB Bank Europe Ltd.

H-1054 Budapest V., Bajcsy-Zsilinszky  
ut 42-46, Hungary  
Tel: +36-1-374-9903  
Fax: +36-1-328-5454

### Banco KDB do Brasil S.A.

Av. Faria Lima 3400, 15<sup>o</sup> Andar  
Conj.152, Itaim Bibi, São Paulo, SP,  
Brasil, CEP 04538-132  
Tel: +55-11-2138-0000  
Fax: +55-11-2138-0150

### KDB Bank Uzbekistan

3 Bukhoro Street, Mirobod District,  
Tashkent, Uzbekistan 100047  
Tel: +998-78-120-8000  
Fax: +998-78-120-6970

### KDB Indonesia

Equity Tower 39<sup>th</sup> Floor, SCBD Lot 9,  
Jl. Jendral Sudirman Kav. 52-53,  
Jakarta Selatan 12190, Indonesia  
Tel: +62-21-5094-1140



**Headquarters**

14 Eunhaeng-ro, Yeongdeungpo-gu, Seoul 07242, Korea

**KDB Digital Square**

177 Misagangbyeonhangang-ro, Hanam-si, Gyeonggi-do 12902, Korea

Tel. +82-2-787-4000

[www.kdb.co.kr](http://www.kdb.co.kr)



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