

# 2021 ANNUAL REPORT



 KDB Bank

# ACCELERATING SUSTAINABLE PROGRESS

KDB is a driving force behind the Korean economy, propelling the dynamic growth of the country's innovators and serving as a hub for Korean businesses expanding internationally. In addition, the Bank's ESG investments are a stepping stone toward bringing the Korean economy closer to a sustainable future backed by green finance.

The key themes for the 2021 KDB Annual Report are ACCELERATE, CONNECT, and TRANSFORM. They define the activity and outcome of the Bank's pursuit throughout the year and demonstrate its growth and ability to ACT at the forefront of the Korean industry and economic development.



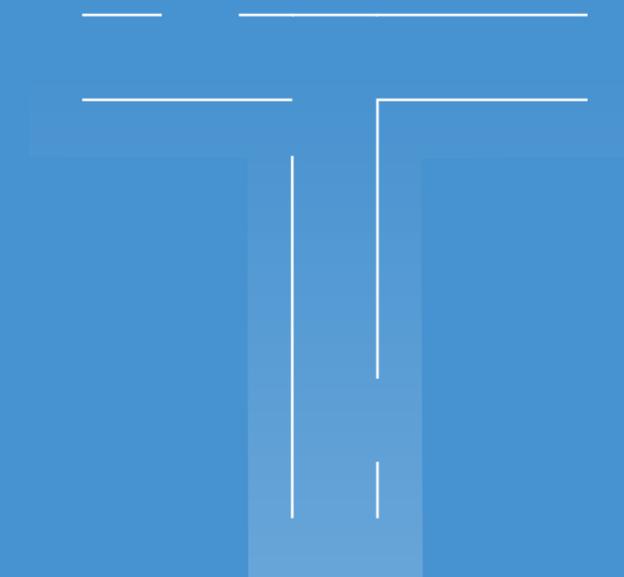
## ACCELERATE

Accelerate Dynamic Growth of  
Innovative Korean Businesses



## CONNECT

Connect Korean Businesses in their  
Global Growth Journey



## TRANSFORM

Transform into a Sustainable Future  
through Green Finance

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# ACCELERATING SUSTAINABLE PROGRESS

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As an advanced policy finance institution, KDB has provided momentum to accelerate the sustainable growth of the Korean economy and the country's financial services system.

Going forward, KDB will maintain its commitment at the forefront of Korea's economy to inspire Korea with innovative financial practices and create a sustainable financial environment for generations ahead.

# Message from the Chairman and CEO



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

## Dear Clients and Partners,

**Thank you for your continued trust and support for Korea Development Bank.**

Despite the challenges of the ongoing pandemic and increased macroeconomic volatility from looming rate hikes dominating the 2021 business landscape, KDB stayed committed to its mandate to underpin the sustainable growth of Korea. The Bank has strived to keep Korea's economic engine running while steering fundamental changes in the country's industrial structure. For this, KDB has operated several innovation platforms to build up promising start-ups, increased funding for SMEs and MEs to reinforce the resilience of Korea's supply chains, and leveraged its industry-finance alliance program to help larger enterprises reshape their businesses for the future. In this way, the Bank supported the entire corporate life cycle, enhancing the competitiveness of the Korean industries across the board.

In parallel with these efforts, KDB has prepared meticulously for the post-Covid19 era, paving the way for the effective implementation of the Korean New Deal and further expanding the groundwork for successful deployment of green finance. The Bank's policy-type New Deal funds supplied critical growth capital to eligible New Deal companies, while the KDB Carbon Spread Program has become a benchmark for Korea's carbon finance initiatives, helping to accelerate the country's transition to a low-carbon economy.

Now, KDB stands before a new set of challenges as it looks ahead into 2022. While the Korean economy has expanded, its growth rates have begun to plateau; incubating innovation is still an arduous task. Moreover, policy finance is called to take on a different role – from a supplier of industrial capital to a facilitator of a generational shift in corporate Korea, and ultimately to a coordinator and a promoter of a positive sum game among the market participants.

For us to navigate this new path of policy finance for Korea's next generations and lead another age of growth through innovation, KDB is determined to focus its resources on the following areas:

**First, KDB will continue its effort to lead the way in green finance to move Korea toward carbon neutrality.**

Policy finance institutions like KDB play an integral role in green finance because doing it right demands large sums of patient capital. KDB will ensure that it provides tangible support to companies on their journey to carbon reduction while developing a system that provides for an objective evaluation of corporate green activity. In particular, the Bank will strive to diversify its green product lines, building from the success of its flagship instruments like the KDB

Carbon Spread and Carbon Net-Zero Programs. This will allow the Bank to increase the scale and quality of green finance it provides. In conjunction with this effort, KDB will enhance consistency and prevent greenwashing in its activity through running a trial implementation of the K-Taxonomy on its operations and introducing a dedicated ESG risk management system. KDB will also work closely with global leaders to raise awareness and understanding of green finance by organizing expert dialogues such as the Asia Sustainable Finance Forum scheduled for March 2022.

**Second, KDB will spearhead the deployment of innovation capital to discover the country's next leaders.**

Committed to securing growth drivers for the Korean economy's continued expansion, the Bank will allocate KRW 21 trillion toward innovative growth sectors during the 2022 business year. The funds will finance the growth of novel and disruptive companies and further the expansion of Korea's venture ecosystem with a particular focus on start-ups in the high-tech sectors such as aerospace and system semiconductor. KDB will also leverage its existing platforms to deepen and diversify the country's innovation communities, with plans in place for organizing global editions of the KDB NextRound as well as the fourth arrangement of the KDB NextRise in Seoul. At the same time, the Bank will increase investment that endures long-term risk over longer time horizons and help companies scale up, driving the globalization of Korea's venture scenes.

**Third, KDB will seek to ensure a soft landing for the Korean economy and facilitate fundamental changes in the country's industrial structure.**

Against the ongoing pandemic and its challenges, KDB intends to provide uninterrupted support as the market's safety net to help mitigate the impact of Covid19 on Korean companies. The Bank will pursue an orderly normalization of business conditions, systematically reviewing the magnitude of the pandemic-related damages based on an accurate assessment of the viability of the affected companies to offer step-by-step relief measures.

KDB will also employ a balanced approach between cultivating future growth drivers and spurring transitions within the conventional industries. While providing sufficient support for sectors such as secondary battery and renewable energy, the Bank will also promote future-oriented changes in the more traditional businesses like logistics and chemicals. In particular, the Bank will exploit its own research capacity on supply chains to offer businesses more thorough and far-reaching assistance, with an aim to push up the overall competitiveness of the Korean industries to the next level.

As for companies and industries that have lost their competitive advantage, KDB will work towards restoring the value of their core activity and asset by encouraging fundamental reorientation of their businesses.

**Fourth, KDB will actively support digital transition of the Korean economy, while also developing digital capabilities of its own.**

Social distancing triggered by the pandemic has accelerated digital transformation throughout society and business. Recognizing this irreversible trend, KDB will focus its financing on digital companies and sectors that will lead the future of the Korean economy. This will go hand in hand with an effort to enhance KDB's own institutional capacity by expediting the digitization of the Bank's corporate banking procedures.

More specifically, the Bank will leverage the success of its Data-Backed Loan Program launched in December 2020 to discover more data-driven innovators that have yet to secure the necessary assets to be eligible for a bank loan. KDB will also strengthen the growth of data-based industries in Korea by financing data center projects and offering targeted initiatives.

As for its own digital capacity, the Bank plans to digitize its entire corporate banking procedures through developing AI platforms and adopting automated credit review processes. This will be accompanied by an effort to continually pursue greater efficiency of the Bank's workforce by utilizing robotic process automation for repetitive and routine works as well as capacity training courses to encourage and cultivate a digital mindset across the workplace.

**Dear Clients and Partners,**

Korea is undergoing an important transition on many of its fronts and this is leading to a growing list of policy financing needs. Meeting these needs at this crucial juncture requires a new way of doing finance. Hence, KDB will seek to pioneer a new path of policy finance for the present and for the future of Korea. The Bank is fully aware of the challenges and obstacles it will face along the way that will be too great if it were to tackle them alone. So I ask for your continued support and encouragement that will allow the Bank to stay the course of innovation and change.

Thank you.

# Management Profiles

## Chairman & CEO



**Lee, Dong Gull**  
Chairman & CEO

## Vice Chairman & COO



**Choi, Dae Hyon**  
Vice Chairman & COO

## Auditor



**Joo, Tae Hyun**  
Auditor

## Independent Directors

**Son, Kyo Deog** | Independent Director

**Yook, Dong Han** | Independent Director

**Kim, Yeong Ook** | Independent Director

**Cho, Han Hong** | Independent Director

**Jung, Dong Il** | Independent Director

(As of the end of 2021)

## Executive Directors



**Lee, Jun Sung**  
Innovation & Growth Banking Division



**Jung, Byung Chul**  
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 Gyu**  
Corporate Banking Division



**Lee, Byung Ho**  
Global Business Division



**Park, Hyung Soon**  
Capital Market Division



**Kim, Young Jin**  
Credit Review Division

## Compliance Officer



**Lee, Young Jae**  
Chief Compliance Officer

**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.

# KDB at a Glance

## Foundation

1954

## Number of Employees

3,435

## Credit Ratings

Equivalent to the sovereign ratings of the Republic of Korea

Aa2

Moody's

AA

S&P

AA-

Fitch

## Global Network

10

Overseas Branches

7

Subsidiaries

8

Representative Offices

## Global Initiatives



(As of December 31, 2021)

# Financial Highlights

## Summary Statement of Financial Position

(Unit: KRW billion; Consolidated basis)

	2021	2020	Change	
			Amount	%
<b>ASSETS</b>	<b>333,898.2</b>	304,996.5	28,901.7	9.5
Cash & due from banks	11,853.4	11,794.2	59.2	0.5
Securities	88,554.6	76,532.4	12,022.2	15.7
Loans	179,826.8	164,585.8	15,241.0	9.3
Other assets	53,663.4	52,084.1	1,579.3	3.0
<b>LIABILITIES</b>	<b>287,740.1</b>	264,007.0	23,733.1	9.0
Deposits	53,839.1	46,961.4	6,877.7	14.6
Borrowings	28,561.1	24,542.8	4,018.3	16.4
Bonds	150,014.9	143,329.3	6,685.6	4.7
Other liabilities	55,325.0	49,173.5	6,151.5	12.5
<b>EQUITY</b>	<b>46,158.2</b>	40,989.5	5,168.7	12.6
Issued capital	21,886.5	20,765.6	1,120.9	5.4
Capital surplus	758.6	1,055.9	(297.3)	(28.2)
Retained earnings	14,090.1	12,347.1	1,743.0	14.1
Capital adjustments	278.4	278.1	0.3	0.1
Accumulated other comprehensive income	4,977.7	2,053.5	2,924.2	142.4
Non-controlling interests	4,166.9	4,489.3	(322.4)	(7.2)

## Summary Statement of Income

(Unit: KRW billion; Consolidated basis)

	2021	2020	Change	
			Amount	%
Net operating revenue	3,887.2	2,950.5	936.7	31.7%
Net interest income	1,985.5	1,547.9	437.6	28.3%
Non-interest income	1,901.7	1,402.6	499.1	35.6%
Provision for credit losses	492.2	1,316.2	(824.0)	(62.6%)
G&A expenses	950.5	917.4	33.1	3.6%
Operating income	2,444.6	716.9	1,727.7	241.0%
Non-operating income	724.9	1,862.7	(1,137.8)	(61.1%)
Income tax expenses	954.5	659.5	295.0	44.7%
Profit for the period from continuing operations	2,215.0	1,920.1	294.9	15.4%
Profit from discontinued operations	(891.5)	41.3	(932.8)	-
Net profit	1,323.5	1,961.3	(637.8)	(32.5%)

## Business Highlights

# NextRise

2021 SEOUL

**102**  
On/Offline Conferences

Number of Participants:

Start-ups **673**

Large/Medium-sized Enterprises **117**

Venture Capital firms **39**

IR Meetings:  
Approximately **2,000** Times

KDB NextRounds held between 2016 and 2021

IR rounds **535**

Number of participants **1,969** Start-ups



# ACCELERATE

## Accelerate Dynamic Growth of Innovative Korean Businesses

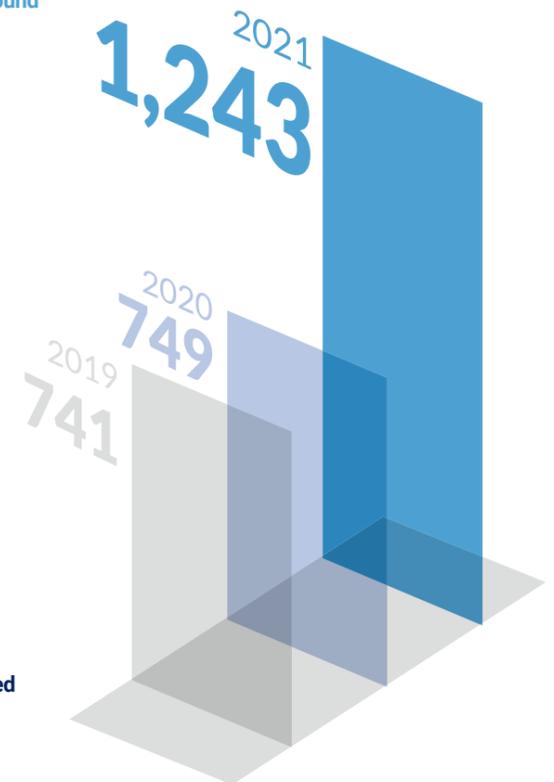
As one of the country's top corporate banking specialists, KDB is dedicated to driving the growth of Korea's innovators, building up and facilitating the country's start-up ecosystem in the process. Since the launch in 2016 up to the end of 2021, the KDB NextRound, the Bank's unique market-driven venture investment platform, has held 535 rounds, inviting 1,969 start-ups to make their pitch in front of Korean and global investor communities. Moreover, KDB's annual NextRise launched in 2019 is the country's largest start-up fair, providing a multiple-level support to Korea's venture ecosystem.

→ Venture Finance    → Innovation & Growth Banking

### NextRound Overview

(as of the end of 2021)

Investment attraction through KDB NextRound (KRW billion)



**535**

Accumulated Number of IR rounds provided by KDB NextRound (2016~2021)

26 Entities in  
18 Countries Globally

26

## KDB SILICON VALLEY

Established in Nov. 2021

Global Network Headcount

1,021

People

# CONNECT

## Connect Korean Businesses in their Global Growth Journey

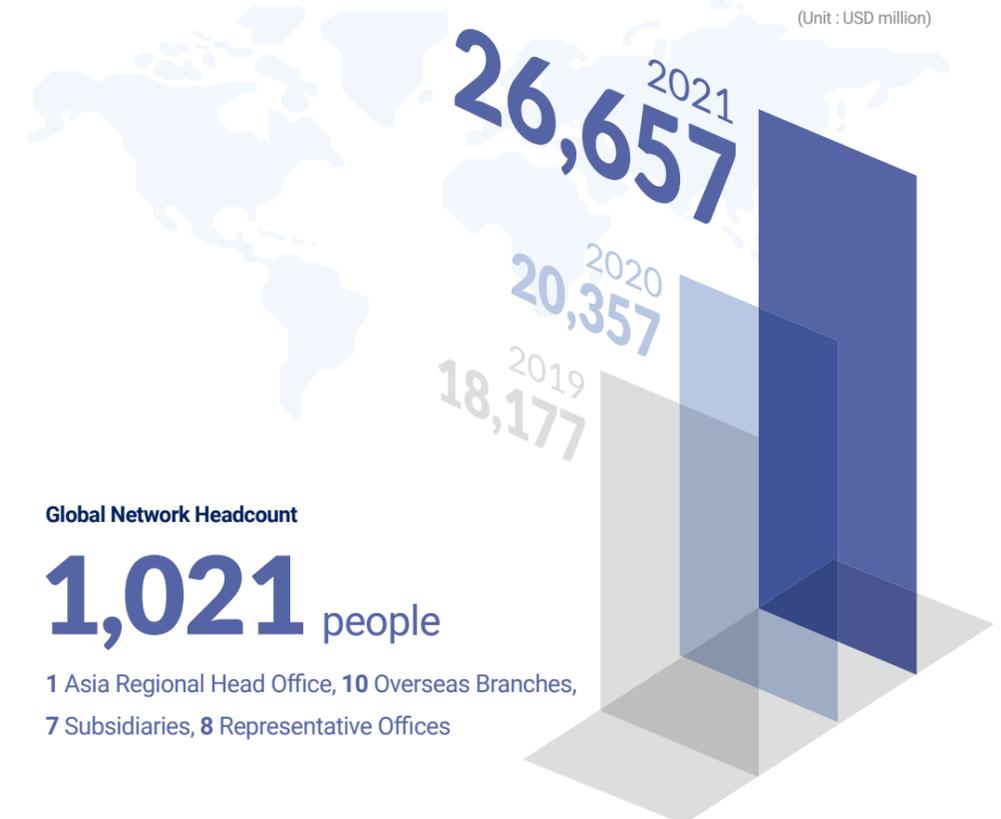
KDB has developed a strong global business network that serves as a gateway for Korean businesses expanding globally. The Bank operates through 26 entities across 18 countries, including 1 Asia regional head office, 10 overseas branches, 7 subsidiaries, and 8 representative offices. KDB Silicon Valley LLC opened in 2021 to support global expansion of Korean start-ups and promote globalization of the Korean venture ecosystem. KDB will continue to grow its global network to better support the long-term growth trajectories of Korean businesses.

→ Global Business

→ Global Network

### Global Network Assets

(Unit : USD million)



Global Network Headcount

1,021 people

1 Asia Regional Head Office, 10 Overseas Branches,  
7 Subsidiaries, 8 Representative Offices



Foreign Currency-denominated  
**Green Bond**  
Issuance in 2021

**2,038**  
USD million

KRW-denominated  
**Green Bond**  
Issuance in 2021

**330**  
KRW billion

# TRANSFORM

## Transform into a Sustainable Future through Green Finance

As one of Korea's key policy finance institutions, KDB is committed to promoting green finance to facilitate Korea's Net Zero ambitions and providing the foundation for a sustainable future. In 2021, approximately KRW 11 trillion, or 13.2% of the Bank's total financing, went to finance the country's green sectors through utilizing KDB's various green finance products and services including its flagship instrument, the Carbon Spread Program. The Bank was also an active player in the Green Bond market in 2021, issuing in both KRW and foreign-currencies, raising KRW 330 billion and USD 2,038 million, respectively, throughout the year.

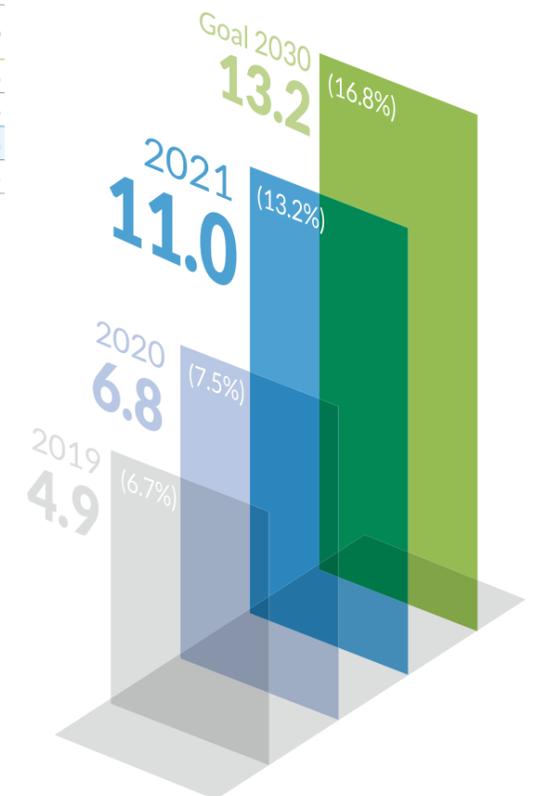
→ ESG Review

### KDB Green Finance<sup>1)</sup> Overview

(Unit : KRW trillion)

	Total	Green Finance	Ratio
2019	72.9	4.9	6.7%
2020	91.1	6.8	7.5%
<b>2021</b>	<b>83.2</b>	<b>11.0</b>	<b>13.2%</b>
Goal 2030	78.4	13.2	16.8%

1) Total volume of financing that went to 77 green areas eligible under the Common Criteria for Innovative Growth and New Deal Investments



# Mission & Vision

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.



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

### 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.

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

### THE KDB WAY

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

- |  |  |   |  |  |
|--|--|---|--|--|
| <p><b>01</b><br/>We heed voice of clients.</p> | <p><b>02</b><br/>We step out of comfort zone into calculated challenges.</p> | <p><b>03</b><br/>We cooperate with outside to find better ways.</p> | <p><b>04</b><br/>We think forward to act forward.</p>                                | <p><b>05</b><br/>We provide expert's solution.</p> |
| <p><b>06</b><br/>We embrace change.</p>        | <p><b>07</b><br/>We communicate and initiate.</p>                            | <p><b>08</b><br/>We find solution on the spot.</p>                  | <p><b>09</b><br/>We take full responsibility to become a socially reliable bank.</p> | <p><b>10</b><br/>We think digital.</p>             |

### KEY 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

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

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.

### STRATEGIC GOALS

### STRATEGIC TASKS

 <p><b>Lead innovation and growth</b></p>	<ul style="list-style-type: none"> <li>• Foster new industries and new technologies</li> <li>• Become a leading venture capital platform</li> <li>• Strengthen the role as a venture capital supplier</li> </ul>
 <p><b>Support the reshaping of the industrial ecosystem</b></p>	<ul style="list-style-type: none"> <li>• Help the mainstay industries enhance their competitiveness</li> <li>• Facilitate generational transition in corporate leadership</li> </ul>
 <p><b>Enhance the competitiveness of global &amp; investment banking business</b></p>	<ul style="list-style-type: none"> <li>• Expand the operational base for global operations</li> <li>• Increase profitability of global operations</li> <li>• Globalize IB operations and provide more support through policy financing</li> </ul>
 <p><b>Pioneer new areas of policy finance</b></p>	<ul style="list-style-type: none"> <li>• Actively seek out new demands for policy finance</li> <li>• Prepare for a new economic era on the Korean Peninsula</li> </ul>
 <p><b>Build stable and sustainable operational foundation</b></p>	<ul style="list-style-type: none"> <li>• Pursue bank-wide digital transformation</li> <li>• Build on the capacity for stable revenue generation</li> <li>• Introduce innovation to the organization and internal processes</li> </ul>

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

# Management Plans for 2022

## MANAGEMENT GOAL

Global KDB  
leading Korea's Net Zero transition  
and innovation-driven growth



## KEY TASKS

In order to elaborate on each of the key tasks in consideration of the economic and financial environment and ensure their effective implementation, KDB has established a total of 15 sub-tasks.

- 01 Lead in green finance to help Korea achieve net zero carbon emissions**
  - Support a low-carbon transition of existing industrial processes and foster new businesses that can bring climate solutions and seize emerging opportunities
  - Develop a sustainable business framework centered on ESG values and continue the transition to a green finance specialist
  - Work toward generating results from the Korean New Deal activity in pursuit of laying the groundwork for a more advanced economic structure
- 02 Secure growth drivers for the future of the Korean economy by supporting the innovative growth sectors**
  - Strengthen financial support for industry innovators and facilitate Korea's digital transition
  - Expand scale-up funding for start-ups
- 03 Facilitate a soft transition to the post-Covid19 era and promote fundamental changes in local industries and businesses**
  - Assist companies in restoring their competitive advantage to enable Korean economy's orderly normalization
  - Support country's key industries in reconfiguring their business activity early on and facilitate business sophistication
  - Facilitate timely restructurings to encourage turnarounds of distressed businesses
- 04 Lead in the way of advancing Korea's financial capacity by strengthening global presence and IB competitiveness**
  - Strategically grow the Bank's global business base
  - Actively explore overseas markets by increasing exposures to global wholesale banking
  - Build up policy-type IB operations to deepen and diversify Korea's capital markets
- 05 Promote social values through financial inclusion**
  - Cultivate growth foundations for future generations
  - Proactively act on corporate social responsibilities
- 06 Deepen the foundation for sustainable policy finance**
  - Secure financial stability and soundness
  - Create results and reinforce organizational capacity through internal innovation

## Economic and Financial Environment

- Persistent threats to global value chains coming from ongoing issues like US-China conflicts and competition for technological hegemony
- Worldwide demand for carbon neutrality by 2050
- Lifting of temporary Covid19 relief measures and consequent attempts at achieving a soft landing for the economy
- Prolonged pandemic creating downward pressures on economic activity
- Shortcomings in Korean financial markets as a truly globalized industry and immature capital markets
- Increased demands for ESG values, business sustainability and socially responsible finance



# BUSINESS REVIEW

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**KDB will help further the advancement of the Korean economy and the dynamic growth of the country's businesses in the post-Covid19 era.**

As one of the country's top corporate banking specialists, KDB offers a diversified support mechanisms for Korean businesses. KDB's long-standing global finance experience and a strong credit rating serve as the foundation for the Bank's consistent expansion abroad and a long-term success of Korean businesses.



024	Corporate Banking & Restructuring
027	Capital Markets
030	Innovation & Growth Banking
034	Venture Finance
039	Project Finance
041	Trading
043	Global Business
045	Pension & Trust



# Corporate Banking & Restructuring



## Corporate Banking

KDB has acted on its role as Korea's policy finance institution by organizing and managing the Key Industry Stabilization Fund, initiating preemptive business improvements via financial restructuring and generation of jobs in the local economy, supporting the solid growth of the country's SMEs, and pioneering green finance and deals related to the fourth industrial revolution. In sum, KDB has strived to establish client partnerships that contribute not just to business growth but the sustainable growth of the greater Korean economy.

### REVIEW OF 2021

Despite macroeconomic uncertainties from the prolonged Covid19 pandemic and signals of aggressive rate increases from both in and outside Korea, Korean companies started new businesses, made large-scale capital investments toward carbon neutrality and the fourth industrial revolution opportunities, and took actions to secure acquisition

finance to transform their business. KDB made available timely and extensive liquidity to help companies improve their key capacity and speed up necessary restructuring.

As a policy finance institution, KDB works closely with the Korean government as well as other policy finance players on key economic and industry initiatives. The Bank has worked consistently to generate mutually beneficial economic relationships between the country's large companies and their SME and ME partners, contributing to creating more jobs and expanding the Bank's client base.

To drive future economic growth, the Bank actively discovered and invested in companies with high growth potential. As examples, KDB supplied early-stage liquidity to digital start-ups through its Data-backed Loan Program, and invested in a data center and a logistics facility of a promising non-manufacturing start-up, securing strategic assets for the Bank's long-term portfolio.

KDB's green finance instruments such as KDB Carbon Spread Program and ESG Primary CBO(P-CBO) Program have backed corporate capital investments in green areas as well as their transition toward greening their portfolios. The Bank also organized a USD 1.2 billion KDB Green Ocean Fund to invest in building up the country's green marine infrastructure such as environmentally sustainable and smart marine logistics systems and high-efficiency ships in line with the government's Shipping Industry Leader Strategy.

KDB provided in 2021 a total of KRW 83.2 trillion, of which KRW 55.1 trillion, or 66%, was allocated to SMEs and MEs. In particular, KDB supplied liquidity support through special relief programs such as Special Fund for Cheering Up Korea that are targeted at businesses hit by the Covid19 pandemic.



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

## Landmark Deals of 2021

### Supporting companies' net zero goals and green restructuring through the industry and finance alliance program

#### OVERVIEW

- Built a long-term industry-finance support mechanism integrating companies across the supply chain to grow key growth industries and drive carbon neutrality initiatives

#### HIGHLIGHTS

● Partnership ○ Mutual growth fund

 Company L	>	<b>Secondary battery global CAPEX support</b> ● USD 5 billion (5 year) ○ KRW 150 billion.
 Company S	>	<b>M&amp;A to capture global semiconductor market share</b> ● USD 5 billion (5 year) ○ KRW 150 billion
 H Group	>	<b>Green energy (solar + hydrogen) industry growth</b> ● USD 5 billion (5 year) ○ KRW 150 billion
 Company S + 6companies	>	<b>Carbon Reduction Equipment : Cement industry carbon neutrality initiative</b> ● KRW 1 trillion (5 year)
 Company L	>	<b>Submarine cable industry growth for offshore wind power generation</b> ● KRW 1 trillion (5 year)
 Company S	>	<b>Secondary battery and green material business improvement</b> ● KRW 1.5 trillion (5 year)

#### SIGNIFICANCE

- KDB's financial backing of companies' entry into new business areas as well as their carbon neutrality initiatives helped improve long-term business stability and the joint effort with industry leaders to form a green supply chain contributed to enhanced industrial competitiveness.

### Financial support for corporate restructuring through the Joint Council for Overseas M&A and Investments

#### OVERVIEW

- Completed set-up of the Joint Council for Overseas M&A and Investments in September 2019 to provide end-to-end support to Korean companies engaging in overseas M&A and investment activities

- Proactive financial backing and restructuring support for businesses in semiconductor, display, secondary battery and other key industries

- Participants: policy finance institutions (KDB, KEXIM, IBK), commercial banks (NongHyup), national business associations, etc.

- Policy finance institutions and commercial banks: Joint support for overseas acquisitions and fundraising

- National business associations: Global deal sourcing and buyer-seller matching, offering regulatory recommendations, etc.

#### HIGHLIGHTS

- Total of 11 deals, equivalent to approximately USD 6.05 billion

Beneficiary	Details of Support
Company S	Acquisition of Company D's power semiconductor business (USD 450 million)
Company S	Acquisition of Company D's EAA business (USD 160 million)
Company S	Overseas factory investment (CNY 700 million)
Company H	Overseas factory investment (USD 215 million)
Company S	Equity investment in Company P (USD 300 million)

#### SIGNIFICANCE

- KDB actively contributed to corporate investments in key areas underlined by the fourth industrial revolution industries (e.g., secondary batteries, semiconductors, etc.), upgrading competitiveness of the local parts and materials industries.

**PLANS FOR 2022**

Demand for green finance driven by carbon neutrality initiatives is expected to lead business growth in 2022. As new industries rapidly develop and global supply chains undergo radical changes, businesses are expected to make significant capital investments to stabilize their supply chains.

KDB is the nation's premier policy finance institution in charge of steering paradigm changes in the economy. The Bank will continue to offer customized financing solutions to grow business eligible under the Green New Deal and new industries, while upgrading the competitiveness of Korea's strategic industries such as semiconductor, display, and secondary battery.

Furthermore, the Bank will continue the industry and finance alliance program to support restructuring and improvement in businesses, develop national growth drivers and build the Bank's own policy finance capacity in preparation for the fourth industrial revolution ahead.

In particular, to help companies reach their net zero goals, a key theme worldwide, the Bank will develop systematic financial support to help establish, operate and enable the expansion of green supply chains across all industrial sectors.

**Corporate Restructuring**

Since the Asian financial crisis of 1997, KDB has become the unrivaled leader in Korea for investment banking and corporate restructuring. The global financial crisis of 2008 has resulted in a prolonged plateau in the global economic growth curve, as well as a jump in both the number and size of distressed businesses requiring turnaround. In light of these challenges, the Bank has set an example for principled and efficient corporate turnarounds, serving as a safety net to the national economy and the country's businesses.

**REVIEW OF 2021**

KDB has made every effort as a policy finance institution to facilitate efficient turnaround of distressed businesses. The Bank focused on the insolvencies of large corporate enterprises that can potentially have massive impact on the national economy and in doing so played an active role as a safety net and growth facilitator for Korean businesses.

Amidst a prolonged global recession and resulting challenges to Korea's shipbuilding and shipping industries, KDB has introduced targeted turnaround measures to the country's yards and shippers facing financial difficulties. As a result, HMM posted record results in 2021 following KDB investments and radical management overhaul, while Hanjin Heavy

Industries and STX Offshore & Shipbuilding successfully raised funding to complete their turnaround processes.

In response to the Covid19 pandemic, KDB provided emergency liquidity along with financial and business restructuring advice to Doosan Heavy Industries, placing the company on a substantially better footing for the future. KDB also allocated money from the Key Industry Stabilization Fund toward Asiana Airlines while supporting its merger with Korean Air to minimize potential impact on the national economy and has undertaken restructuring measures to restore the airline's competitiveness.

Furthermore, the Bank continued to invest in the Corporate Restructuring Innovation Fund jointly with other financial institutions to supply capital markets liquidity to the restructuring market in order to encourage voluntary and preemptive business reform.

**PLANS FOR 2022**

KDB will continue its role in 2022 as a turnaround facilitator and market safety net, adhering to its long-held principles established over the years of experience in corporate restructuring.

The Bank will leverage its accumulated expertise and human resources to encourage voluntary business realignments and support improvements to capital structure, preventing insolvency and promoting business competitiveness through early engagement.

For distressed businesses, the Bank will act early and efficiently in its turnaround efforts to facilitate successful recovery of these businesses, in turn reinfusing vitality into the national economy.



# Capital Markets

With respect to international bonds, KDB successfully arranged the Korean government's Foreign Exchange Stabilization Fund Bond issuance and other global offerings by issuers like Korea Gas Corporation and LG Chem. The Bank made its first entry into the top 10 arrangers in Bloomberg's official league table, consolidating its position as a leading Korean investment bank. The Bank's also broadened its investment banking activities by providing rating advisory to Korea Ocean Business Corporation for obtaining its inaugural international credit ratings and liability management to support the restructuring process of Doosan Group.

**PLANS FOR 2022**

In 2022, KDB plans to provide a greater spectrum of financial solutions to its corporate clients by restructuring a wide range of underlying assets making up its structured finance products, diversifying away from the traditional accounts receivable to cover redeemable convertible preference shares, project finance loans, and intellectual property rights. The Bank will also target innovators pivoting toward digital and green transitions, assisting them with their issuance of equity-linked notes.

As for the international bond business, the Bank plans to step up its investment banking capacity by enlarging its IB desk in Hong Kong while committing to increasing its global and cross-border deal volume by actively targeting strong corporate clients, both Korean and non-Korean.

**Debt Capital Markets**

**REVIEW OF 2021**

Against resurging waves of Covid19, KDB extended and expanded its capital markets stabilization programs introduced in 2020, contributing to restoring investor confidence, tightening credit spreads, and bringing back stability to Korea's corporate bond market.

Furthermore, the Bank bolstered the growth of the ESG bond market by arranging, underwriting, and investing in a greater volume of ESG bonds in 2021. For the first time in Korea, the Bank issued three primary collateralized bond obligations (P-CBOs) backed by privately placed ESG bonds issued by SMEs and MEs. These P-CBO transactions marked a milestone in an ESG bond market dominated by public offerings from large and public companies, extending the reach to SMEs/MEs and private placements.

**Landmark Deals of 2021**

**Joint Arranger for Korean Government's Foreign Exchange Stabilization Fund Bond**

KDB successfully arranged the Korean government's USD 1.3 billion Foreign Exchange Stabilization Fund Bond offering in October 2021. The bond was met by strong market demand and was issued in two tranches – a USD 500 million tranche and EUR 700 million tranche – each pricing at a spread of 25bps and 13bps.

Demand for Korean paper in the global markets remained strong despite the US Fed's warning at the late September FOMC to taper and reduce its balance sheet, the Evergrande Group crisis in China, global inflation concerns, and other macroeconomic challenges driving up market volatility. The bond was four to six times oversubscribed, reaffirming international confidence in the Korean economy. The euro tranche, in particular, was issued at a negative interest rate, drawing keen interest from investors as the first-ever Asian sovereign green bond designed to fund green projects like renewable energy.

As the only Korean IB in the joint lead manager group, KDB further solidified its position as a funding partner to the Korean government in the international markets while making substantial contribution to reinforce investor trust in Korea.

Issue Size	USD 500 million	EUR 700 million
Maturity Date	October 15, 2031	October 15, 2026
Reoffer Spread/Yield	U.S. 10Y Treasury + 25bps/ 1.769%	Mid Swap + 13bps/ -0.053%
Coupon	1.750%	0%

## M&A

### REVIEW OF 2021

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.

M&A deal count and size both reached record highs in 2021, driven by Covid19 pandemic recovery. With an influx of liquidity and industry-transforming M&A transactions taking place in the backdrop, KDB made a special effort to provide M&A advisory and strategic consulting services to Korean SMEs and MEs to better support their response to a changing business environment. Following the previous year, KDB continued its contributions in Korea to the biomedical industry, a high-growth sector. KDB's biomedical industry work includes multiple advisory engagements on business and technology transfers.

KDB has made a push to enhance its cross-border M&A advisory capabilities by setting up a M&A desk with dedicated professionals in Hong Kong, a global financial center. The Bank's Hong Kong M&A desk has continued its networking activities with global investment banks despite the challenges presented by the Covid19 pandemic, successfully closing multiple acquisition finance transactions. The Bank's track record in Hong Kong has generated considerable fees and contributed to building the Bank's global presence.

### PLANS FOR 2022

With pandemic response capabilities improving worldwide, the global economy is expected to continue its recovery from the Covid19 pandemic. Meanwhile, increased interest rates will decrease market liquidity, in turn pressuring the global M&A market versus the previous year. Separately, the overall decreased liquidity supply will drive more restructuring-focused M&A activity of companies in crisis. The Bank also expects business adjustments in response to industry transformations driven by ESG and digitalization trends to continue from 2021.

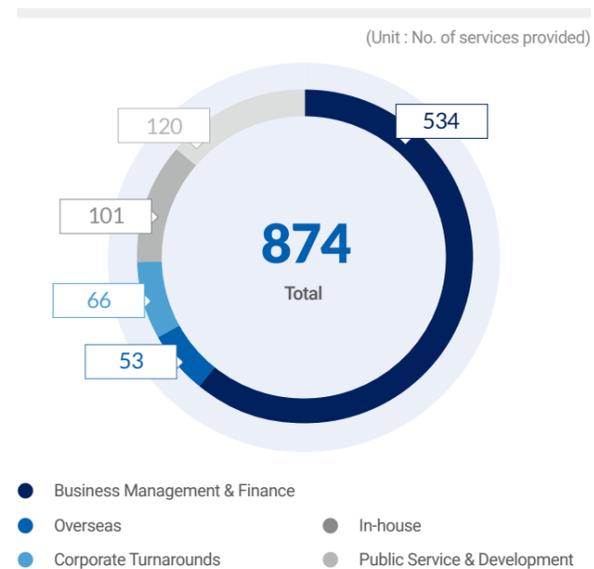
KDB will seek to contribute to developing a foundation for growth for the Korean economy. The Bank will not only support Korean companies in securing future growth engines through M&A, but will also actively engage in M&A advisory and consulting work for companies requiring restructuring of capital structure and business operations. Globally, the Bank will continue to collaborate with global partner advisors to build its cross-border M&A advisory capabilities. The Bank aims for its M&A advisory work to provide a strong footing for Korean businesses in their global go-to-market efforts.

## Consulting

### REVIEW OF 2021

Since 2003, KDB has been 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

### Number of Projects Completed (2003~2021)



### Landmark Deals of 2021

#### Advisory for transfer of drug technology from Biosplice (U.S.) to Samil Pharmaceutical (Korea)

KDB successfully advised the technology transfer of a knee arthritis treatment under development by Biosplice, a U.S. pharmaceutical company, to Samil Pharmaceutical, a medium-sized Korean pharmaceutical company. Through this transaction, Samil Pharmaceutical has gained exclusive Korean R&D and sales rights to a pioneering knee arthritis drug. When successful, Samil expects this product to be a groundbreaking treatment for knee arthritis patients throughout Korea. This transaction was the product of KDB's long-standing network with global M&A advisory bankers and Korean pharmaceutical companies, and contributed to building the Bank's presence in global healthcare investment banking.

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.

Companies faced considerable challenges in 2021 due to the prolonged pandemic and deepening uncertainties in global business environment. Against this backdrop, KDB leveraged its experience to carry out a wide range of advisory projects, collaborating across different departments within the Bank in the process. The Bank completed targeted consulting programs for high-growth companies, helping digital platform start-ups design corporate strategies and refine their business models. KDB also advised a medium-sized Korean pharmaceutical company to establish their overseas office, directly helping a Korean business enter a new market and capture new growth drivers.

### PLANS FOR 2022

While the Korean economy is expected to show gradual signs of recovery, a prolonged pandemic, supply chain disruption, inflation pressures, and heightening of international disputes will present challenges to a full recovery. Amidst such uncertainties, the Bank sees more policies forthcoming that will promote growth in digitalization, carbon neutrality, and other areas with potential to unlock new industries and their growth. In anticipation of a shifting environment ahead, KDB will continue offering its one-stop advisory services aimed at promoting the country's SMEs and MEs and creating a vibrant and extensive start-up ecosystem.

## Private Equity

### REVIEW OF 2021

Since the start of its private equity business in January 2005, KDB has set up 30 private equity funds (PEFs), and has built up an extensive track record in fund management, including buyouts, growth financing, and mezzanine financing. As of the end of 2021, total capital commitments of the 8 funds under management by KDB recorded KRW 2.8 trillion. The Bank ranked seventh in Korea measured in terms of total commitment size, with a market share of approximately 2.5%.

In a low interest rate environment, funds continued to flow into PEFs in chase for higher rates of return. Consequently, by the end of 2021, the number of PEF managers in Korea increased to 392, and total capital commitments amounted to approximately KRW 115 trillion.

KDB recorded an impressive return on its investment (average IRR 35.1%) in 2021, attributable to a diversified exit strategy

ranging from IPOs to early exits. The Bank continued its investments in environment, energy, and new growth sectors through Infrastructure Initiative Fund I and KC SMEs and MEs Value Up Fund I. The Bank's KDB Asia Fund was a major investor in a fund managed by the World Bank's IFC, gaining access to infrastructure and manufacturing projects across Bangladesh, Myanmar, and other key emerging Asian economies.

### PLANS FOR 2022

In combination with other factors, the prolonged Covid19 pandemic has put a strain on investment activity, leaving record high levels of dry powder in the private equity industry. The money is expected to flock to Green New Deal businesses, new digital technologies, and other targets with high growth potential in the post-Covid19 era.

In line with the government's Green New Deal policy to drive growth in low carbon and environmentally sustainable business, KDB closed the largest blind fund to date on August 31, 2021. Green Initiative Fund II with a total commitment of KRW 705 billion will make targeted investments in environment and energy deals, allowing the Bank to build up its expertise in the sectors.

With the pandemic speeding up the transition toward a digital economy, generating demand for new capital investments to accelerate the pace of the reform across industries, KDB plans to establish additional funds specifically to invest in SMEs and MEs and their digital initiatives.

At the same time, the Bank will pursue both the public interest and commercial viability by targeting areas that lack sufficient policy and financial support such as post-Covid19 business restructuring activities, normalization of distressed companies, and succession planning of family-owned SMEs while striving to maximize its returns on existing investments through active value up and exit activities.



# Innovation & Growth Banking

## Create an innovative growth platform

KDB serves as secretariat to the Innovative Growth Policy Council, a joint effort of four government ministries<sup>1)</sup> and eleven policy finance institutions<sup>2)</sup> to create a multilateral support system for Korea's innovation and growth. KDB's role as the secretariat is to provide managerial support and official communication channels for and among member institutions. The Bank helped establish the Common Criteria for Innovative Growth, a consolidated guideline defining innovative growth areas eligible for the Council's policy finance support, as well as the Common Criteria for New Deal Investments, which defines the eligibility criteria for investment under the government's New Deal policy implemented in July 2020. Furthermore, the Bank provides end-to-end support to the Financial Services Commission's Korea's 1,000 Innovative Companies Program, designed to provide customized policy finance support to high-growth companies selected from different industries by the relevant government institutions. Through the program, KDB enables innovators from a multitude of industrial areas to scale up their businesses through policy finance support.

## REVIEW OF 2021

2021 was effectively the inaugural year of the Korean New Deal policy, the Korean government's initiative to accelerate the country's digital and green transitions in a post-Covid19 era. As a policy finance institution and the secretariat to the Innovative Growth Policy Council, KDB has set out guidelines and recommendations for Korea's transition toward a digitalized and green economy, as well as providing comprehensive support to government and public sector finance institutions for allocating growth capital to a wide range of industries and sectors.

KDB also developed the Common Criteria for New Deal Investments based on the Common Criteria for Innovative Growth in order to improve operating efficiency of the country's New Deal-related efforts. The Bank also advised the managers in charge of the New Deal funds on the application of the aforementioned Common Criteria to their investment target selection. At the end of 2021, the Bank revised the Common Criteria for New Deal Investments to incorporate changes in government policies, namely the Korean New Deal 2.0 and the Ministry of Environment's Green K-Taxonomy Guidelines.

Celebrating the second year in 2021, Korea's 1,000 Innovative Companies Program<sup>3)</sup> upgraded its support framework and finished the selection of 556 new companies (835 companies to date). As the Program's control tower, KDB not only assisted with the selection of companies, matching those in need of funding with the relevant government institutions, but also drafted the Program's financial support guidelines and launched targeted products to better support the needs of the companies. In addition, KDB supported the IR activities of the participating financial institutions, actively providing assistance with the non-finance aspects of the Program.

## PLANS FOR 2022

As the control tower for executing the government's innovative growth policies, KDB will continue its efforts to co-work with various government and policy finance institutions to more effectively support the growth of innovators as well as those targeted by the New Deal policy.

2022 will also be the third and last year of Korea's 1,000 Innovative Companies Program. In 2022, the Bank plans to successfully wrap up its selection of target innovators, refining measures to expand both financial and non-financial support, and establish a monitoring system to enable effective follow up services.

With regard to the revisions to the Common Criteria for New Deal Investment and the Common Criteria for Innovative Growth implemented since January 2022, KDB plans to continue its advisory role to ensure successful adoption of these criteria. KDB's advisory work will include keeping a close eye on industry developments and government policy to enhance the criteria's efficiency. Furthermore, the Bank will strive to boost return on government effort in the innovative growth and New Deal spheres by monitoring and making assessment on the impact of the policy support on a regular basis.

## Indirect Investment

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.

## REVIEW OF 2021

### Policy-type New Deal Funds

As part of the effort to execute the government's various policy objectives including the New Deal policy, KDB will oversee the formation of a KRW 20 trillion policy-type New Deal fund over the next five-year period. The Bank secured commitments totaling KRW 5.7 trillion in 2021, exceeding its initial target of KRW 4 trillion and roughly KRW 500 billion has been invested in small and medium-sized businesses in the digital, green, and other New Deal-relevant sectors. Given that 2021 was the first year of the funds' launch, the Bank expects more active investment to follow in 2022 onward.

## Growth Support Funds

Since 2018, KDB has used its Growth Support Funds to supply capital to start-ups and small and medium-sized businesses in various stages ranging from growth to exit. The Bank has successfully secured commitments totaling KRW 9.9 trillion over the last three years and executed KRW 6.7 trillion worth of VC investment in start-ups, small and medium-sized companies as at end-2021.

### Growth Support Funds Overview

(Unit : KRW trillion)

	Number of Funds	Fund Size	Capital Invested
2018 (1 <sup>st</sup> year)	18	2.9	2.6
2019 (2 <sup>nd</sup> year)	19	3.2	2.3
2020 (3 <sup>rd</sup> year)	18	3.8	1.8
<b>Total</b>	<b>55</b>	<b>9.9</b>	<b>6.7</b>

## Materials, Parts, and Equipment Funds

In response to the developments in both local and global economic environments, KDB launched in 2020 sector-specific funds that focus on materials, parts, and equipment companies, raising KRW 1.2 trillion in the first two years. Additional funds are due to launch after 2022 with a target size of KRW 120.9 billion. By the end of 2021, the active funds have invested KRW 0.7 trillion, providing crucial support to Korea's materials, parts, and equipment sectors, whose competitiveness is essential for creating jobs in the country. Through these investments, the Bank hopes to provide necessary and timely capital to innovators that require funding to capture new markets.

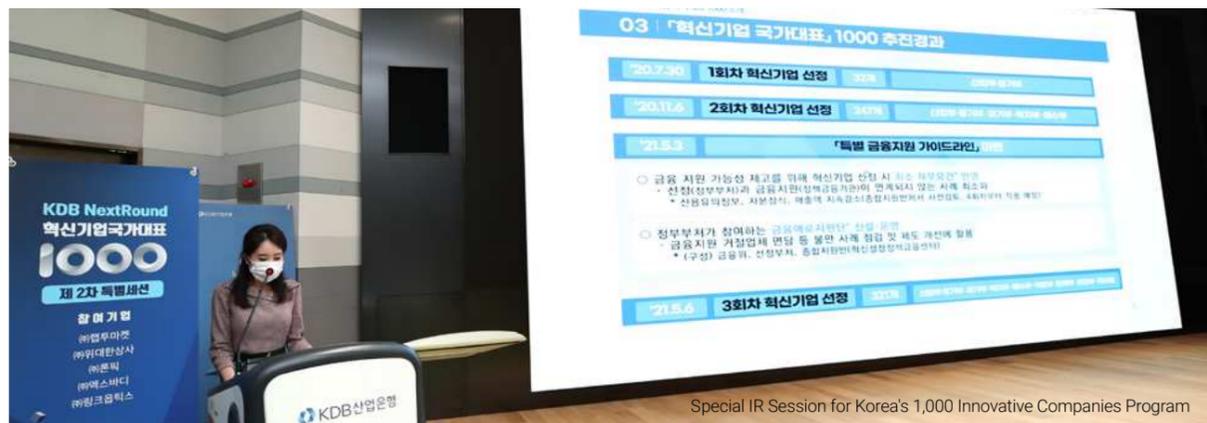
### Materials, Parts, and Equipment Funds Overview

(Unit : KRW billion)

	Number of Funds	Fund Size	Capital Invested
2020 (1 <sup>st</sup> year)	14	780.9	602.5
2021 (2 <sup>nd</sup> year)	8	398.7	93.5
<b>Total</b>	<b>21</b>	<b>1,179.6</b>	<b>696.0</b>

### Policy-type New Deal Funds Overview in 2021(1<sup>st</sup> year)

Number of Funds	<b>50</b>
Fund Size	KRW <b>5.7</b> trillion
Capital Invested	KRW <b>0.5</b> trillion



Special IR Session for Korea's 1,000 Innovative Companies Program

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  
 3) A government-wide program to select and provide financial support to 1,000+a innovative companies over a three year period.



**Corporate Restructuring Innovation Funds**

Since 2018, KDB began raising capital to establish a fund of funds worth KRW 1.5 trillion designed to support and facilitate capital markets driven corporate restructuring activities in the country. The fund was matched with private sector investments, adding up to KRW 3.8 trillion as of the end of 2021 and approximately KRW 2.3 trillion has been invested in companies undergoing restructuring. The Bank aims to continue these types of investments to promote market-centric corporate turnarounds in Korea.

**Corporate Restructuring Innovation Funds Overview**

(Unit : KRW trillion)

	Fund of funds	Subordinate Funds	Capital Invested
2018 (Fund I)	0.54	1.64	1.26
2020 (Fund II)	0.50	1.44	1.01
2021 (Fund III)	0.45	0.72	0.02
<b>Total</b>	<b>1.49</b>	<b>3.80</b>	<b>2.29</b>

**Indirect Investment Overview as of the end of 2021**

(Unit : KRW trillion)

	Number of Funds	Fund Size	KDB Commitments	KDB Capital Contributions
PE Funds	84	17.1	5.5	3.7
VC Funds	130	8.9	2.2	1.8
Funds of Funds with policy objectives <sup>1)</sup>	11	7.6	6.2	3.9
<b>Total</b>	<b>225</b>	<b>33.6</b>	<b>13.9</b>	<b>9.4</b>

1) Growth Ladder Fund, Policy-type New Deal Fund, Securities Market Stabilization Fund, etc.

**Major Achievements in 2021**

In 2021, KDB reinforced its role as one of the major investors in the domestic fund market with a track record of establishing 225 funds with an accumulated capital contributions of approximately KRW 9.4 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.

**PLANS FOR 2022**

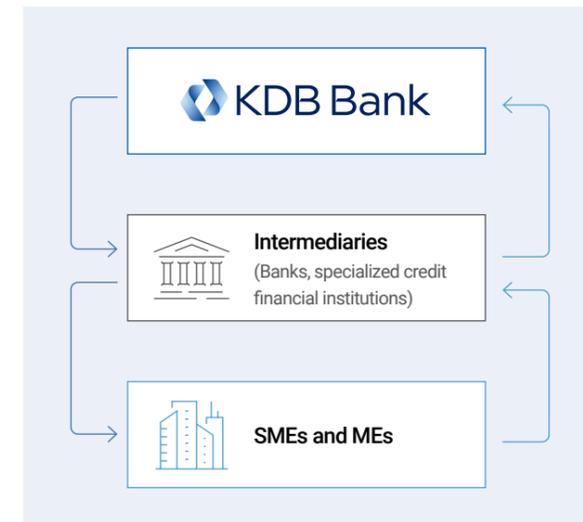
KDB is in the process of setting up policy-type New Deal funds totaling KRW 20 trillion over five year period (2021 – 2025) to foster Korea's transition to a digital and green economy. In close monitoring of market demands and policy developments, the Bank will continue the second year of this program in 2022, managing a total of KRW 4 trillion.

In addition, the Bank will scale up its Regional Investment Funds and launch a new fund designed to support Korea's young entrepreneurs to better uphold its social responsibility as a key institutional investor. It will also conduct ESG evaluation of its fund managers and select top performers who will in turn benefit from preferential conditions when KDB makes its next investment in projects. This is to incentivize ESG investment practices among fund managers while strengthening the Bank's responsibility over its assets as an indirect investor.

As one of Korea's leading institutional investors, KDB will continue supplying companies and entrepreneurs with necessary capital in 2022, playing a central role in securing new growth drivers for the future of Korea and facilitating a vibrant start-up ecosystem.

**On-lending**

On-lending is a market-friendly indirect policy finance tool used by KDB to provide long term capital at low interest rates to SMEs and MEs via banks and specialized credit financial institutions, which act as intermediaries.

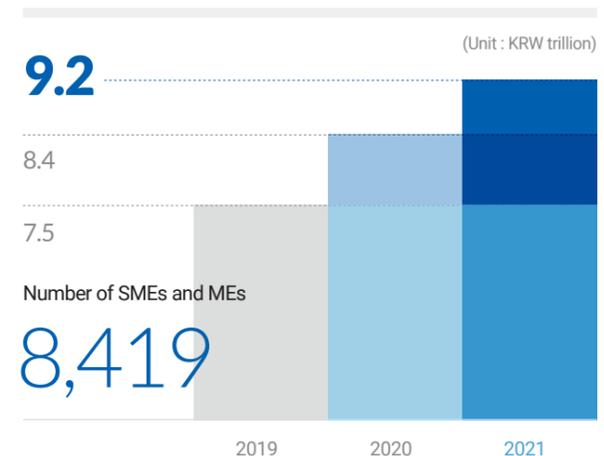


**REVIEW OF 2021**

In 2021, KDB supplied on-lending loans totaling KRW 9.2 trillion to 8,419 qualified SMEs and MEs, which played a significant role in the growth of these corporates.

Broken down, 91%, or KRW 8.4 trillion, were provided to SMEs while those in the innovative growth sectors accounted for 70% of the sectoral makeup. Most of the transactions were, on average, valued at KRW 900 million, allowing SMEs to gain access to the necessary financing to elevate their competitiveness and facilitate innovation.

**On-lending Loans Supplied by Year**



In particular, KDB fully implemented a KRW 200 billion special on-lending program it launched in January 2021 to support the government's New Deal policy. The Bank plans to allocate and manage a total of KRW 1 trillion under the same program until 2025.

KDB supplied KRW 1.6 trillion through the continuation of another special on-lending program launched in April 2020 to support SMEs and small business owners mitigate the impact of Covid19, along with payment deferrals and other relief measures.

**PLANS FOR 2022**

KDB plans to continue its work in fostering the growth of innovative industries and companies in 2022 by expanding its existing special on-lending programs. The Bank will strive to reduce regional economic imbalance, create jobs, and support companies hit by Covid19 to accelerate innovation and lead sustainable economic development.

As a new initiative, the Bank is set to launch in February 2022 a special on-lending program for materials, parts, and equipment sector companies as well as the SMEs selected by Korea's 1,000 Innovative Companies Program. A separate on-lending program exclusively for green companies is also due to launch during the first half of 2022 and will aim to promote carbon neutrality through green finance.

Finally, KDB will strengthen its digital platform and expand the scope of its automated loan review program to enhance customer experience and further extend the reach of its on-lending products.





### KDB NextRound

As a market-oriented policy finance institution, KDB has led Korea's effort to discover growth engines for its economy while promoting vitality and diversity of the start-up ecosystem. The Bank's market-driven venture investment platform KDB NextRound has held 535 IR rounds to date since its inception in August 2016. In response to the Covid19 pandemic, which imposed severe restrictions on social gatherings, the Bank successfully arranged both virtual and offline rounds together with the NextRound Online Platform (www.nextround.kr) opened in 2021, offering uninterrupted opportunities to start-ups looking for investment and acting as a market maker in Korea's start-up ecosystem.

KDB's NextRise, an annual event launched in 2019, is the industry's largest start-up fair that brings together start-ups and medium to large-sized businesses in an open innovation setting. Furthermore, KDB has set up a dedicated venture capital entity in Silicon Valley and also a special purpose fund to invest in Korean start-ups seeking to expand globally. In tandem with this effort, the Bank has collaborated with industry and academic partners to build and finance a positive cycle that facilitates technology development, transfer and product commercialization while engaging in start-up incubation and acceleration activities through the KDB NextOne program.

#### REVIEW OF 2021

##### Contributing to start-up ecosystem through its market-driven KDB NextRound platform

The KDB NextRound is a market-driven start-up investment platform that connects start-ups seeking investments with investors searching for targets. The Bank and its partner that range from VCs and accelerators to government research institutes have discovered promising start-ups and arranged for them a total of 535 IR rounds to date since the platform's launch in 2016. Through these rounds, 1,969 start-ups have had opportunity to make their pitch, of which 492 have successfully raised KRW 3.4 trillion.

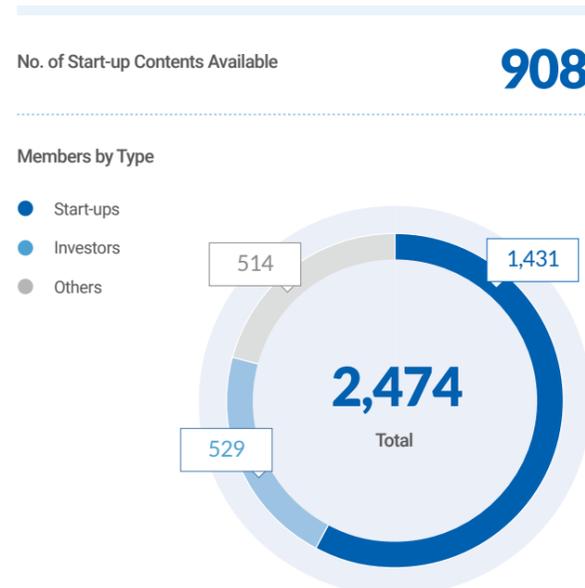
In addition to the regular IR rounds, the KDB NextRound also holds industry-specific special rounds for biotech, fintech, and other sectoral players to better meet versatile demands in the market. It offers global rounds in conjunction with VCs from overseas to support start-ups looking to expand beyond the Korean borders. In order to foster start-up ecosystems outside the Seoul metropolitan area, KDB makes tours of the start-up hubs located across the country and hold IR rounds tailored to the strengths and needs of each regional hub.



##### Opening of the NextRound online platform

KDB's NextRound online platform(www.nextround.kr) was launched in April 2021 to overcome the limitations of a physical event and better cater to the diverse needs of the start-up ecosystem in Korea. The online platform allows start-ups to directly introduce their business and technologies and to upload videos and other pitch material. For investors, the platform offers live videos and recordings of the NextRound events as well as a convenient interface to browse through the information on potential start-up targets.

##### NextRound Online Platform Overview in 2021



##### Successful opening of the NextRise 2021, Seoul amid the pandemic

KDB supported the Korean start-up ecosystem on multiple fronts through the 2021 edition of the NextRise held from June 28 to June 29. The NextRise is the industry's largest start-up fair organized jointly by KDB and four other organizations - Korea International Trade Association, Korea Venture Business Association, Korea Venture Capital Association, and National Research Council of Science & Technology. The event consists of conferences, exhibition booths, and 1:1 meetups to bring together industry participants including medium to large-sized businesses, VCs, start-ups, research institutions and support institutions. The NextRise was successfully held both on- and offline through YouTube, the NextRound online platform, and at the Coex Convention & Exhibition Center in Seoul despite the pandemic, becoming the only start-up fair held in a hybrid format in the first half of 2021 in Korea. The event continues to develop by adding new programs and attracting more participants each year.

More than 10,000 participants visited the fair in 2021 with participants including 275 local and overseas start-ups. Eight multinational companies including Hyundai Motor Company, Amazon Web Services, and Microsoft opened their exhibition booths, as did universities and the embassies based in Korea. Unicorns such as Toss and HYBE, global financial institutions like Goldman Sachs and Altos Ventures, as well as multiple start-up support organizations and industry experts conducted a total of 102 on- and offline seminars. More than 2,000 business meetings took place among 673 start-ups, 117 medium and large-sized businesses, and 39 VCs.

##### Accelerating the growth of start-ups via KDB NextONE

KDB continues to discover and incubate early-stage start-ups through the NextONE program launched in July 2020. The KDB NextONE provides business consulting, targeted mentoring, fundraising support, and business growth programs to deliver tangible help to early-stage start-ups. Start-ups in the second and third rounds of the KDB NextONE in 2021 successfully completed their funding rounds while generating business results and new jobs. In sum, the KDB NextONE has effectively pushed KDB's start-up support system to the next level.



**Supporting start-ups through special purpose funds**

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. In 2021, KDB collaborated with the Hyundai Motor Company affiliates and their partner companies to form the KDB-HMG ZeroOne New Technology Venture Capital Fund. The joint fund with HMC targets mobility start-ups focused on green and smart technology, while contributing to open innovation efforts at the HMC affiliates and parts manufacturers.

**Opening an in-house VC in Silicon Valley in the US**

Taking a step further from supporting start-ups mostly in Korea, KDB opened a VC subsidiary in Silicon Valley to better connect the Korean start-up ecosystem with one of the most prominent global centers of technological innovation. As the Bank's first overseas VC subsidiary, KDB Silicon Valley LLC will make both direct and indirect investments in local start-ups and through these activities build a Korean-American network encompassing local entrepreneurs, investors, and industry leaders. This entity will serve as the foundation for KDB to develop industry connections within the global start-up ecosystem, through which the Bank will actively support Korean start-ups on their journey to global expansion and unicorn status.



**PLANS FOR 2022**

KDB will continue to develop and foster the start-up ecosystem in line with its commitment to the government's New Deal policy and efforts to encourage entrepreneurship. The Bank expects to diversify the programs and target start-up pools for the KDB NextRound, while conducting additional global rounds to cater to Korean start-ups expanding overseas as well as global VCs investing in Korea.

The *NextRise 2022, Seoul* is scheduled to take place from June 16 to June 17, 2022 at the COEX Convention & Exhibition Center in Seoul. Key themes at this year's NextRise event include 'Unicorn Participation', 'Expanding Access to NextRise', and 'Global Expansion'. The Bank hopes for the 2022 NextRise to become an opportunity of growth for all participants from the global start-up scene, while contributing to furthering the local interest in innovation and entrepreneurship.

Moreover, KDB will seek to upgrade the KDB NextONE program to incubate promising start-ups that will drive post-Covid19 growth and promote the government's New Deal initiative. KDB will also mobilize the Bank's venture platform and international network to support the global go-to-market efforts of Korean start-ups. KDB aims for these efforts to help solidify the Bank's standing as Korea's financial leader providing uninterrupted momentum of innovation, fueling the country's growth.

# Project Finance



**Domestic Project Finance**

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.

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.

**REVIEW OF 2021**

KDB has closed a total of 756 project finance deals in Korea, which amount to KRW 149 trillion by the end of 2021.

In 2021 alone, KDB arranged 37 transactions with a total deal volume of KRW 8.3 trillion, of which 12 were SOC projects and 25 were in the real estate sector. The Bank's track record as an

arranger in the infrastructure/energy sector summed up to KRW 2.9 trillion, an impressive contribution to a market weighed down by pressures from Covid19; key projects include the Anyang-Seongnam Highway Refinancing, Incheon New Port Container A Terminal Refinancing, and Yeosu Combined Cycle Power Plant Project.

The Bank has also contributed to alleviating government burden on PPP road projects and enabled their efficient execution by providing special land acquisition loans. In line with the government's New Deal policy, KDB financed a slew of clean energy projects including solar and energy storage system.

In the real estate sector, KDB successfully arranged KRW 5.4 trillion across 25 projects, further increasing its visibility as an anchor player in Korea's real estate PF market while fostering regional economic growth. Some of the Bank's real estate projects include a semiconductor cluster development in Yongin and a data center in Pungsan-dong, Hanam City.

**PLANS FOR 2022**

As the government's policy implementing partner, KDB plans to continue its pursuit of the Korean New Deal initiative, while actively searching for new business opportunities. In the SOC sector, the Bank will work with the government to better serve the public interest in the traditional infrastructure market through cost-cutting measures such as refinancing and financial restructuring of new and existing PPP projects and by enhancing end-user benefit from toll reduction and other means. At the same time, KDB will deploy green finance to environmentally sustainable and low carbon projects such as clean transport infrastructure and environment renewal programs. Other target sectors include ICT infrastructure such as high-speed optical networks, data centers, and artificial satellites in preparation ahead for the Fourth Industrial Revolution.

In the energy sector, the Bank intends to invest actively in offshore wind farms, hydrogen, LNG terminals, and other assets related to carbon neutrality that are expected to see high growth. The Bank anticipates these clean energy sources to replace existing coal-fired plants and in doing so align its investments with the government's renewable energy policies and lead the growth of sustainable finance.

In the real estate sector, KDB will continue its role as a policy finance institution in traditional regional development projects. Furthermore, the Bank will invest in smart logistics centers, advanced industrial complexes, data centers, and other digital transformation assets that support government initiatives to vitalize the national economy.

## Overseas Project Finance

### REVIEW OF 2021

Since KDB first entered the global PF markets in 2003 through a dedicated team organized in the same year, the Bank has built up an international network supported by PF desks led by local talent in Singapore (2011), New York (2015), London (2016), and Sydney (scheduled to open in 2022). Based on this network, the Bank has successfully arranged 184 project finance transactions worth USD 16.3 billion by the end of 2021, ranking 11th globally and 6th in the Asia-Pacific on the industry league table published by Project Finance International (PFI). Furthermore, KDB added to the network dedicated financial advisory teams in London (2018) and Singapore (2019) to ramp up its global financial advisory capabilities.

In 2021, the Bank closed 28 global PF transactions worth USD 2.91 billion and 22 shipping and aviation PF transactions worth USD 2.87 billion. The Bank's overseas track record includes the Fargo-Moorhead Area Diversion Project in USA, Inland Rail Project in Australia, Vineyard Offshore Wind Farm Project in USA, and Indonesia Multifunctional Satellite Project.

Eight of KDB's 2021 global PF deals were selected as Deals of the Year by PFI. These deals were landmark transactions that took place across Europe, Asia, the Middle East, and other key markets.

#### PFI's list of KDB Deals of the Year :

- Jazan Refinery & Terminal Project in Saudi Arabia
- Enfinium WtE Project in UK
- Vineyard Offshore Wind Farm Project in USA
- Changhua Offshore Wind Farm Project in Taiwan
- Fargo-Moorhead Area Diversion Project in USA
- Yanbu 4 IWP Project in Saudi Arabia
- Indonesia Multifunctional Satria Satellite Project
- North East Link Road Project in Australia

### PLANS FOR 2022

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 its PF Desks are located and seek out more opportunities for advisory and arranger roles through greater equity participation in reputable infrastructure funds.

In particular, the Bank plans to open a PF desk in Sydney, Australia in 2022 to penetrate the world's second largest project finance market.

Finally, KDB will leverage its track record in global renewable energy projects and corporate PPA<sup>1)</sup> schemes to jointly organize global renewable energy projects with Korea-based partners. The Bank will also attempt to promote RE100<sup>2)</sup> by pursuing deals with Korean companies doing business globally.

1) Corporate PPA (Power Purchase Agreement): Power purchase agreements signed with corporate buyers other than power companies

2) RE100: Global campaign to generate 100% of all required energy from renewable sources

#### Landmark Deals of 2021

##### Indonesia Multifunctional Satria Satellite Project (PFI Deal of the Year 2021)

- KDB signed its commitment to finance the Indonesian government's Satellite of Republic of Indonesia Project on February 25, 2021, which aims to manufacture and launch a geostationary satellite to provide a better internet access to the residents of the country.
- The USD 545 million project attracted global names such as Space X and Thales. KDB became the first Korean financial institution to finance an artificial satellite project, creating a pioneering record in a market dominated by a handful of global banks.
- As mandated lead arranger, KDB successfully arranged USD 120 million and through this first-ever space satellite project by a Korean FI, KDB provided a substantial boost to the Korean government's New Southern Policy and further solidified its status in the global PF markets.

##### U.S. Vineyard Offshore Wind Farm Project (PFI Deal of the Year 2021)

- KDB closed its financing of the 800MW Vineyard Wind project off the coast of Massachusetts, the U.S. on December 22, 2021, backing the construction of an offshore wind farm that will sell its electricity to three U.S. power distributors through 20-year PPAs.
- The project is the first commercial-scale offshore wind power project in the U.S., with total costs of USD 4.1 billion and 25 global banks participating in financing. KDB's allocation amounted to USD 120 million. This deal marks KDB's successful entry into the U.S. offshore wind power industry and contributed to enhancing the Bank's global brand value.

# Trading

## F/X & Derivatives Trading

KDB pioneered the Korean F/X and derivatives market in the 1980s when market activity was virtually nonexistent. Over the past decades, the Bank has built up broad expertise required to deal with a wide variety of products ranging from F/X, swaps, options, and other more common forms of derivatives to more complex structured products, providing hedging solutions tailored to the need of each of its corporate clients. Now, as Korea's top tier derivatives house, KDB continues to underpin the expansion of the Korean economy.

### REVIEW OF 2021

The global economy made a significant turnaround in 2021 with increased investments, low levels of unemployment, and consistent rise in prices, driven by worldwide distribution of the Covid19 vaccine. On the strength of the positive developments in the market coupled with the wealth of experience and internal expertise, KDB achieved the following results in providing custom derivatives solutions to its domestic corporate clients in 2021.

First, the Bank worked with Korean corporates to help their recovery from the Covid19 crisis. The Bank supplied airlines, shippers, and refiners with hedging solutions optimized for their needs, while offering currency swaps to public corporations at competitive prices for their long-term capital needs.

Second, KDB developed products to better serve the interest of its consumers in a low interest rate environment. The Bank launched structured deposits using derivatives, offering higher interest rates than traditional term deposit instruments.

Third, KDB facilitated a smoother flow of the country's emission trading scheme (ETS). As a market maker, the Bank contributed to stabilizing the price of carbon allowances and advised the government on its plan to introduce third party participation to the ETS, providing advice on ways to advance and further deepen the market.

In addition, KDB supplied foreign currencies to keep the domestic currency swap market liquid through its active market making effort and committed to build up the won-yuan trading volume, fostering Seoul's direct trading market between the two currencies. KDB also strived to drive up volume in Covid19-struck spot markets.

## PLANS FOR 2022

With unpredictable market conditions expected in 2022, 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, the Bank will be an early responder to changing regulations and derivatives market conditions. KDB will attempt to sign initial margin contracts with each of its local and overseas counterparties in response to the initial margin regulation introduced in September 2021. Regarding the LIBOR phase-out, KDB will complete changes to its internal regulations and systems to successfully transition to alternative benchmark interest rates. Moreover, the Bank will continue its commitment to consumer protection in line with the more rigorous regulations and standards being introduced in Korea.

In other areas, the Bank will continue its role as a market maker and policy advisor to the government and the government's effort to curb carbon emission and advance the ETS. The Bank will partner with local corporations to build up their risk management capacity and advise on currency risk, developing custom solutions where necessary. As the global currency market transitions to digital trading, the Bank will implement digital trading platforms to upgrade trading capability, keeping the Bank at the forefront of the Korean derivatives market.





### Money Market & Capital Market Trading

KDB manages its liquidity and generates returns by investing mid- to long-term surplus funds in securities at home and abroad. The Bank employs a round-the-clock trading system, leveraging a global book across its major hub branches including New York and London, in order to seize more opportunities in the global financial markets.

#### REVIEW OF 2021

KDB pioneered Strategic Asset Allocation (SAA) in the Korean banking industry amidst record volatilities in the market, streamlining investment decisions on USD assets and enhancing stability of its portfolio through optimal asset allocation and periodic rebalancing.

KDB also worked to diversify its portfolio; the Bank pioneered CNY bond lending and borrowing and expanded exposure to KRW corporate bonds. The Bank's headquarters has co-worked with the Bank's overseas entities to strengthen its risk management framework, implementing limits for issuers of foreign currency-denominated securities.

#### PLANS FOR 2022

In 2022, the Bank will aim to further enhance stability of its mid- to long-term portfolio as it extends the SAA strategy to KRW and CNY assets. The Bank's headquarters will co-work with the hub branches in London, New York, Singapore, and Hong Kong to employ a KDB One Book system such that the Bank's entire securities will be managed as one portfolio, upgrading the Bank's overall investment expertise and efficiency.

At the same time, the Bank will conduct regular reviews on key indices to encourage reduction of exposure to at-risk securities, monitor mandatory exposures to highly liquid assets at the hub branches overseas, and expand the Daily Credit Watch program to pre-emptively manage risk bank-wide.

Finally, as Korea's premier bond house, KDB will continue its active market engagement to facilitate corporate bond issuance while committing to its role as a Korea Treasury Bond (KTB) primary dealer for the advancement of the KTB market.

## Global Business



### Global Expansion and Network Management

As one of Korea's key policy finance institutions, KDB continues to make strides in leading the globalization of the country's financial services industry and expanding its international territory. The Bank leverages its overseas network to underpin the government's New Southern Policy and support the simultaneous expansion of Korean finance and business abroad.

KDB's strengths are in its history of activity in the global financial markets and its credit rating equal to that of the Republic of Korea. The Bank offers both Korean and international clients a diverse range of corporate and investment banking (CIB) services, competing head-to-head with some of the world's most prominent banks.

Going forward, KDB will continue to provide loans and other capital markets arrangements coupled with a comprehensive spectrum of corporate banking products spanning project finance, M&A, shipping & aviation finance, consulting, and derivatives to Korean businesses expanding globally. In doing so, the Bank will work toward its goal of becoming one of the top 20 banks in the world and a top-tier CIB in Asia.

#### REVIEW OF 2021

KDB seeks to capture stable funding sources and new revenue streams, while serving as a gateway for Korean businesses expanding globally. As of the end of 2021, KDB has overseas presence across 18 countries - one regional head office in Asia, ten branches, seven subsidiaries, and eight representative offices - and this number is expected to grow. The Bank plans to harness the capacity and collaborative synergy among its overseas business units by focusing IB operations on its subsidiaries while branches concentrate on corporate banking. In extension to the Bank's incumbent leadership in the Korean start-up ecosystem, KDB has opened a venture capital subsidiary in Silicon Valley. KDB Silicon Valley LLC commenced operations in November 2021 and supports global expansion and innovative growth of Korean start-ups.

KDB partnered with MDBs and other international organizations to expand its global network and broaden its business foundation. In the first half of 2021, the Bank invited public officials from Indonesia, Vietnam, and other emerging economies taking graduate courses in Korea to two rounds of a Fam Tour, introducing KDB's business. In the latter half of 2021, the Bank joined the D20-LTIC, pledging its cooperation on carbon neutrality and sustainable development with other development finance institutions at an annual meeting held in Italy. KDB also signed an MOU in November with China Development Bank to further the interbank cooperation on syndicated loans and funding operations. In December, the Bank held its annual workshop with Mizuho Bank online, successfully organizing six working-level business sessions and a senior-level meeting, continually developing the Bank's global partnership despite pandemic-imposed limitations.

#### PLANS FOR 2022

In 2022, KDB seeks to deepen its long-term growth foundation by continually expanding its geographic coverage. The Bank plans to open a branch in Hanoi, Vietnam as its corporate banking platform in the New Southern region and another one in Frankfurt, Germany which will grow into KDB's green finance center in Europe.

Moreover, the Bank will divide its overseas branch network into China, Hong Kong, Asia, the Americas, and Europe, developing a growth strategy for each. By leveraging its hub branches, KDB will engage in more mega deals for international clients, increase exposure to securities denominated in local currencies and expand trade finance transactions with other financial institutions, scaling up its operation and assets through strategic localization.



### Cross-Border Syndicated Loans

KDB's global corporate banking offers syndicated loans and credit commitments to non-resident, non-Korean related institutional clients. The Bank's loan origination and distribution desks in the Asia-Pacific region and Europe oversee investment grade and non-investment grade borrowers across the globe. In recent years KDB has expanded its product offerings from plain vanilla loans to merger & acquisition financing, fund facilities such as Net Asset Value financing and subscription line facilities.

Leveraging on our extensive network across the globe KDB has reported strong performance despite the uneven recovery from the pandemic and volatile market conditions. KDB financed mega deals such as the USD 945 million Industrial and Commercial Bank of China London and EUR 1.75 billion Qatar National Bank transactions in 2021 as well as ESG linked transactions. With the growing importance of applying an ESG lens to business strategy KDB delivered numerous sustainability linked loans and has reduced financing activities to individual client entities that are expanding in high-emitting sectors to align to the targets in reducing financed emissions.

In 2022 the impact of monetary policy normalization and inflation, interest rate benchmark transition will affect the loan markets and our core businesses. We will continue to make good progress on our 2022 objectives focusing on increasing our footprint in Asia, Europe and MENA region. Also in the coming year KDB aims to broaden our business scope to securitized warehouse financing and we continue to support zero emissions and green policies.

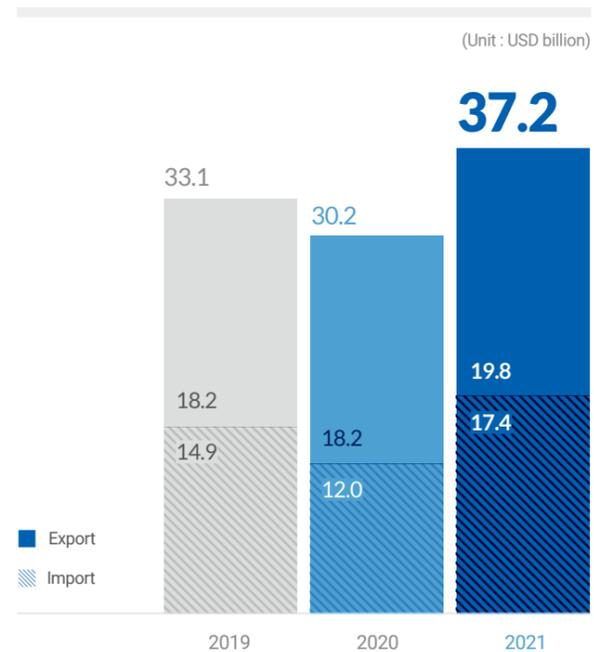
### Trade Finance

KDB offers a comprehensive spectrum of export and import trade finance products to its domestic clients. In addition, to identify new sources of profit, the Bank has expanded its business to cover inter-bank trade finance risk participation transactions intermediated by global banks. KDB was also the first Korean financial institution to extend credit lines to banks from emerging economies that are guaranteed by international financial institutions. Since 2018, KDB has provided trade loans to these banks, diversifying its trade finance offerings and broadening the inter-FI operation base.

The global trade volume saw a significant upsurge in 2021 driven by increase in government spending and vaccine rollout that made way for a turnaround in global economy. South Korea also benefited from the external developments, recording gains on all fifteen of its main exports and the highest trade value to date. KDB was quick to respond to the boom in trade activity, carrying out USD 37.2 billion worth of export and import finance transactions in 2021, exceeding an annual benchmark of USD 30 billion for six years in a row.

In 2022, KDB will continue providing import/export finance solutions to its domestic clients by coordinating close cooperation and promoting partnership between the Bank's RMs and corporate clients.

#### Export and Import Financing Supplied to Korean Companies by Year



## Pension & Trust

### Pension

Since the introduction of retirement pension plans in Korea in December 2005, KDB has engaged in the retirement pension business as part of its commitment to provide a full spectrum of financial solutions tailored to the needs of its clients. In managing the retirement funds, KDB fully utilizes its years of know-how as a corporate banking specialist.

Despite heightened job insecurity from the prolonged Covid19 pandemic, KDB's total assets under management recorded KRW 7.6 trillion as of the end of 2021, a 7.5% jump from the 2020 level. This made the Bank the 13th largest pension fund among 43 that are currently in operation in Korea.

In 2022, KDB will stay vigilant to government demands for improvement in retirement pension schemes and increase coordination between the head office pension department and RMs stationed at individual branches for more effective marketing. The Bank will also develop AI-advised portfolio programs and upgrade the relevant IT infrastructure to deliver stronger returns and a better experience for its customers.

### 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).

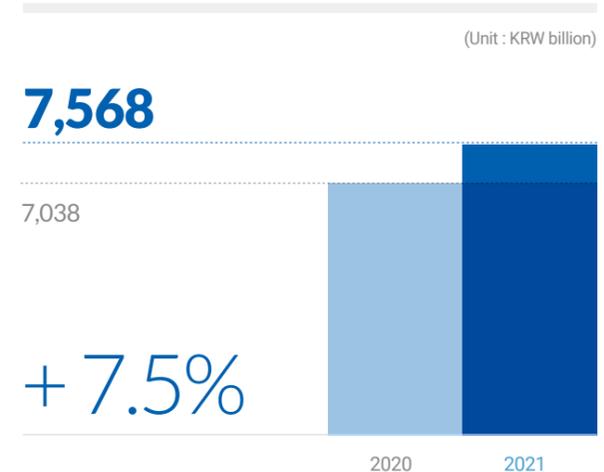
KDB provides a variety of trust options including high-return foreign currency instruments (e.g., USD RP, USD-denominated notes) to offer custom solutions to its corporate clients looking for ways to manage their excess liquidity.

With respect to property trusts, the Bank closed 14 new monetary receivable trust transactions worth KRW 3.7 trillion in 2021 by enhancing collateral capabilities of SMEs through accounts receivable, facilitating their financing against the challenging environment caused by the pandemic. Of these transactions, 62% were made to companies rated BBB or below. The Bank has also successfully closed 12 new real estate-backed trust transactions worth KRW 1.9 trillion.

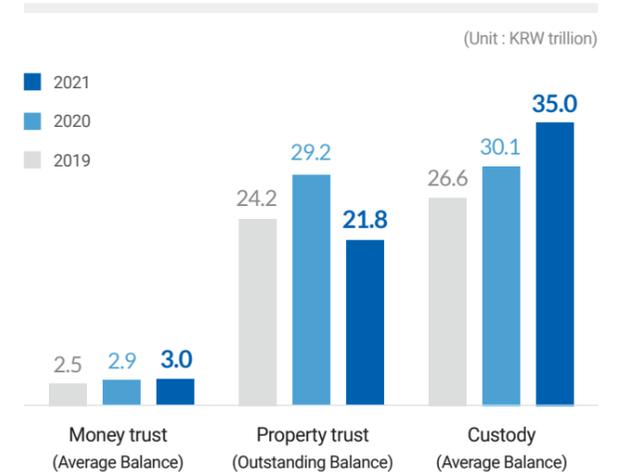
KDB's average balance for custody increased by KRW 4.9 trillion from the previous year, in part due to the Bank's success in securing business related to policy finance funds. The Bank made a substantial improvement in its custodian capacity by linking its system to the Korea Securities Depository's fund management architecture and strengthened compliance through securing greater efficiency and transparency in managing private equity funds.

Going forward, KDB will remain alert to possible changes to Korea's trust framework that may make way for, among others, self-declared trusts and sub-trusts, and follow up with new products designed to serve both policy and public interests while contributing to the Bank's role as a policy finance institution.

#### Pension Assets Under Management



#### KDB Trust Assets Under Management





# SUSTAINABILITY REVIEW

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**KDB is committed to lead in sustainable finance that envisions a symbiotic relationship between the economy, environment and society, and has placed ESG at the core of its management principles.**

KDB carries out meticulous monitoring and evaluation of its risk, mitigating and controlling the negative impact on its operation enabled by a culture of transparency and ethical integrity. The resources accumulated in the process are then directed toward creating social values and financial innovations for the generations to come.

048	Liability Management
051	Risk Management
054	IT & Digitalization
056	Ethical Management
059	Corporate Social Responsibility
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063	ESG Review



# Liability Management

## 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

Despite the spread of Covid19 variants, the Bank of Korea raised its benchmark interest rate 0.50% in 2021 to rein in financial imbalance as soaring commodity prices and supply disruptions pushed up inflationary pressure and reinforced the central bank's hawkish stance.

New issuances of KDB bonds totaled KRW 56.1 trillion in 2021, with balance outstanding at KRW 111.0 trillion, marking a KRW 6.3 trillion drop in new issuances and KRW 2.2 trillion increase in balance year-on-year. KDB bond issuances exceeded annual targets, allowing the Bank to secure sufficient funds to meet demands from policy finance.

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.

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 is a leading issuer of KRW ESG bonds, issuing a total of KRW 800 billion in 2019, and KRW 1.2 trillion in 2020. The Bank was a major market maker again in 2021, issuing a total of KRW 880 billion in ESG bonds including KRW 550 billion in social bonds to support companies mitigate the impact of Covid19 and promote employment and KRW 330 billion in green bonds.

In 2021, KDB became the first to issue Korea's long-term structured green bond (KRW 30 billion) with a call option, confirming the Bank's pioneering role in the Korean domestic green bond markets, where existing issuances have been dominated by medium-term plain vanillas.

### Market Yields on Benchmark Bonds

(As of December 31, 2021, Units: %)

	1Y	3Y	5Y
Korea Treasury Bonds	1.351	1.795	2.005
<b>KDB Bonds</b>	<b>1.657</b>	<b>1.998</b>	<b>2.221</b>
Bank Debentures (AAA)	1.731	2.056	2.258
Corporate (AA-)	1.921	2.412	2.624

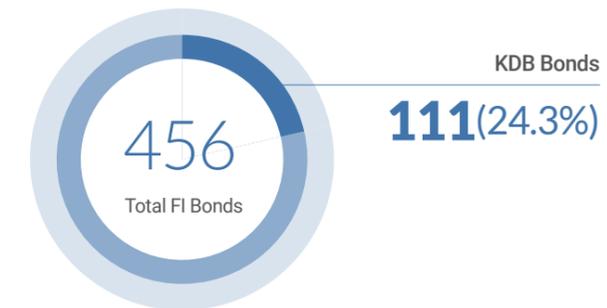
In 2022, KDB will continue implementing a flexible funding strategy that accommodates changes in the Bank's assets and liabilities, cut down on funding costs through product and investor diversification and strengthen the revenue base of KDB bonds. The Bank will also contribute to advancing Korea's ESG bond market through active participation including taking part in the government's pilot project for implementing K-Taxonomy.

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.

### Share of KDB Bonds in the Domestic Bond Market (KRW-denominated)

(As of December 31, 2021, Unit: KRW trillion)

- Outstanding Balance
- Newly Issued



### Foreign Currency-denominated

Despite a challenging market weighed down by the pandemic and inflationary pressure, the Bank successfully conducted careful analysis with strategic bond issuances and raised USD 7.5 billion of foreign currency funds in 2021. KDB completed three global bond offerings in the year, serving as a Korean benchmark issuer in the international bond market. In particular, KDB's USD 300 million floating rate green note issued in March 2021 was selected the "Best Green Bond – Policy Bank" by The Asset Triple A Sustainable Capital Markets Country & Regional Awards, reinforcing the Bank's stature as a leading policy finance institution.

The Bank also tapped into niche market instruments such as CHF bonds and BRL-denominated notes to diversify its investor base across geographies. KDB also took action to ensure that it stands ready for a post-LIBOR era by issuing floating rate SOFR bonds in both public and private markets.

In 2022, the Bank's funding strategy will focus on flexibility, bracing for potential volatilities in the market stemming from hikes in benchmark interest rates by the world's key economies and geopolitical risks. KDB will maintain its commitment as Korea's benchmark issuer in the United States and elsewhere, striving to expand the investor base for SSA (Sovereign, Supranational and Agency) bonds in order to improve 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 disperse 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.

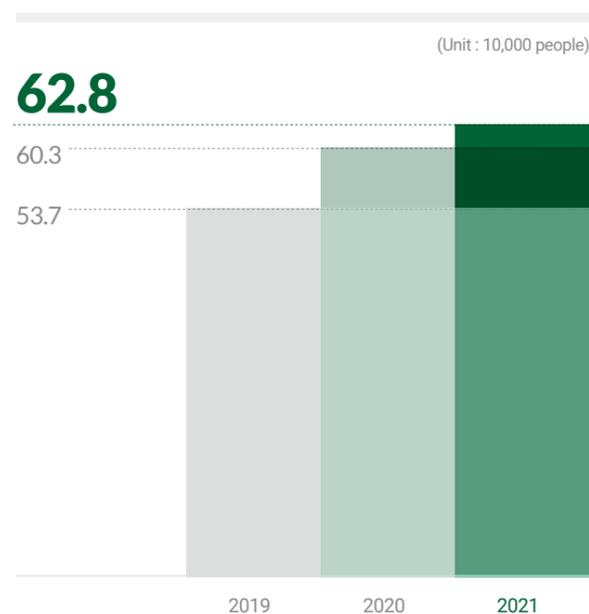
On top of increased uncertainty from the spread of Covid19 variants, money market competition was fierce among banks that also had to fend off aggressive product marketing from fintech companies. Against this constantly changing environment, KDB's total deposits increased by KRW 1.7 trillion, driven by the Bank's offering of customized solutions and flexible interest rate management strategies.

### Deposits Overview

(Unit : KRW trillion)

	2019	2020	2021
KRW Deposits	33.1	41.4	43.1
Corporate Deposits	19.5	28.7	31.4
Retail Deposits	13.6	12.7	11.7
Demand Deposits	10.9	17.5	19.2

### Number of Retail Customers



### Landmark Deals of 2021

#### The launch of 'KDB-TOSS Savings'

KDB announced in June 2021 that it partnered with TOSS, a Korean fintech service provider, to launch new products targeted at the platform company's customers.

The project was a win-win venture for both, with TOSS differentiating its platform with a new product, and KDB securing additional channel for reaching out to a new customer base.

This was KDB's second attempt in partnering with a fintech service provider following a collaboration with Finng in 2020, facilitating the Bank's digital marketing capacity to make up for its relatively weak physical presence.

Going forward, KDB will continue to engage in an active strategy to secure deposits from its key clients as a means to enhance stability of its funding for policy finance. First, by leveraging its specialty in corporate banking, the Bank will increase deposits from its institutional clients, SMEs and MEs in particular, orienting away from the existing funding structure skewed towards large cap companies. In doing so, KDB will align more closely with the government's policy direction of better serving the needs of SMEs and MEs. Second, in anticipation of greater competition among banks and with fintech companies over customers and their payment accounts, KDB will bolster partnership with new financial service providers. Through this collaboration, KDB will seek to attract more customers and their payment accounts including salary and checking accounts with relatively low funding costs.

## 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

## 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.

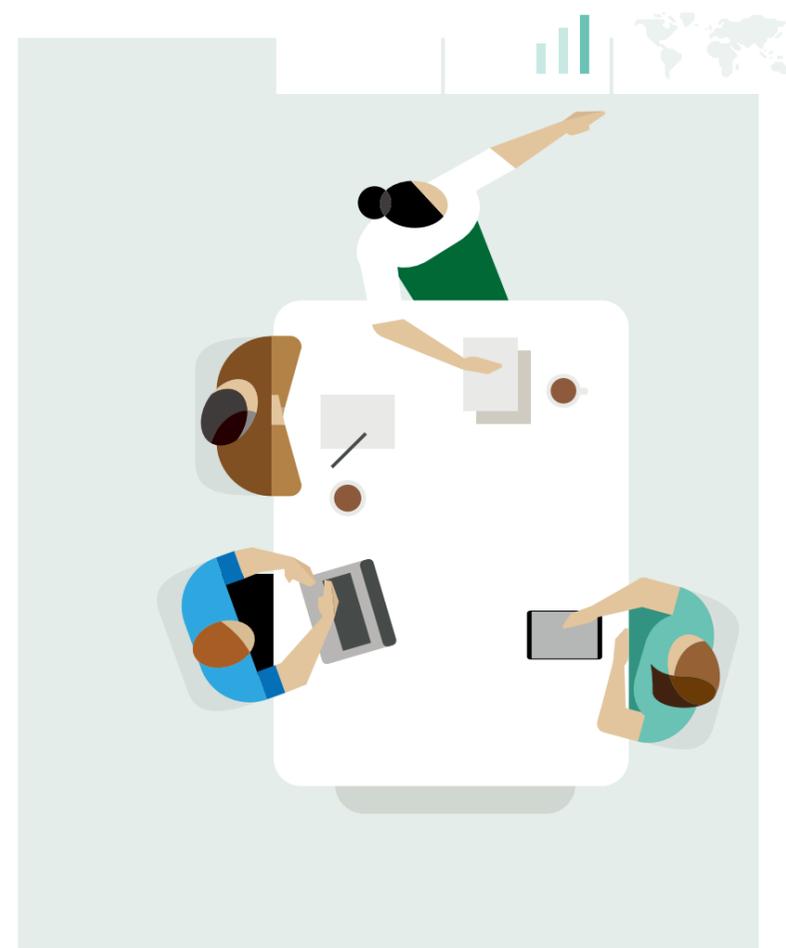
In 2021, six RMC meetings were held with a total of 23 agenda items being presented for discussion to the committee. Major items discussed include the risk management plans for 2021 and the country exposure management plans. Other important risk management issues were also discussed, such as the results of integrated analysis on risk for the second half of 2020 and first half of 2021, and verification results for BIS risk weighted assets were also reported to the Committee.

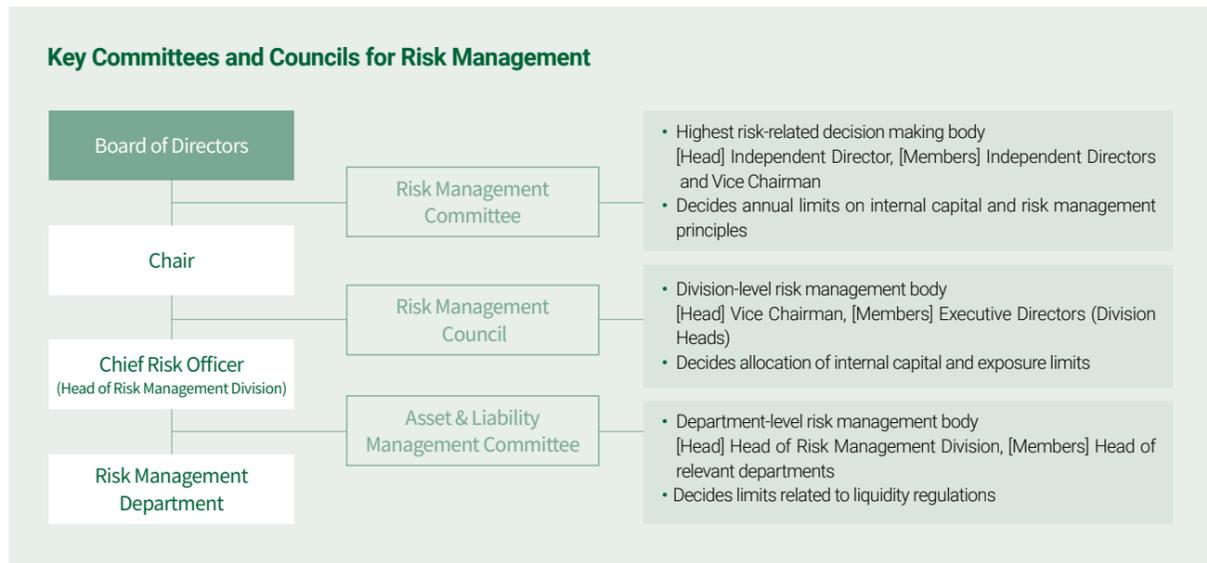
The Risk Management Council (Council) is composed of Division Heads, and its roles and responsibilities include the monitoring of the Bank's constant risk variables and the orchestration of operations, so that risks can be effectively managed within each operation unit. Following the limits set by the RMC, the Council discusses and distributes risks among divisions, setting limits for trading losses and F/X positions. In 2021, the Council convened 8 times, discussing the establishment of major 2021 credit portfolios and the distribution of internal capital limits.

The Asset and Liability Management Committee is comprised of the heads of relevant departments who decide on the Bank's asset and liability policies, focusing on interest rate and liquidity risks. The Committee convened twelve times in 2021 to decide on, among others, the limits on the Bank's liquidity coverage and liquidity requirements (LCR, NSFR) compliance plans.

### 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.





## 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 the economic value of equity (EVE) and also employs net interest income (NII) as an auxiliary index. Starting at the end of 2019, KDB began managing its interest rate risk by measuring interest rate risk in the banking book (IRRBB), reporting its IRRBB profile on a quarterly basis since then.

### 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 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.

## Risk Management Activities

### REVIEW OF 2021

KDB has consistently updated its risk management framework to respond to changing market conditions and to better support the government's policy finance initiatives. The Bank's risk framework prioritizes sustainability of its business.

KDB was an active player in public sector finance, analyzing risk factors for each Korean New Deal program, supporting the Bank's negotiation with government on capital increase and building internal review guidelines for 'new industry' innovators.

Furthermore, the Bank has calculated its BIS ratios in line with revised Basel III credit risk framework since late 2020; additional work is underway to implement Basel III market and operational risk changes at the system level before the revisions come into full force in 2023. With respect to the introduction of initial margin exchanges in the non-centrally cleared OTC derivatives market, the Bank reinforced its market risk management capabilities by verifying relevant quantitative models.

Similar to 2020, the Bank has set aside additional reserves to meet any costs arising from companies failing to meet their debt obligations due to the prolonged pandemic. The Bank also organized supervisory meetings to monitor the adequacy of the Bank's assets in a pre-emptive measure to engage in early action to mitigate any impact from distressed companies.



### PLANS FOR 2022

KDB will continue to improve existing systems to enhance its risk management capabilities. The Bank will update its risk management framework in line with market and regulatory changes to better manage its risk indices and ensure that its risk framework underpins the effective execution of policy finance activities.

First, the Bank will introduce improvements to its credit analysis in preparation to transition to a digital economy and a banking business with stronger focus on growth capital. The Bank will adopt advanced review guidelines on growth companies and check risk management guidelines on New Deal funds, green finance, and other policy finance initiatives.

Additionally, the Bank will review its internal guidelines to analyze how it can apply the Basel's large exposure standard due to come into force in 2022. The Bank will also develop systems to comply with revised Basel III Tangible Common Equity (TCE) and Credit Value Adjustment (CVA) standards scheduled to become effective in 2023 as well as other changes in the market and operational risk frameworks.

Lastly, the Bank plans to step-up monitoring of its assets to prepare against any losses that may have materialized in the prolonged course of the Covid19 pandemic.

# IT & Digitalization

## REVIEW OF 2021

Contactless interactions in the workplace has become the norm in 2021 as the pandemic continued on. Traditional financial institutions experienced further threats to their businesses from the rise of digital banking, Big Tech's deeper push into finance, and a string of new fintechs altering the financial landscape.

In 2021, KDB re-organized its IT unit to more efficiently execute the bank-wide digital transition, enabling agile and on-demand response to project needs. Under the three overarching themes of 'automation,' 'contactless interaction' and 'decision making derived from AI and data science,' the Bank has set about digitizing its operations, starting with corporate banking.



## Automation

### The first phase of the RPA-enabled automation project completed

KDB implemented bank-wide robotic process automation (RPA) projects, automating 44 tasks resulting in replacing 115,000 hours of human labor with robots yearly. In addition to RPA, the Bank optimized processes in several work streams, saving another 30,000 hours of human labor yearly.

## Contactless interaction

### Digitization of retail and corporate banking transactions

KDB strengthened its deposit taking functions by digitizing the process that had previously been done face-to-face at the Bank's branches, while enhancing customer experience by upgrading the Bank's mobile banking UI/UX designs. At the same time, the Bank has launched development of an online system that will allow corporate clients to take out loans without having to physically visit a branch. The Bank also opened an online platform for its venture vehicle, the KDB NextRound, to better identify and give support to start-ups which had only been available offline.

## AI and Data Science

### Early stage development of the Bank's own AI platform

KDB pooled a wide array of financial and non-financial data to develop its own 'AI Corporate Credit Analytic Model.' The Bank also began the early stage work for its flagship IT infrastructure project that will make way for KDB's own AI platform for applying data science to the Bank's corporate banking operation. This initiative effectively laid a cornerstone in establishing what KDB envisions as a data-based decision-making and policy financing system.



## PLANS FOR 2022

The Korean financial markets in 2022 will be a battleground between traditional financial institutions determined to defend their business turf and a band of Big Techs and fintech companies that are armed with advanced technology and modern corporate cultures. The traditional players are aggressively hiring tech experts to reclaim their lost territory and are make their own bids for the platform business models. All of these are pointing to an accelerated digital innovations across the entire Korean financial markets and the impact of AI on the finance sector will only multiply with time.

In 2022, KDB will continue to push forward with its bank-wide digitalization effort guided by the three principles of 'automation,' 'contactless interaction' and 'AI and data science.' In follow-up to the previous year, the Bank will pursue the second phase of the RPA-enabled automation project to further create a working environment that relieves its workforce from repetitive labor, allowing them to focus more on enhancing client value through policy financing tools. On the retail front, the Bank will reinforce its mobile infrastructure to maximize customer satisfaction and convenience, ideally removing the need to visit a branch altogether. With respect to corporate banking, the Bank will work toward successfully launching its own AI platform, completing the groundwork for enabling a data-based decision-making system, which will allow the Bank to utilize its mass financial data accumulated over the years and apply them to various AI-enabled analytic models. In this way, KDB aims to reinforce its role in fostering the growth of Korean industries and businesses while also leading the country's digitalization effort by providing the most advanced and up-to-date corporate banking services to its clients.

### KDB AI Platform Overview

- AI-based Corporate Banking Platform**
- Infrastructure**  
Big data storage and analysis
- Data**  
Master database of enterprise information
- Artificial Intelligence**  
Natural language processing in corporate banking
- Service**  
Data Insight Portal

# Ethical Management

KDB has in place effective internal control measures designed to prevent financial malpractices from taking place and to comply with a full range of legal and regulatory requirements including anti-money laundering rules. As a public organization, the Bank regularly monitors and improves its anti-corruption measures and implements a variety of compliance programs to promote business ethics across the Bank's day-to-day operations. KDB also conducts customized training sessions for its employees to reinforce a workplace culture based on integrity and transparency.

## REVIEW OF 2021

The Bank placed a particular emphasis on corruption prevention, ethical management, and proactive business administration in 2021 in light of the prolonged Covid19 pandemic. In promoting proactive business administration and in the process of providing various support mechanisms, KDB ensured that its practices reflect transparency and are carried out in a way that prevents corruption and minimizes potential risk factors.

For example, KDB institutionalized a system to implement the newly established Act on Prohibition of False Claims for Public Funds and Recovery of Illicit Profits, made it mandatory for the Bank's senior management to participate in anti-corruption sessions organized by the national Anti-Corruption and Civil Rights Commission and conducted customized compliance training for all levels of employees focusing on areas prone to corruption. The Bank also engaged its clients to participate in its compliance campaigns through various activities and events, promoting awareness and a culture of business ethics across the board. As a result of these efforts, KDB was given the second highest rating in the national review of public organizations' anti-corruption practices in 2021. The Bank also received the International Standards Organization's anti-bribery management systems certification (ISO 37001).

In follow-up to a systematic review of the impact of its business operations on human rights including their actual and potential human rights-related risks conducted in 2020, the Bank upgraded its human rights checklist in 2021 by incorporating the implications of issues like Covid19 and ESG management into KDB's business ethics, employees' right to work, and workplace safety. In addition, KDB carried out in-depth studies of the industry's business ethics and the relevant practices, actively applying this knowledge to improving the Bank's own internal grievance procedures.

In response to the government's effort to crackdown on organizational power abuses, KDB has established and is operating multiple reporting centers and strengthened the function of the KDB Help Line, its anonymous reporting outlet via a social platform Kakao Talk, expanding professional counseling services and preventive steps to stop workplace power tripping and facilitate effective remedial action.

Separately, KDB has significantly improved its institutional capacity for anti-money laundering (AML) in line with tightening regulations worldwide that demand thorough compliance by financial institutions. The Bank conducted in-depth AML analyses on its overseas entities from 2020 and 2021, producing a detailed checklist to bring the Bank's AML framework up to global standards. The Bank has since created a dedicated AML/Sanction Compliance team to proactively manage AML-related risks as the Bank expands its global business coverage.

## PLANS FOR 2022

In 2022, the Bank expects stronger demand for higher ethical standards in the public service, calling for, among others, greater crackdown on organizational power abuses, business integrity, and anti-corruption. In order to comply with the range of international and domestic regulatory requirements, KDB will have to step up and further sophisticate its internal compliance system.

## 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 (AML)	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
ISO 37001 (Anti-bribery management systems) Accreditation	Acquired ISO 37001 (Anti-bribery management systems) accreditation and implemented internal management systems
Executive Pledge of Ethics	Mandates registered directors maintain integrity in job performance
Code of Conduct Pledge	Mandatory pledge of compliance with the KDB Employee Code of Conduct and the Anti-Graft Act by new recruits
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	Operation of whistleblower program
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





To this end, KDB will continue to strengthen its efforts to prevent violations of both internal and external regulations such as the Bank's own Code of Conduct and the national Improper Solicitation and Graft Act. The Bank will also promote a whistleblower system to put a halt to any corruption or power abuse by its staff. KDB will continue to develop novel training methods to step up integrity among all of its employees, running regular campaigns to encourage integrity and ethics Bank-wide.

Additionally in 2022, the Bank plans to conduct detailed legal training for departments and teams that are subject to conflict of interest regulations.

The Bank will draft detailed common standards for global anti-money laundering measures, standardize common work processes, and develop tools to improve the quality of compliance work. KDB will also work on developing its human resources and other assets; it will revamp reporting procedures and organizations as it transitions to a committee-based governance system, boost its professionals' expertise, and upgrade and acquire IT infrastructure.

With respect to sanctions, the Bank intends to implement a Sanction Compliance Program (SCP) to better manage sanction risks as the Bank's global business develops. KDB will aim to devise a KDB-specific program that not only suits the Bank's special needs but also meets global regulatory standards.

KDB believes its fast-mover stance on sanction risks is critical to securing a stable global business foundation and building global brand value. The Bank will devise internal frameworks to take ownership of sanction risks from key markets while reinforcing trade monitoring, reporting, and Know Your Customer (KYC) obligations throughout the institution.

# Corporate Social Responsibility

KDB's corporate social responsibility initiatives run under four key themes – love of neighbors, love of learning, love of culture, and love of nation – which support the Bank's goal to create a society of 'Helping Hands and Warmer People.' In 2021, the Bank switched existing volunteer programs to financial aid, delivery of the pandemic-related goods and necessities, and other contactless community support programs to prevent further spread of the virus. In particular, the Bank ramped up ESG-derived community service practices, including environmental preservation and marine life protection activities at national parks.

## Love of Neighbors

### KDB Helping Hands

KDB identifies and provides welfare access to underprivileged neighbors in welfare blind spots to realize 'Love of Neighbors.' The Bank co-worked with the National Police Agency to support victims of crime, lent support to artists struck by the Covid19 pandemic, and delivered funds to children with rare incurable diseases.

### Fall/Winter Season Kimchi Drive

Each year since 2008, KDB employees and their spouses team up with volunteers from Seoul's Saemaeul volunteer group to deliver hand-made fall/winter-season kimchi to the elderly living alone and others in need. The past two years were exceptions due to the Covid19 pandemic and the Bank instead purchased kimchi made with locally grown ingredients and delivered the packages to partner welfare facilities as well as 1,200 underprivileged families across Seoul.

### 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 2021, instead of holding conventional blood donation campaigns, the Bank carried out a certificate delivery campaign to recent the spread of Covid19.



**Dadohaehaesang National Park Marine Wildlife Recovery Support**

The Dadohaehaesang National Park is a UNESCO-designated biosphere reserve region. KDB provided financial support toward restoring wildlife in the area, making contribution to Korea's 2050 carbon neutrality goals in the process. The Bank plans to continually expand ESG-derived community service activity.

**Employee Donations**

KDB collects the last four digits from employees' monthly paycheck, less than KRW 10,000 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 in choosing their career path. The Bank also supported various symposiums and conferences that study topics related to overcoming the Covid19 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 2021, 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.



**Love of Nation**

**One Company for One Village and One Company for One Platoon Campaigns**

KDB's One Company for One Village campaign was launched in 2004 to promote rural-urban partnerships and better integrate growth between them. As part of this effort, the Bank periodically organizes events to purchase specialty produce from partner villages. The Bank also launched a military variation of this program in 2012, through which the Bank employees supports soldiers serving in the military.



**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.



**Youth Start-up Support Project**

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 2021, a total of 630 teams applied for the KDB startup Program, 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.

Of these, seven finalists received a total of KRW 200 million as start-up funding, along with opportunities for follow-up funding rounds and support programs. The 'KDB Entrepreneur Training Program' is being offered as a regular course at fifteen universities nationwide, benefiting 855 students to date and serving as a catalyst for spreading an entrepreneurial mindset among college students and identifying new start-ups. KDB has identified 181 start-up teams through its 'Young Start-up Support Project' from 2013 to 2021, of which 152 have actually started a business of their own. As of November 2021, KDB's work has generated 1,981 jobs and KRW 156.9 billion in cumulative revenue. Furthermore, KDB has offered mid to long-term follow-up support through its start-up platforms NextRound and NextONE, giving young entrepreneurs access to IR activities and incubation programs.

**KDB Social Enterprise Support Project**

The Bank supported a total of 12 social enterprises in 2021 through its 'KDB Social Enterprise Support Project,' which was established with the goal of discovering competent social enterprises, providing employment opportunities to the socially vulnerable, and equipping them with the necessary infrastructure. The Project goes beyond financial aid to offer a holistic and sustainable business support mechanism run by professional entrepreneurs. Unlike most other programs of a similar nature, the KDB Social Enterprise Support Project allows partner enterprises to use KDB's funding to purchase production facilities, directly financing their infrastructure needs. Partner enterprises leverage this opportunity to develop new products, obtain HACCP certification, register patents, and penetrate online and offline sales channels to generate a stable revenue stream. The Bank recently added an accelerator program to deliver professional training and an impact investing event to five selected companies, connecting one company with additional fundraising opportunity. A total of 68 social enterprises have received KDB funds and mentorship support from 2015 to 2021, and in 2021 alone, partner enterprises contributed to the creation of 294 jobs for the vulnerable workers group including the physically disabled while also driving the growth in revenue.



## Development Finance Cooperation

KDB was established in Korea's post-war era as a development finance institution with the goal of reconstructing and promoting the national economy. The Bank has since served a critical role in the Korean financial markets, supplying liquidity and stabilizing markets in line with changing government policies. The Bank has now reached a position to leverage more than sixty years of development finance expertise to support the governments and financial institutions in developing economies, while using these engagements as opportunities to develop the Bank's global business base. The Bank also has a significant research capacity for the economics, industry, and finance of North Korea, in preparation for potential denuclearization by Pyongyang and the possible inter-Korean economic cooperation and North Korean economic development activities that may follow.

### REVIEW OF 2021

In 2021, KDB pursued an in-depth research in response to changing political environment surrounding the Korean peninsula, while continuing its work on transferring development finance expertise to developing economy partners. Specifically, the Bank analyzed the impact of Northeast Asian issues including the U.S-China conflict on the political economy of the Korean peninsula. It also elaborated on the KDB Experience Sharing Program established in 2020 to propose a financial model that may be used by developing economies as a guidance to deepen and further reinforce their financial systems and economic developments. To this end, KDB leveraged its global branches and offices to render assistance to developing economy partners in Asia in particular, enhancing their development finance capabilities.

### PLANS FOR 2022

KDB will maintain its research focus on North Korean economy and business, while pursuing additional opportunities to share its Development Finance Model in partnerships with developing economies. The Bank intends to take its North Korea research capacity a step further by stimulating academic dialogues and exchanges on North Korean economics and the shifting political dynamics surrounding the Korean peninsula such as the North Korea Policy Forum. The Bank will also respond to changing global economic paradigms triggered by climate change, pursuing joint projects with international financial institutions to ramp up green financing capabilities of developing economies.



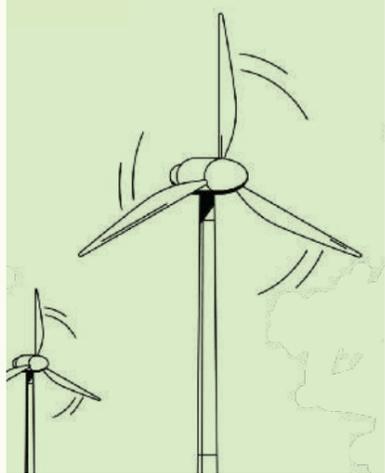
# ESG REVIEW



KDB was established to “contribute to the sound development of the financial industry and the national economy of Korea” as per Article 1 of the KDB Act. To this end, the Bank has strived to increase the country’s sustainability through embodying its mission of “being an advanced policy bank at the forefront of Korea’s sustainable growth.”

Specifically, KDB supported the SMEs and MEs that lack the capacity and resources for sustainable development through a range of tools and products derived from the Bank’s green and socially responsible finance. KDB’s work with these companies has induced them to place greater emphasis on ESG values in their day-to-day business practices. Recognizing the essential role of policy finance institutions in tackling climate change, KDB has also stepped up its commitment to green finance, engaging in an increasing array of activities to drive a low carbon transition of Korean companies and industries and to facilitate a climate resilient business ecosystems in the country.

Moreover, in order to avoid, minimize, and/or address any negative environmental and social impact from the Bank’s business activities, KDB has established and is effectively implementing environmental and social risk guidelines, which are aligned to the Equator Principles (EPs). From a governance perspective, KDB actively practiced corporate social responsibility through environmentally sustainable business management, human rights empowerment, ethical integrity, and legal compliance, aiming to bring the notion of “a responsible bank” closer to the heart of its corporate identity. As a practical application of this effort, the Bank has continually expanded the adoption of green vehicles, goods, and renewable energy facilities at its buildings and throughout daily operation.



# 2021 ESG Highlights

## HIGHLIGHTS 1

### Groundwork Completed for Effective Implementation of Sustainable Management

In early 2021, the Bank reorganized its Strategy and Planning Division into a Strategy and Green Finance Planning Division, also adding a new department to serve as a control tower for the Bank’s overall activities concerning ESG strategies, green finance, and the implementation of the Korean New Deal.

Further, to systematically control and coordinate the various sustainability initiatives scattered across the institution and to enable a more effective response mechanism to emerging sustainability issues, KDB launched a sustainability committee as a task force chaired by the Head of the Strategy and Green Finance Planning Division. This committee is expected to provide a platform for an agile cooperation among the relevant departments within the Bank and foster an efficient response system.



### KDB Sustainability Committee



HIGHLIGHTS 2

### Growing Leadership in Korea's Green Finance

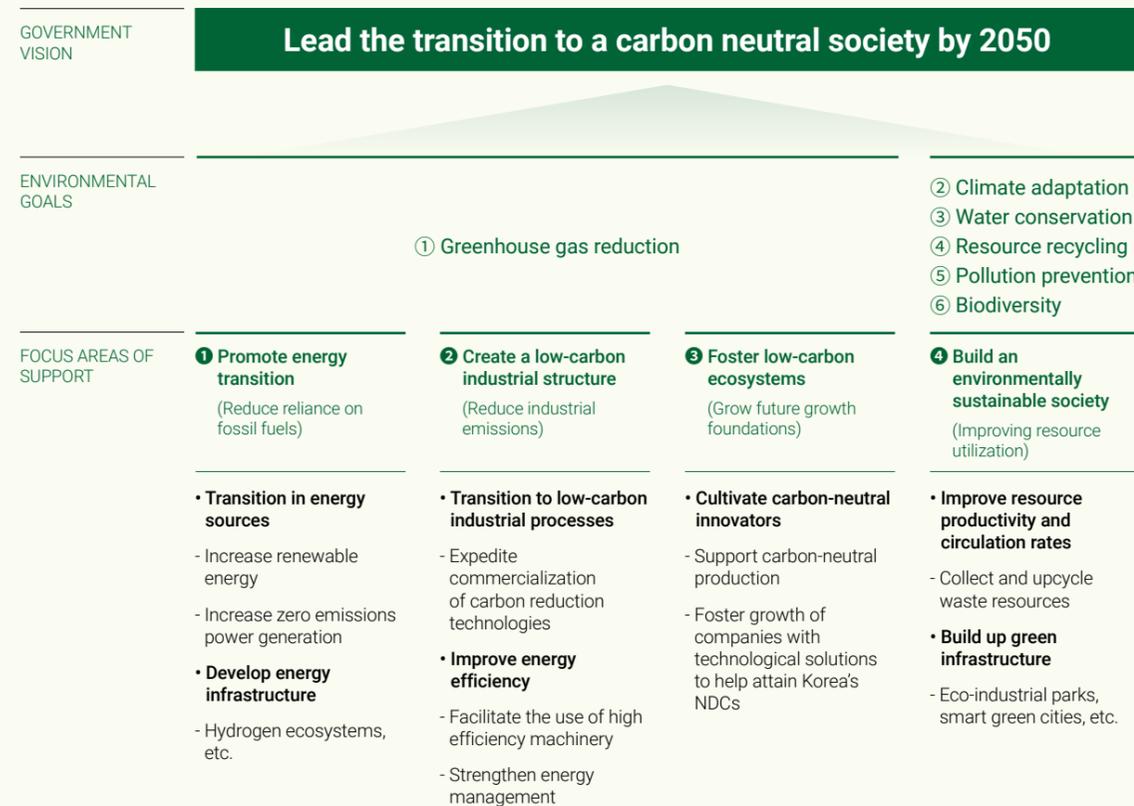
Given Korea's scarce renewable energy resources and the economy's heavy reliance on carbon-intensive and export-driven industries, attaining carbon neutrality by 2050 is an ambitious task that cannot be delivered without a large-scale green finance to speed up energy transition and promote development/commercialization of carbon reduction technologies.

As a leader in Korea's green finance, KDB has reinforced its role as a policy financial catalyst to channel the market's liquidity to green sectors to address the massive investment needs over long-term horizons. Specifically, the Bank has taken on some of the private sector's burden by providing junior capital through subordinate financing,

creating an enabling environment for private sector to participate in the field.

In line with the Korean government's policy on carbon neutrality and the environmental goals under the K-Taxonomy, the Bank has selected four areas as the target of its green finance initiatives: 1) promoting energy transition, 2) creating a low-carbon industrial structure, 3) fostering low-carbon ecosystems and 4) building an environmentally sustainable society. Utilizing the Bank's spectrum of green products and services including the KDB Carbon Spread Program, the Bank has allocated KRW 11 trillion, or 13.2% of its overall financing to green sectors in 2021. KDB aims to push this figure to KRW 13.2 trillion, or 16.8% of the total financing, by 2030.

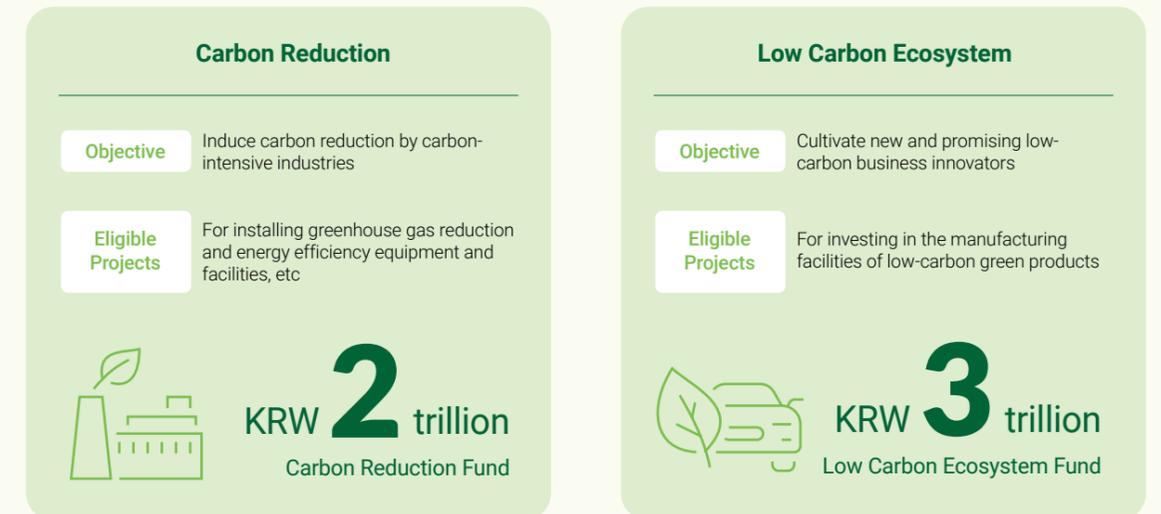
### KDB Green Financing Strategy Overview



HIGHLIGHTS 3

### KDB Carbon Spread Program Overview

This KRW 5 trillion green finance program was launched to facilitate a low-carbon transition of Korea's high emission industries and foster the growth of new and climate resilient business innovators in the country. Of the KRW 5 trillion, KRW 2 trillion was set apart as carbon reduction funds, requiring, for the first time in Korea, the recipients of the funds to receive external verification of their carbon reduction effects, avoiding greenwashing and making a tangible impact on carbon reduction. Since its launch in April 2021 to the end of the year, the KDB Carbon Spread Program has provided approximately KRW 1.9 trillion of funds to 30 eligible companies in Korea.



### KDB Carbon Spread Program Process



HIGHLIGHTS 4

### Growth in Sustainable Finance with a Focus on Social Values

As a policy finance institution mandated to further a healthy growth of the national economy, KDB plays one of its key roles to cultivate social value through its financing activities. The Bank was active in a range of initiatives in 2021 to support Korea's robust business ecosystems, including growth programs for start-ups, SMEs and MEs. The Bank also offered socially responsible financing programs designed to create jobs, stimulate local economies, and promote a shared growth. To help deal with the fallout from the pandemic, KDB has reached out to affected companies with liquidity programs aimed at expediting their recovery and restoring financial stability.

#### KDB's Socially Responsible Financing Programs

##### SMEs and MEs

- Credit facilities for SMEs MEs
- KDB Global Challengers 200
- Credit facilities for factory land acquisition
- Credit facilities backed by movables/accounts receivables



##### Start-ups

- Mega Venture Special Loan
- Convertible bond investment
- Techno-banking
- Credit facilities for start-ups



##### Sustainable Society

- Credit facilities for socially responsible companies
- Credit facilities for Job Creators
- Credit facilities for stimulating local economies
- Credit facilities for shared growth



##### Post-Covid19 Economic Growth

- Special Fund for Cheering Up Korea
- "Boom-up" special capex loan/investment for post-Covid19 business realignment
- Post-Covid19 special working capital loan for business stability
- Post-Covid19 special investment for financial stability



HIGHLIGHTS 5

### Climate and ESG Risk Management

#### > Support for the TCFD

In response to heightening climate signals, the Financial Stability Board (FSB) established the Task Force on Climate-related Financial Disclosures (TCFD) to help companies identify, assess, and manage their climate risks.

As one of the leaders in Korea's green finance, KDB declared its support for the TCFD in May 2021, along with 13 other financial institutions in the country. The Bank plans to follow this up with detailed guidelines on the phased-in implementation of its disclosure of climate-related financial risk around the four thematic areas specified in the TCFD recommendations: governance, strategy, risk management, and metrics and targets. In doing so, KDB aims to establish a more systematic approach to its climate risk management going forward.

#### TCFD Recommendations

### TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

<b>Governance</b>	Disclose the organization's oversight on climate-related issues and the management board's assessment and management of climate-related risks and opportunities.
<b>Strategy</b>	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy and financial planning where such information is material.
<b>Risk Management</b>	Disclose the process through which an organization identifies, assesses and manages climate-related risks, and disclose whether those steps are integrated into existing risk management processes.
<b>Metrics and Targets</b>	Disclose the metrics and targets used to measure and manage relevant climate-related risks and opportunities as well as corporate's exposure to climate-related issue.

#### > E&S Risk Management

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.

Since adopting the EPs in January 2017, KDB has reviewed a total of 163 credit transactions that fell within the scope of the Principles, including 49 in 2021 alone that were valued approximately at KRW 5.5 trillion. The Bank was designated Asia-Oceania Regional Representative in October 2021 by the EP Steering Committee in recognition for its EP-compliant credit review capabilities and work toward promoting the EPs.

As one of the 42 Asia-Oceania regional signatories of the EPs, KDB seeks to establish ground as a standard setter in environmental and social review and conduct a range of activities toward enhancing the E&S review capabilities of Asia-Oceania region member institutions and promoting consistency in adoption of the Principles.



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

<b>1 New Project-Related Transactions</b>	Determine if the financial product supporting the project is subject to E&S due diligence (Project Finance, Project-Related Corporate Loans, etc.)
<b>2 E&amp;S Risk Categorization</b>	Categorize the project into Category A (high risk), Category B (medium risk), Category C (low risk)
<b>3 E&amp;S Due Diligence (in conjunction with credit review)</b>	Conduct compliance review against the EPs requirements, which are commensurate with project's risk category, as a part of the loan approval process
<b>4 Financing Documentation</b>	Incorporate covenants on client's E&S undertakings into financial documents
<b>5 Monitoring and Reporting</b>	Conduct monitoring and review of client's documents to ensure continued compliance with the EPs requirements

#### Equator Principles Association Steering Committee Overview

<b>Overview</b>	Coordinating body of the Association made up of five Regional Representatives and five Management Support Institutions.
<b>Function</b>	To coordinate the EPs strategy, budget, meetings, external relations, etc.



HIGHLIGHTS 6

### Joining the Global Coalitions to Respond to Climate Change

Clearly recognizing the need for a full-fledged global cooperation and alliance in tackling climate crisis, KDB has teamed up with various international organizations and initiatives to contribute to the joint effort of greening the planet.

#### > GCF Accredited Entity

In December 2016, KDB became the first and only Korean financial institution accredited by the Green Climate Fund (GCF). GCF is dedicated to assisting developing countries in mitigation and adaptation practices to counter climate change. As an accredited entity, KDB serves as the Fund's financial partner to identify opportunities of cooperation, utilizing the various financing tools at its disposal, including PF, indirect investment and on-lending. In 2021, as a response to the UNFCCC's emphasis on the importance of developing and transferring technologies to developing countries, KDB proposed a programme designed to address the climate technology needs of the four ASEAN countries and to support their climate technology incubators and accelerators. In July, the Bank received a USD 1.2 million Project Preparation Facility (PPF) from GCF to support the development of the programme. Once approved by the GCF board, the programme will set up an investment fund of USD100 million to promote innovative technology solutions and empower local ecosystems for climate technopreneurship in the target countries. Separately, KDB will continue to come up with tools such as on-lending programs and initiatives to support developing countries' mitigation and adaptation efforts and to help improve energy efficiency in outdated industrial facilities located in various parts of Southeast Asia and supporting the establishment a local green investment body.

#### > P4G Seoul Summit

In May 2021, KDB jointly organized the 2021 P4G<sup>1)</sup> Green Finance Special Session with the Financial Services Commission (FSC) and participated in a panel discussion on "the Role of Finance: Fostering Green Recovery in the post-Covid19 Era" with local and international opinion leaders<sup>2)</sup> in attendance.

The panel participants all agreed on the critical importance of green finance in responding to climate change and greening the economy. KDB's Chairman & CEO Mr. Dong-gull Lee placed a special emphasis on the Bank's role in supplying patient capital at scale to encourage private sector participation and hence facilitating fundamental changes in the economic and industrial structures.

1) Partnering for Green Growth and the Global Goals 2030: A global initiative launched in 2017 to accelerate the effort to deliver on the SDGs and Paris Agreement.  
 2) Chairman of the FSC, Minister of Environment, Chairman of KDB, Chairman of the National Pension Service, Secretary-General of the UNFCCC, President of the European Investment Bank, President of the World Economic Forum, and Executive Director of the Green Climate Fund



P4G Seoul Summit – Green Finance Special Session



## KDB's Track Record in Financing Environmentally Sustainable & Climate Resilient Projects

<p><b>Renewable Energy</b></p>	<p><b>Actively financing renewable energy projects by leveraging its leadership position in the domestic PF market</b></p> <ul style="list-style-type: none"> <li>Advised and/or arranged a total of 90 renewable energy projects (total installed capacity of 23 GW) as of Feb. 2022</li> <li>Currently advising the first and largest private sector offshore wind power project in Korea</li> </ul>
<p><b>Low-carbon Transition</b></p>	<p><b>Accelerating a low-carbon transition of companies through offering tailored financial products (e.g., the KDB Carbon Spread Program)</b></p> <ul style="list-style-type: none"> <li>A KRW95 billion loan provided to a medium-sized enterprise for greening its power generation facility (Jun. 2021)</li> <li>A KRW 60 billion investment made in a cement company for improving energy efficiency of its production facility (Jun. 2021)</li> </ul>
<p><b>Hydrogen Economy</b></p>	<p><b>Financing for building Korea's hydrogen ecosystems that encompass the entire cycle of production, storage, distribution and utilization</b></p> <ul style="list-style-type: none"> <li>Arranged a USD 300 million financing for SK E&amp;S's acquisition of an equity stake in a U.S. hydrogen company (Feb. 2021)</li> <li>Funded Linde's construction of a liquid hydrogen production facility through a KRW 108 billion financing (Dec. 2021)</li> </ul>
<p><b>Secondary Battery</b></p>	<p><b>Pioneering support for the Korean secondary battery industry</b></p> <ul style="list-style-type: none"> <li>Made investments in LG Energy Solution and Samsung SDI for their global production facilities (Dec. 2019, etc.)</li> <li>Formed a KRW 150 billion Shared Growth Fund to support materials, parts, and equipment companies (Mar. 2020)</li> </ul>
<p><b>Environmental Preservation and Waste Resources</b></p>	<p><b>Facilitated a circular economy through financing fuel recycling and waste resources projects</b></p> <ul style="list-style-type: none"> <li>Funded an SME's plastic waste recycling project through a KRW 3 billion financing (Jul. 2021)</li> <li>Invested KRW 4 billion in a start-up as a R&amp;D funding for its recyclable insulation packaging technology (Nov. 2021)</li> </ul>
<p><b>Emission Trading</b></p>	<p><b>Working toward promoting the K-ETS and its stability as one of the market makers</b></p> <ul style="list-style-type: none"> <li>KDB accounted for 11.1% of the total trading volume on the K-ETS as of end-2021</li> </ul>

## Adopting Green and Carbon Neutral Management at KDB

### RE100

As a member of the K-RE100 initiative, KDB has set out to source 100% renewable electricity by 2040 in support of the country's 2050 net zero ambitions. To this end, KDB has installed solar power systems in its new data center in Hanam and education facility, saving approximately KRW 60 million on energy costs yearly. The Bank will also explore purchasing Renewable Energy Certificates (RECs), which count as a carbon offset, and utilizing third-party power purchase agreements as part of the practical application of its corporate social responsibility as well as organizing energy saving campaigns to enhance social awareness on energy and the environment.



Solar Power System at the KDB Digital Square



EV Chargers installed at the KDB HQ

### EV100

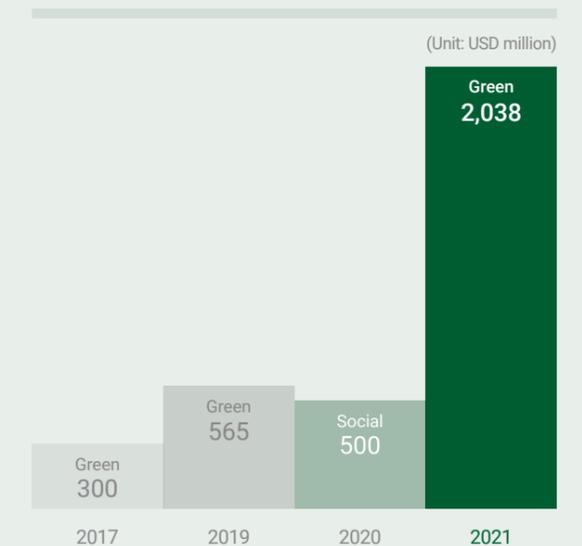
KDB plans to replace all its internal combustion engine cars with EVs and hydrogen vehicles by 2024, continually expanding the necessary charging infrastructure in support of this goal. In 2021, the Bank replaced 77 of its existing vehicles with eco-friendly options and installed a total of 10 chargers (6 Standard at KDB HQ, 2 Standard and 2 High-Speed at Hanam Digital Square).

## ESG Bond

### Issuance of Foreign Currency-denominated Green Bonds

Since issuing its inaugural green bond in 2017, KDB has repeatedly issued green bonds in and outside Korea. In 2021 alone, the Bank successfully issued USD 700 million fixed-rate green bonds respectively in January and October, and Asia's first SEC-registered SOFR-linked USD 300 million green bond in March. The bond was significant for KDB as it provided momentum to facilitate the use of alternative benchmark rates and also diversified its funding sources for ESG financing. The Bank's effort to issue green bonds in more variety of currencies continued in 2021, including a CHF200 million green bond in Switzerland, a leading ESG finance market, and a USD 100 million-equivalent green bond denominated in the IDR. As one of Korea's anchor issuers, KDB was also the first in Korea to issue a derivative-linked structured green bond in a foreign currency, actively exploring different formats of ESG bonds and contributing to the growth of the market.

### Foreign Currency ESG Bond Issuance Track Record (by Year)



### Foreign Currency ESG Bond Issuance Track Record (2021)

(Unit: million)

Type	Date	Currency	Amount	USD Equivalent	Coupon	Use of Proceeds
Green	Jan. 2021	USD	700	700	0.40%	Renewable Energy & Clean Transportation
	Mar. 2021	USD	300	300	SOFR+0.25%	
	Jun. 2021	IDR	1,424,800	100	4.80%	
	Jul. 2021	CHF	200	218	0.17%	
	Oct. 2021	USD	20	20	2.85%	
Oct. 2021	USD	700	700	0.75%		
<b>Total</b>	-	-	-	<b>2,038</b>	-	

### Issuance of KRW-denominated Social Bond

KDB raised a total of KRW 550 billion in KRW-denominated social bonds during 2021 - a KRW 250 billion bond with 2-year maturity in June and a KRW 170 billion bond with 1.5-year maturity and a KRW 130 billion with 1-year maturity in September. The funds raised were allocated to companies with low credit ratings struggling to keep their business afloat against the pandemic and companies that contributed to

shoring up employment, highlighting KDB's commitment to socially responsible finance. Going forward, the Bank will continue, in response to the government's policies and initiatives, to tackle emerging challenges and create social value by aligning its products and services and actively exploring ways to further enhance its responsible finance practices.

#### Allocation of KRW Social Bond Proceeds

(Unit: KRW billion)

Standard Ticker	Issue Amount	Proceeds Allocated (as of Dec. 2021)	Target	
			Job-creating companies	Companies with low credit ratings
KR310205GB67	250.0	250.0	130.6	119.4
KR310205GB91	170.0	170.0	71.9	98.1
KR310202AB90	130.0	130.0	58.1	71.9
<b>Total</b>	<b>550.0</b>	<b>550.0</b>	<b>260.6</b>	<b>289.4</b>

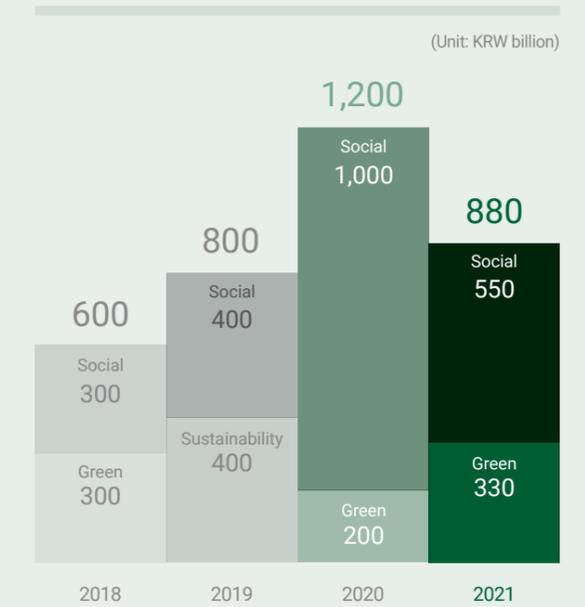


### Issuance of KRW-denominated Green Bond

In 2021, KDB issued a KRW 300 billion 3-year green bond and a KRW 30 billion structured green bond that matures in 30 years (30NC4). The Bank used the proceeds to target projects in renewable energy (solar power, hydrogen power), green transportation (trains, ships, electric vehicle parts), pollution prevention and management (synthetic resin recycling), and energy efficiency (waste heat power generation). Since issuing Korea's first green and social bonds in the domestic markets in 2018, each amounting to KRW 300 billion, KDB has been a significant market maker with a steady issuance of ESG bonds every year. Furthermore, the Bank responded early in December 2020 to industry doubts related to ESG washing<sup>1)</sup>, clearing external reviews to secure transparency in its reports and the trust of investors. KDB has contributed significantly to the growth of the Korean ESG bond market and consolidated the Bank's leadership.

1) The practice of labeling a bond ESG even though the funds raised are not actually allocated toward their intended targets.

#### KRW ESG Bond Issuance Track Record (by Year)



#### Allocation of KRW Green Bond Proceeds

(Unit: KRW billion)

Standard Ticker	Issue Amount	Proceeds Allocated (as of Dec. 2021)	Target Industries						
			Renewable Energy		Transportation			Pollution Prevention and Management	Energy Efficiency
			Solar	Hydrogen	Trains	Ships	EV Parts	Synthetic Resin Recycling	Waste Heat Power
KR310209GB30	300.0	300.0	91.6	68.7	25.4	50.7	63.6	-	-
KR310201DBA9	30.0	30.0	-	-	-	-	-	18.0	12.0
<b>Total</b>	<b>330.0</b>	<b>330.0</b>	<b>91.6</b>	<b>68.7</b>	<b>25.4</b>	<b>50.7</b>	<b>63.6</b>	<b>18.0</b>	<b>12.0</b>



# FINANCIAL REVIEW

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## Management's Discussion and Analysis

The 2021 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. The 2021 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.

### 2021 Review

As recovery is underway from the pandemic, the global economy witnessed a slight progress in 2021. World output edged up 6.1% year-on-year according to the International Monetary Fund (IMF), partly attributable to base effect against 2020 when the global economy was seriously hit by the outbreak of pandemic. Thanks to the eased worldwide quarantine measures such as lockdowns and social distancing, trade and commerce resumed to get back on track, invigorating the total global trade volume. However, possibilities for resurgence in any Covid19 variants and a sharp rise in inflation still remain threats to world economy.

Despite the global pandemic, the Korean economy showed a positive growth of 4.0% year-on-year. Overall consumption rose 4.2% year-on-year primarily due to a recovery in consumer confidence backed by government policy and expansion in vaccination. Inflation rate for the year recorded 2.5% compared to 0.5% from last year. Current account surplus rose to USD 88.3billion in 2021 from USD 75.3billion in 2020, mostly due to increase in exports of services and income balance, in spite of goods balance showing a decline ascribed to increase in imports resulted from surging prices of raw materials.

The combined net income of the Korean banking industry in 2021 was KRW 16.9 trillion compared to KRW 12.1 trillion in 2020, based on preliminary figures published by the Financial Supervisory Service. This was partly attributable to KDB's gains on valuation of equity which was converted from convertible bonds issued by HMM Co.,Ltd. With growing uncertainties about resurgence of Covid19 and a great portion of outstanding loan exposures to still-sluggish companies hit by economic downturn, banks in general adopted a more conservative approach in calculating their loan loss provisions.

In 2021, KDB played a pivotal role in stabilizing the market as one of the key policy banks of Korea. The bank continuously strengthened financing for SMEs and MEs to bolster the resilience of Korea's supply chains and assisted larger enterprises to reshape their businesses through "industry and finance alliance program". The bank also extended special loan products especially designed to support companies adversely affected by the Covid19 crisis in order to mitigate the impact of Covid19 and ensure soft landing for SMEs and MEs in the post-Covid19 era.

Moreover, KDB eminently stayed committed to its mandate to enhance the sustainable growth of Korea, serving as a threshold for innovative start-ups in Korea that are considered potentially flourished. 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, a start-up fair which gives opportunities to early-stage firms and individual entrepreneurs to attract investment from venture capitals and "KDB NextONE" in 2020, a platform for nurturing start-ups. In 2021, the bank especially focused on fostering system semiconductors, aerospace and ESG-related businesses in an effort to pave the new way for creating a potential as well as positive ecosystem in the future.

The bank also continued its efforts to promote its overseas operations and strengthen IB business in the international markets. In 2021, KDB has established a venture capital unit in Silicon Valley US, with a goal of supporting Korean start-ups operating in the U.S. and nurturing unicorns amid a prospering tech economy. The bank also consolidated its position in the international markets by actively identifying and participating in major PF transactions and providing M&A finance.

KDB's capacity as Korea's representative financial institution and its strong capital adequacy have been evaluated and recognized by the major international credit rating agencies. In 2021, KDB maintained its credit ratings at Aa2 from Moody's, AA from S&P and AA- from Fitch, and its BIS capital ratio stood at 14.88%.

## 2022 Outlook

The impact of Covid19 pandemic is anticipated to diminish on the back of eased quarantine measures and widely-distributed vaccines across the globe in 2022. However, the possibility of higher inflationary pressure looms over the global economy and the lockdown in some countries in the wake of Covid19 variants may eclipse signs of recovery in the real sector of the economy.

According to the IMF's World Economic Outlook (2022), world output is expected to increase by 3.6% year-on-year in 2022. The growth rate of advanced economies is projected to grow 3.3% from the previous year, with the US expecting to show a higher growth rate of 3.7% while Eurozone (2.8%) and Japan (2.4%) are projected to show a slower rate. Major emerging markets, such as India (+8.2%) and Saudi Arabia(+7.6%), 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 2.5%. Despite the uncertainties amid global economic climate, the Korean economy is forecast to show a modest recovery thanks mostly to eased quarantine rules and renewal of economic activity, but spike in energy and raw material prices stemming from geo-political issues could be an obstacle for soft landing on its economy. Such forecasts are subject to scrutiny since the resurgence of any Covid19 variant could still pose a potential threat to the economy and drastic approaches to curb the inflationary pressure may unexpectedly contract the real economy.

To tide over the challenges of 2022, KDB has set its business objective to be an "Advanced Policy Bank at the Forefront of Korea's Sustainable Growth," with a goal of boosting growth of new industries, steering fundamental changes in the country's industrial structure for the future, as well as revitalizing the economy through Covid19 crisis management. In preparing for future economic transitions, the bank will usher in a low carbon economy by actively supporting the K-New Deal Policy (one of Korea government's key initiatives on climate change) 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.

On the threshold of heading into the post-Covid19 era, KDB will continue playing an integral role in green finance as part of effort to move Korea toward carbon neutrality, as well as establishing the foothold of innovative growth for Korean economy by facilitating existing venture platforms. In the meantime, the bank will prolong financial support programs to minimize companies' default risk from rapid built up in their debt in the aftermath of the pandemic and provide tailored solutions to distressed companies and galvanize their recovery.

Similar to last year, we are expecting a volatile and unpredictable financial landscape in 2022. 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)

	2021	2020	Change	
			Amount	%
Net operating revenue	3,887.2	2,950.5	936.7	31.7%
Net interest income	1,985.5	1,547.9	437.6	28.3%
Non-interest income	1,901.7	1,402.6	499.1	35.6%
Provision for credit losses	492.2	1,316.2	(824.0)	(62.6%)
G&A expenses	950.5	917.4	33.1	3.6%
Operating income	2,444.6	716.9	1,727.7	241.0%
Non-operating income	724.9	1,862.7	(1,137.8)	(61.1%)
Income tax expenses	954.5	659.5	295.0	44.7%
Profit for the period from continuing operations	2,215.0	1,920.1	294.9	15.4%
Profit from discontinued operations	(891.5)	41.3	(932.8)	-
Net profit	1,323.5	1,961.3	(637.8)	(32.5%)

\* In 2021, KDB classified Daewoo Engineering & Construction Co.,Ltd as assets and liabilities held for sale, and profit or loss on Daewoo Engineering & Construction Co.,Ltd as profit or loss from discontinued operations. The difference in Statement of Income for 2020 from the previous Financial Statements is due to the reclassification.

KDB recorded a net profit of KRW 1.3 trillion in 2021, KRW 0.6 trillion less than that in the previous year. Net operating revenue increased by KRW 0.9 trillion year-on-year. Due to the continuing trend of low interest rates, interest expenses decreased from last year and resulted in a 28.3% increase in the net interest income. Non-interest income also increased by 35.6% mainly due to an valuation on equity converted from convertible bonds of HMM that realized gains amounting to KRW 1.86 trillion. Operating income for year 2021 greatly increased by KRW 1.7 trillion. As a few restructuring cases including HJ Shipbuilding & Construction Co.,Ltd, K Shipbuilding Co., Ltd, etc., have culminated, there was a decrease in provision for credit loss year-on-year to KRW 492 billion relative to that of 2020. Non-operating income recorded a gain of KRW 725 billion compared to that of KRW 1,863 billion from the previous year. This was due to a sharp decrease in share of profit of investments in associates.

### Interest Income and NIM

(Unit: KRW billion)

	2021	2020	Change	
			Amount	%
Interest-earning assets (Annual average balance)	205,222	187,406	17,816	9.51
Yield rate (%)	1.92	2.28		(0.36%p)
Interest-bearing liabilities (Annual average balance)	216,123	204,601	11,522	5.63
Cost rate (%)	1.18	1.59		(0.41%p)
NIM (%)	0.68	0.55		0.13%p

\* Non-consolidated basis

Interest-earning assets and interest-bearing liabilities increased by 9.5% and 5.6% respectively to KRW 205,222 billion and KRW 216,123 billion, while the yield rate and cost rate decreased by 0.36%p and 0.41%p to stand at 1.92% and 1.18% each. As a result, the net interest margin for the year increased by 0.13% p to 0.68%.

## Financial Statement

### Summarized Statement of Financial Position

(Unit: KRW billion)

	2021	2020	Amount	Change
				%
Assets	333,898.2	304,996.5	28,901.7	9.5
Cash & due from banks	11,853.4	11,794.2	59.2	0.5
Securities	88,554.6	76,532.4	12,022.2	15.7
Loans	179,826.8	164,585.8	15,241.0	9.3
Other assets	53,663.4	52,084.1	1,579.3	3.0
Liabilities	287,740.1	264,007.0	23,733.1	9.0
Deposits	53,839.1	46,961.4	6,877.7	14.6
Borrowings	28,561.1	24,542.8	4,018.3	16.4
Bonds	150,014.9	143,329.3	6,685.6	4.7
Other liabilities	55,325.0	49,173.5	6,151.5	12.5
Equity	46,158.2	40,989.5	5,168.7	12.6
Issued capital	21,886.5	20,765.6	1,120.9	5.4
Capital surplus	758.6	1,055.9	(297.3)	(28.2)
Retained earnings	14,090.1	12,347.1	1,743.0	14.1
Capital adjustments	278.4	278.1	0.3	0.1
Accumulated other comprehensive income	4,977.7	2,053.5	2,924.2	142.4
Non-controlling interests	4,166.9	4,489.3	(322.4)	(7.2)

As of end of 2021, KDB's assets amounted to KRW 333,898 billion, up 9.5% compared to the previous year. This was mainly attributable to an increase in loan volumes and increase in valuation of securities held for sale. The increase in loan volumes reflected the bank's effort to overcome the Covid19 pandemic by providing more liquidity to the economy.

KDB's liabilities rose by 9.0% year-on-year to record KRW 287,740 billion, mainly attributable to increases in deposits and issuance of bonds. The deposit outstanding amounted to KRW 53,839 billion, increased by 14.6% compared to 2020 and bond outstanding amount stood at KRW 150,015 billion at year-end, up 4.7% year-on-year. KDB issued more bonds during the year to provide more liquidity amid the Covid19 crisis.

KDB's total equity stood at KRW 46,158 billion, up 12.6% compared to the previous year. During the year, KDB received capital injection (KRW 1.1 trillion) from the government to execute the government's various policy objectives including New Deal Policy, Capital Market Stabilization Program etc. The drastic increase in accumulated other comprehensive income is ascribed to increase in fair value of HMM's perpetual bonds as securities measured at FVOCI.

## Loans

(Unit: KRW billion)

	2021	2020	Amount	Change
				%
Corporate loans	156,463	142,431	14,032	9.9
Large enterprises	126,700	115,155	11,545	10.0
SMEs	29,763	27,276	2,487	9.1
Household loans	249	282	(33)	(11.7)
Public and others	1,239	930	309	33.2
Total loans	157,951	143,643	14,308	10.0

\* Non-consolidated basis

Total loans in 2021 recorded KRW 157,951 billion, up 10.0% from the previous year. Corporate loans, which accounted for the largest proportion of the total volume, rose by 9.9% year-on-year to KRW 156,463 billion, mainly attributable to a 10.0% increase in loans to large enterprises.

## Funding

(Unit: KRW billion)

	2021	2020	Amount	Change
				%
Deposits	53,839	46,961	6,878	14.6
Borrowings	28,561	24,543	4,018	16.4
Bonds	150,015	143,329	6,686	4.7

Compared to last year, the deposits increased by 14.6% year-on-year, while borrowings increased by 16.4%. Bond outstanding amounted to KRW 150,015 billion, a 4.7 % increase from the previous year.

## Asset Quality

(Unit: KRW billion)

	2021	2020	Change	
			Amount	%
Total credit	157,951	143,643	14,308	10.0
Normal	150,255	134,667	15,588	11.6
Precautionary	4,992	5,415	(423)	(7.8)
Sub-standard	1,792	2,297	(505)	(22.0)
Doubtful	154	333	(179)	(53.8)
Estimated loss	758	931	(173)	(18.6)
Sub-standard and below loans (NPL)	2,704	3,561	(857)	(24.1)
NPL Ratio	1.71%	2.48%		(0.77%p)
Loan loss reserve	4,598	4,309	289	6.7
NPL coverage ratio	170.05%	121.01%		49.04%p

\* Non-consolidated basis

In 2021, total credit exposure as of the end of the year amounted to KRW 158 trillion, up KRW 14 trillion or 10.0% year-on-year. As NPLs decreased by 24.1% from the previous year, NPL Ratio fell from 2.48% in 2020 to 1.71% in 2021.

Due to the Covid19 pandemic, KDB adopted a conservative approach in calculating its provision for credit loss. Thus, in 2021, loan loss reserve stood at KRW 4,598 billion, resulting in an increase of KRW 289 billion or 6.7%. As a result of the increase in loan loss reserve, the NPL coverage ratio rose by 49.04%p to 170.05%.

## Capital Management

### Capital Adequacy Ratio and Tier 1 Ratio

(Unit: %)

	2021	2020	Change (%p)
Capital adequacy ratio	14.88	15.96	(1.08)
Tier 1 ratio	13.73	14.26	(0.53)

\* The BIS capital adequacy ratio of KDB is well maintained above the minimum requirement of 10.51%.

KDB's BIS capital adequacy and Tier 1 ratios are calculated in accordance with BASEL III standards. As of 2021, the respective ratios stood at 14.88% and 13.73%, down 1.08%p and 0.53%p each from the previous year. The decrease was mainly due to the increase in risk-weighted assets to KRW 299.7 trillion from KRW 252.6 trillion as of 2020, despite the fact that the bank's BIS capital recorded KRW 44.6 trillion showing an increase of KRW 4.3 trillion from the previous year, mainly due to increasing consolidated net income.

# Independent Auditors' Report

## Based on 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, 2021 and 2020, 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, 2021 and 2020, 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 Covid19 in 2021 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, 2022

This report is effective as of March 29, 2022, 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, 2021 and 2020

<i>(In millions of won)</i>	Notes	December 31, 2021	December 31, 2020
<b>Assets</b>			
Cash and due from banks	4,41,49,50,53	₩ 11,853,364	11,794,237
Securities measured at FVTPL	5,49,50,53	11,738,330	10,262,829
Securities measured at FVOCI	6,41,49,50,53	39,064,390	34,920,659
Securities measured at amortized cost	7,41,49,50,53	6,203,858	2,120,469
Loans measured at FVTPL	8,49,50,53	644,412	1,434,514
Loans measured at amortized cost	9,43,49,50,53	179,182,355	163,151,289
Derivative financial assets	10,49,50,51,53	5,101,962	8,322,250
Investments in associates	11,52	31,548,070	29,228,487
Property and equipment, net	12,52	1,420,646	1,967,320
Investment property, net	13,52	83,637	460,737
Intangible assets, net	14,52	176,197	707,940
Deferred tax assets	39	1,232	780,569
Current tax assets		9,297	38,066
Other assets	15,49,50,53	6,573,735	10,939,005
Assets held for sale	16	40,296,751	28,868,107
<b>Total assets</b>		₩ <u>333,898,236</u>	<u>304,996,478</u>
<b>Liabilities</b>			
Financial liabilities measured at FVTPL	17,49,50,53	₩ 2,067,144	1,694,957
Deposits	18,49,50,53	53,839,129	46,961,355
Borrowings	19,49,50,53	28,561,063	24,542,788
Debentures	20,49,50,53	150,014,919	143,329,298
Derivative financial liabilities	10,49,50,51,53	4,752,838	6,166,011
Defined benefit liabilities	22	9,246	251,494
Provisions	23	645,329	966,706
Deferred tax liabilities	39	6,496,971	4,395,128
Current tax liabilities		316,231	70,898
Other liabilities	24,49,50,53	8,037,265	11,477,150
Liabilities held for sale	16	32,999,924	24,151,170
<b>Total liabilities</b>		<u>287,740,059</u>	<u>264,006,955</u>

(Continued)

<i>(In millions of won)</i>	Notes	December 31, 2021	December 31, 2020
<b>Equity</b>			
Issued capital	25	₩ 21,886,559	20,765,729
Capital surplus	25	758,560	1,055,888
Capital adjustment	25	278,392	278,051
Accumulated other comprehensive income	25	4,977,670	2,053,511
Retained earnings	25	14,090,106	12,347,088
<small>(Regulatory reserve for credit losses of ₩502,744 million and ₩1,175,456 million as of December 31, 2021 and 2020, respectively)</small>			
<small>(Required reversal of regulatory reserve for credit losses of ₩229,939 million and ₩672,712 million as of December 31, 2021 and 2020, respectively)</small>			
<small>(Planned reversal of regulatory reserve for credit losses of ₩229,939 million and ₩672,712 million as of December 31, 2021 and 2020, respectively)</small>			
<b>Total equity attributable to owners of the parent</b>		<u>41,991,287</u>	<u>36,500,267</u>
<b>Non-controlling interests</b>	46	<u>4,166,890</u>	<u>4,489,256</u>
<b>Total equity</b>		<u>46,158,177</u>	<u>40,989,523</u>
<b>Total liabilities and equity</b>		₩ <u>333,898,236</u>	<u>304,996,478</u>

See accompanying notes to the consolidated financial statements.

Korea Development Bank and Subsidiaries

## Consolidated Statements of Comprehensive Income

Years ended December 31, 2021 and 2020

<i>(In millions of won, except earnings per share information)</i>	Notes	2021	2020
<b>Continuing operations:</b>			
Interest income	26 ₩	4,613,031	4,876,564
Interest expense	26	(2,627,509)	(3,328,632)
<b>Net interest income</b>		<u>1,985,522</u>	<u>1,547,932</u>
Net fees and commission income	27	388,303	362,587
Dividend income	28	304,628	280,183
Net gain on securities measured at FVTPL	29	228,615	93,387
Net gain on financial instruments designated at FVTPL	30	149,918	27,888
Net gain (loss) on securities measured at FVOCI	31	(30,648)	83,417
Net loss on securities measured at amortized cost	32	(4,788)	(4,381)
Net gain (loss) on derivatives	33	(563,059)	496,552
Net foreign currency transaction gain (loss)	34	147,400	(207,916)
Other operating income, net	35	1,281,343	270,928
<b>Non-interest income, net</b>		<u>1,901,712</u>	<u>1,402,645</u>
<b>Provision for credit losses</b>	36	<u>492,154</u>	<u>1,316,207</u>
<b>General and administrative expenses</b>	37	<u>950,462</u>	<u>917,447</u>
<b>Operating income</b>		<u>2,444,618</u>	<u>716,923</u>
Net gain related to investments in associates	11	715,453	1,892,487
Other non-operating income	38	26,178	23,508
Other non-operating expense	38	(16,781)	(53,316)
<b>Non-operating income, net</b>		<u>724,850</u>	<u>1,862,679</u>
<b>Profit before income taxes</b>		<u>3,169,468</u>	<u>2,579,602</u>
<b>Income tax expenses</b>	39	<u>954,490</u>	<u>659,505</u>
<b>Profit for the year from continuing operations</b>		<u>2,214,978</u>	<u>1,920,097</u>
<b>Discontinued operations:</b>			
<b>Profit (loss) from discontinued operations</b>	16	<u>(891,509)</u>	<u>41,250</u>
<b>Profit for the year</b>	25 ₩	<u>1,323,469</u>	<u>1,961,347</u>

(Profit for the year adjusted for regulatory reserve for credit losses: ₩1,553,408 million and ₩2,634,059 million for the years ended December 31, 2021 and 2020, respectively)

(Continued)

Years ended December 31, 2021 and 2020

<i>(In millions of won, except earnings per share information)</i>	Notes	2021	2020
<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 (loss) on securities measured at FVOCI	₩	(336,431)	1,737
Share of other comprehensive income (loss) of associates		308,471	(21,200)
Exchange differences on translation of foreign operations		227,988	(207,798)
Valuation gain (loss) on cash flow hedge		98	(1,495)
Net gain (loss) on hedges of net investments in foreign operations		(56,620)	31,492
Others		585	(66,608)
		<u>144,091</u>	<u>(263,872)</u>
<b>Items will not be reclassified to profit or loss:</b>			
Remeasurements of defined benefit liabilities		33,054	39,124
Fair value changes on financial liabilities designated at fair value due to credit risk		6,246	(1,188)
Net gain on securities measured at FVOCI		2,788,857	2,127,151
Share of other comprehensive loss of associates		22,937	(2,902)
		<u>2,851,094</u>	<u>2,162,185</u>
		<u>2,995,185</u>	<u>1,898,313</u>
<b>Total comprehensive income for the year</b>	₩	<u>4,318,654</u>	<u>3,859,660</u>
<b>Profit attributable to:</b>			
Owners of the parent	25 ₩	1,926,033	1,845,056
Non-controlling interests		(602,564)	116,291
<b>Profit for the year</b>	₩	<u>1,323,469</u>	<u>1,961,347</u>
<b>Total comprehensive income attributable to:</b>			
Owners of the parent	₩	4,908,636	3,812,849
Non-controlling interests		(589,982)	46,811
<b>Total comprehensive income for the year</b>	₩	<u>4,318,654</u>	<u>3,859,660</u>
<b>Earnings per share:</b>			
Basic and diluted earnings per share (in won)	40 ₩	<u>446</u>	<u>468</u>
<b>Earnings per share from continuing operations:</b>			
Basic and diluted earnings per share (in won)	40 ₩	<u>478</u>	<u>510</u>

See accompanying notes to the consolidated financial statements.

Korea Development Bank and Subsidiaries

## Consolidated Statements of Changes in Equity

Years ended December 31, 2021 and 2020

(In millions of won)	Attributable to owners of the parent							
	Issued capital	Capital surplus	Capital adjustment	Accumulated other comprehensive income	Retained earnings	Total	Non-controlling interests	Total equity
<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
<b>Balance at January 1, 2021</b>	₩ 20,765,729	1,055,888	278,051	2,053,511	12,347,088	36,500,267	4,489,256	40,989,523
<b>Changes in accounting policy</b>	-	-	-	-	(31,821)	(31,821)	(14,838)	(46,659)
<b>Restated balance at January 1, 2021</b>	20,765,729	1,055,888	278,051	2,053,511	12,315,267	36,468,446	4,474,418	40,942,864
Profit for the year	-	-	-	-	1,926,033	1,926,033	(602,564)	1,323,469
Net gain (loss) on securities measured at FVOCI	-	-	-	2,421,033	54,172	2,475,205	(22,779)	2,452,426
Share of other comprehensive loss of associates	-	-	-	319,859	4,272	324,131	7,277	331,408
Exchange differences on translation of foreign operations	-	-	-	199,154	-	199,154	28,834	227,988
Valuation gain on cash flow hedge	-	-	-	270	-	270	(172)	98
Net loss on hedges of net investments in foreign operations	-	-	-	(56,620)	-	(56,620)	-	(56,620)
Remeasurements of defined benefit liabilities	-	-	-	34,169	-	34,169	(1,115)	33,054
Fair value changes on financial liabilities designated at fair value due to credit risk	-	-	-	6,246	-	6,246	-	6,246
Others	-	-	-	48	-	48	537	585
<b>Total comprehensive income for the year</b>	-	-	-	2,924,159	1,984,477	4,908,636	(589,982)	4,318,654
Dividends	-	-	-	-	(209,638)	(209,638)	-	(209,638)
Paid-in capital increase	1,120,830	(5,388)	-	-	-	1,115,442	-	1,115,442
Acquisition on / disposal of interest in subsidiaries while maintain control	-	(291,940)	341	-	-	(291,599)	282,454	(9,145)
<b>Transaction with owners</b>	1,120,830	(297,328)	341	-	(209,638)	614,205	282,454	896,659
<b>Balance at December 31, 2021</b>	₩ 21,886,559	758,560	278,392	4,977,670	14,090,106	41,991,287	4,166,890	46,158,177

See accompanying notes to the consolidated financial statements.

Korea Development Bank and Subsidiaries

## Consolidated Statements of Cash Flows

Years ended December 31, 2021 and 2020

(In millions of won)	2021	2020
<b>Cash flows from operating activities</b>		
Profit for the year	₩ 1,323,469	1,961,347
Adjustments for:		
Income tax expense	1,245,542	678,000
Interest income	(4,613,031)	(4,876,178)
Interest expense	2,627,509	3,309,613
Dividend income	(304,628)	(285,583)
Gain on valuation of securities measured at FVTPL	(147,807)	(67,521)
Gain on valuation of financial instruments designated at fair value through profit or loss	(149,880)	(29,187)
Net loss (gain) on securities measured at FVOCI	30,408	(126,304)
Net loss on securities measured at amortized cost	2,368	10,760
Gain on valuation of loans measured at FVTPL	(1,895,878)	(649,267)
Loss (gain) on valuation of derivatives	1,496,048	(984,667)
Net loss (gain) on fair value hedged items	(481,882)	25,346
Loss (gain) on foreign exchange translation	(17,175)	164,040
Loss on disposal of investments in associates	288,009	25,359
Impairment loss on investments in associates	47,066	34,282
Share of gain of associates	(742,839)	(1,931,968)
Provision for loan losses allowance	623,039	1,231,062
Provision for due from banks	-	166
Reversal of provision for payment guarantees	(77,763)	(25,365)
Increase (reversal) of provision for unused commitments	(13,986)	66,850
Increase (reversal) of provision for financial guarantee provision	(5,970)	26,327
Increase of lawsuit provision	1,611	384
Reversal of provision for restoration	(1,820)	(839)
Increase of other provisions	115,432	73,729
Increase (reversal) of provision for other assets	(33,167)	14,423
Defined benefit costs	47,904	95,303
Depreciation of property and equipment	254,061	197,426
Net loss on property and equipment	15,033	105,834
Depreciation of investment property	4,495	10,495
Net loss (gain) on investment property	(18,396)	8,758
Amortization of intangible assets	63,309	159,396
Net loss on intangible assets	5,514	59,114
Net loss (gain) on assets held for sale	(41,657)	5,308
Net loss (gain) on share capital repayable on demand	52,509	(13,539)
Loss on redemption of debentures	-	136
	(1,626,022)	(2,688,307)
Changes in operating assets and liabilities:		
Due from banks	(5,628,969)	(1,770,753)
Securities measured at FVTPL	(121,145)	69,437
Loans measured at FVTPL	27,981	(180,170)
Loans measured at amortized cost	(17,172,462)	(16,072,882)
Derivative financial instruments	(113,582)	43,433
Other assets	2,847,450	(1,423,151)
Financial liabilities designated at FVTPL	290,136	76,378
Deposits	6,817,787	10,670,790
Policy reserves	493,619	484,782
Defined benefit liabilities	(242,278)	(92,827)
Provisions	(393,385)	(140,355)
Other liabilities	4,112,111	(211,981)
	(9,082,737)	(8,547,299)
Income taxes refund (paid)	174,826	(351,216)
Interest received	4,549,130	5,078,304
Interest paid	(3,591,718)	(3,653,450)
Dividends received	1,211,484	580,611
<b>Net cash used in operating activities</b>	₩ (7,041,568)	(7,620,010)

(Continued)

Korea Development Bank and Subsidiaries

## Consolidated Statements of Cash Flows, Continued

Years ended December 31, 2021 and 2020

(In millions of won)

	2021	2020
<b>Cash flows from investing activities</b>		
Net, increase in securities measured at FVTPL	₩ (1,641,098)	(1,389,326)
Disposal of securities measured at FVOCI	36,618,591	51,033,727
Acquisition of securities measured at FVOCI	(37,441,512)	(58,105,098)
Redemption of securities measured at amortized cost	1,111,166	1,367,263
Acquisition of securities measured at amortized cost	(4,794,058)	(1,957,404)
Disposal of property and equipment	19,059	281,085
Acquisition of property and equipment	(199,353)	(72,734)
Disposal of investment property	37,150	166
Acquisition of investment property	(6,841)	(2,327)
Disposal of intangible assets	18,971	5,304
Acquisition of intangible assets	(31,339)	(37,722)
Disposal of assets and liabilities held for sale	248,176	67,699
Disposal of investment in associates	434,308	723,414
Acquisition of investments in associates	(957,467)	(1,232,808)
Net cash flows by the change of subsidiaries	(140,585)	(542,458)
<b>Net cash used in investing activities</b>	<b>(6,724,832)</b>	<b>(9,861,219)</b>
<b>Cash flows from financing activities</b>		
Increase in financial liabilities designated at FVTPL	319,690	170,000
Decrease in financial liabilities designated at FVTPL	(79,144)	(989,417)
Proceeds from borrowings	49,158,318	45,827,695
Repayment of borrowings	(43,418,267)	(45,922,964)
Proceeds from issuance of debentures	119,688,259	118,233,416
Repayment of debentures	(112,262,075)	(99,644,885)
Repayment of lease liabilities	(124,324)	(167,232)
Paid-in capital increase	1,115,442	2,092,525
Dividends paid	(209,638)	(111,978)
Decrease of non-controlling interests	(93,879)	(69,110)
<b>Net cash provided by financing activities</b>	<b>14,094,382</b>	<b>19,418,050</b>
<b>Effects from changes in foreign currency exchange rate for cash and cash equivalents held</b>	<b>276,512</b>	<b>(200,324)</b>
<b>Net increase in cash and cash equivalents</b>	<b>604,494</b>	<b>1,736,497</b>
<b>Cash and cash equivalents included in assets held for sale</b>	<b>(3,135,528)</b>	<b>(350,709)</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>8,169,254</b>	<b>6,783,466</b>
<b>Cash and cash equivalents at end of the year</b>	<b>₩ 5,638,220</b>	<b>8,169,254</b>

See accompanying notes to the consolidated financial statements.

Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

December 31, 2021 and 2020

### 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 ₩21,886,559 million with 4,377,311,768 shares of issued and outstanding as of December 31, 2021 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, 2021, is as follows:

	Domestic		Overseas		Total
	Head Office	Branches	Branches	Subsidiaries	
KDB	1	61	10	7	86

#### (2) Consolidated subsidiaries

The Group’s equity ownership in its consolidated direct and indirect subsidiaries as of December 31, 2021 and 2020 are summarized as follows:

Investor	Investee	Country	Industry	Fiscal year end	Ownership (%)	
					2021	2020
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	84.65
	KDB Silicon Valley LLC	US	Finance	December	100.00	-
	KDB Capital Corporation	Korea	Specialized	December		
			Credit Finance		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
			Asset			
	KDB Infrastructure Investment Asset Management Co., Ltd.	Korea	management	December	84.16	84.16
	Daewoo Shipbuilding & Marine Engineering Co., Ltd. (*1)	Korea	Manufacturing	December	55.68	55.68
	Samwoo Heavy Industry Co., Ltd. (*2) (*5)	Korea	Ship parts manufacturing	December	100.00	100.00
	Daehan Shipbuilding Co., Ltd. (*2) (*5)	Korea	Manufacturing	December	70.04	70.04
	Korea Infrastructure Fund (*9)	Korea	Financial investment	December	-	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

Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

December 31, 2021 and 2020

### 1. Reporting Entity, Continued

Investor	Investee	Country	Industry	Fiscal year end	Ownership (%)		
					2021	2020	
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 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 (*5)	Korea	Financial investment	December	99.70	99.70	
	KDB Value Private Equity Fund VII (*5) (*9)	Korea	Financial investment	December	-	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	73.34	
	Corporate Liquidity Assistance Agency Co., Ltd.	Korea	Financial investment	December	100.00	100.00	
	K-Five 9th Securitization Specialty Co., Ltd. and 8 others (*6)	Korea	Financial investment	December	-	-	
	KIAMCO Road Investment Private Fund Special Asset Trust 2 and 21 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
		Fine Infrastructure No.4	Korea	Financial investment	December	99.34	99.34
		Tiger Alternative Specialized Investment Trust No.21	Korea	Financial investment	December	98.67	98.67
		YK Bluesky No.1 (*6)	Korea	Financial investment	December	-	-
Curious DB Harmony Corporate Recovery Private Equity Fund (*9)		Korea	Financial investment	December	-	98.82	
KDBC Synergy Mezzanine New Tech Fund No.1		Korea	Financial investment	December	90.50	90.50	
Curious rainbow Private Equity Fund for corporate financial stability (*9)		Korea	Financial investment	December	-	98.08	

December 31, 2021 and 2020

### 1. Reporting Entity, Continued

Investor	Investee	Country	Industry	Fiscal year end	Ownership (%)	
					2021	2020
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	DSME Shangdong Co., Ltd.	China	Parts of watercraft manufacturing	December	100.00	100.00
	DK Maritime S. A.		Shipping industry			
KDB Consus Value Private Equity Fund	DSME Information Consulting Co., Ltd.	Korea	IT Service	December	100.00	100.00
	DSME Kazakhstan LLP	Kazakhstan	Ship repairing			
KDB Investment PEF No.1	KDB Life Insurance Co., Ltd. (*1) (*8)	Korea	Finance	December	92.73	92.73
	Daewoo Engineering & Construction Co., Ltd. (*1) (*8)					
KDB Investment Co., Ltd.	KDB INVESTMENT PRIVATE EQUITY FUND NO.2 (*5) (*7)	Korea	Financial investment	December	14.32	-

## Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

December 31, 2021 and 2020

## 1. Reporting Entity, Continued

- (\*1) The Group reclassified the disposal group of Daewoo Shipbuilding & Marine Engineering Co., Ltd., KDB Life Insurance Co., Ltd. and Daewoo Engineering & Construction 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 Group holds less than half of the voting rights because the Group 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 Group 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) The investee is excluded from the scope of consolidation as of December 31, 2021 due to liquidation.

## (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, 2021 are as follows:

(i) Subsidiaries newly included in scope of consolidation as of December 31, 2021

Reason	Subsidiaries
New investment	KDB Silicon Valley LLC, K-Five 9th Securitization Specialty Co., Ltd., SINOKOR SF 4th Co., Ltd., KKC 2ND INC., KDB ESG 1ST INC., KDB ESG 2ND INC., KDB ESG 3RD INC., KDB INVESTMENT PRIVATE EQUITY FUND NO.2

(ii) Subsidiaries excluded from scope of consolidation as of December 31, 2021

Reason	Subsidiaries
Liquidation	Korea Infrastructure Fund, KDB Value Private Equity Fund VII, SINOKOR SF 3rd Co., Ltd., KDB PIONEER IP Private Equity Fund, Multi-Asset KDB Shipping Private Fund SNT-1, K-Five 7th Securitization Specialty Co., Ltd., Multi-Asset KDB Ocean Value-up Private Fund 3rd, KDB Mirae Seongjang Abcp The 1st, KDB SHIPPING FUND KLC-1

December 31, 2021 and 2020

(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, 2021 and 2020 are as follows:

	2021					Total comprehensive income (loss)
	Assets	Liabilities	Equity	Operating revenue	Net profit (loss)	
KDB Asia (HK) Ltd.	₩ 3,958,732	3,402,497	556,235	130,854	42,651	84,868
KDB Ireland Ltd.	698,808	585,918	112,890	22,318	5,156	13,790
KDB Bank Uzbekistan Ltd.	838,100	755,286	82,814	28,400	10,340	16,928
KDB Bank Europe Ltd.	1,113,228	993,801	119,427	46,211	4,333	8,031
Banco KDB Do Brazil S. A.	369,396	308,057	61,339	49,441	1,649	2,773
KDB Indonesia Ltd.	116,553	30,437	86,116	9,137	169	2,657
KDB Silicon Valley LLC	119,648	1,669	117,979	24	(552)	(552)
KDB Capital Corporation	7,513,809	6,217,165	1,296,644	555,801	232,376	183,742
KDB Infrastructure Investment Asset Management Co., Ltd.	68,612	11,373	57,239	37,483	18,851	18,936
KDB Biz Co., Ltd.	7,478	4,441	3,037	25,580	260	737
KDB Investment Co., Ltd.	81,468	2,687	78,781	10,535	4,084	4,177
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	10,623,210	8,405,627	2,217,583	4,486,586	(1,699,829)	(1,650,289)
Samwoo Heavy Industry Co., Ltd.	253,430	240,028	13,402	87,589	(9,176)	(8,939)
Daehan Shipbuilding Co., Ltd.	701,881	991,844	(289,963)	763,270	(136,391)	(135,624)
Korea Education Fund	98,376	6	98,370	3,877	2,039	2,039
Korea BTL Fund I	361,684	237	361,447	12,709	10,819	10,819
Korea Railroad Fund I	178,399	110	178,289	7,172	3,806	3,806
Principals and interests guaranteed trusts	238,144	233,534	4,610	5,944	(70,119)	(70,119)
Principals guaranteed trusts	243,459	236,901	6,558	4,522	242	242
KDB Consus Value Private Equity Fund	19,680,738	19,633,413	47,325	5	14,301	(385,890)
Components & Materials M&A Private Equity Fund	793	25	768	2	(15,695)	(15,695)
KDB Investment PEF No.1	11,017,597	8,043,123	2,974,474	-	205,231	232,737
KDB Sigma Private Equity Fund II	629	12	617	39	(2,314)	(2,314)
KDB Asia Private Equity Fund	130,757	102	130,655	-	(2,669)	11,441
KDB-IAP OBOR Private Equity Fund	55,046	55,235	(189)	-	(74,212)	(70,569)
KDB Small Medium Mezzanine PEF	105,256	144	105,112	81,216	69,808	70,597
Corporate Liquidity Assistance Agency Co., Ltd.	3,947,608	2,915,271	1,032,337	83,857	29,628	29,628
K-Five 9th Securitization Specialty Co., Ltd. and 8 others	724,085	845,498	(121,413)	16,367	(8,138)	(8,138)
KIAMCO Road Investment Private Fund Special Asset Trust 2 and 21 beneficiary certificates	2,170,320	1,489	2,168,831	223,781	188,381	191,661

Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

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(In millions of won)

### 1. Reporting Entity, Continued

	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, 2021 and 2020

### 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, 2021. The nature and the impact of each new standard or amendment are described below:

*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 amendment does not have a significant impact on the consolidated financial statements.

##### (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, 2021, 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 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 1037 '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.

Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

December 31, 2021 and 2020

### 2. Basis of Preparation, Continued

#### *Amendments to K-IFRS 1116 'Lease' - Covid-19-Related Rent Concessions etc. beyond June 30, 2021*

The application of the 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, is extended to lease payments originally due on or before June 30, 2022. A lessee shall apply the practical expedient consistently to eligible contracts with similar characteristics and in similar circumstances. The amendments should be applied for annual periods beginning on or after April 1, 2021, and earlier application is permitted. The Group does not expect that these amendments have a significant impact on the consolidated financial statements.

#### *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 1116 'Leases' – Lease incentives

#### - Korean IFRS 1041 'Agriculture' – Measuring fair value

#### *Amendments to Korean IFRS No.1001 Presentation of Financial Statements*

The amendments require an entity to define and disclose their material accounting policy information. IFRS Practice Statement 2 Making Materiality Judgements was amended to explain and demonstrate how to apply the concept of materiality. The amendments should be applied for annual reporting 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 separate financial statements.

#### *Amendments to Korean IFRS No.1008 Accounting Policies, Changes in Accounting Estimates and Errors*

The amendments introduce the definition of accounting estimates and clarify how to distinguish changes in accounting estimates from changes in accounting policies. The amendments should be applied for annual reporting 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 separate financial statements.

#### *Amendments to Korean IFRS No.1012 Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction*

The amendments narrow the scope of the deferred tax recognition exemption so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. The amendments should be applied for annual reporting 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 separate financial statements.

December 31, 2021 and 2020

### 2. Basis of Preparation, Continued

#### (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(HK) Ltd. KDB Ireland Ltd. KDB Asia Private Equity Fund KDB-IAP OBOR Private Equity Fund Multi-Asset KDB Shipping Private Fund DA-3 Multi-Asset KDB Ocean Value-up Private Fund 6th KDB Silicon Valley LLC
UZS	KDB Bank Uzbekistan Ltd.
HUF	KDB Bank Europe Ltd.
BRL	Banco KDB Do Brazil S. A.
IDR	KDB Indonesia Ltd.

Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

December 31, 2021 and 2020

### 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 2021 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, 2021 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, 2021. 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 2021 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.

December 31, 2021 and 2020

### 2. Basis of Preparation, Continued

#### (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 at the reporting date. Deferred income tax assets are recognized to the extent that sufficient taxable profit will be 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 28, 2022, which will be submitted for approval to the shareholders' meeting to be held on March 31, 2022.

### 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

## Notes to the Consolidated Financial Statements

December 31, 2021 and 2020

### 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.

Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

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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.

December 31, 2021 and 2020

### 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.

Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

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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.

Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

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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.

December 31, 2021 and 2020

### 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.

Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

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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, 2021 and 2020

### 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.

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## Notes to the Consolidated Financial Statements

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### 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, 2021 and 2020

### 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.

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## Notes to the Consolidated Financial Statements

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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.

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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, 2021 and 2020

### 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, 2021 and 2020

### 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

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### 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, 2021 and 2020

### 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.

(In millions of won)

### 4. Cash and Due from Banks

(1) Cash and due from banks as of December 31, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Cash	₩ 618,444	481,957
Due from banks in Korean won:		
Due from Bank of Korea	5,673,412	4,140,277
Other due from banks in Korean won	775,177	1,459,803
	6,448,589	5,600,080
Due from banks in foreign currencies / off-shores	4,786,331	5,712,200
	₩ 11,853,364	11,794,237

(2) Restricted due from banks as of December 31, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Reserve deposit	₩ 4,387,441	3,052,883
Deposit of monetary stabilization account	1,500,000	1,300,000
Others	565,162	24,882
	₩ 6,452,603	4,377,765

Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

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(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, 2021 and 2020 are as follows:

	December 31, 2021		
	Face value	Acquisition cost	Fair value (Carrying amounts)
Securities denominated in Korean won:			
Stocks	₩ -	1,804,967	1,639,347
Equity investments	-	1,392,064	1,525,636
Beneficiary certificates	-	6,612,784	5,600,696
Government and public bonds	707,000	681,019	651,062
Financial bonds	277,900	276,753	275,436
Corporate bonds	781,124	780,019	800,132
Others	409,699	348,899	319,033
	<u>2,175,723</u>	<u>11,896,505</u>	<u>10,811,342</u>
Securities denominated in foreign currencies/off-shores:			
Stocks	-	7,836	7,869
Equity investments	-	110,131	142,465
Beneficiary certificates	-	771,669	723,436
Debt securities	53,347	52,985	53,218
	<u>53,347</u>	<u>942,621</u>	<u>926,988</u>
₩	<u>2,229,070</u>	<u>12,839,126</u>	<u>11,738,330</u>
	December 31, 2020		
	Face value	Acquisition cost	Fair value (Carrying amounts)
Securities denominated in Korean won:			
Stocks	₩ -	1,805,913	1,608,553
Equity investments	-	1,143,494	1,256,376
Beneficiary certificates	-	4,609,771	4,660,556
Government and public bonds	1,109,950	1,116,707	1,103,304
Financial bonds	58,900	59,052	59,325
Corporate bonds	459,649	457,167	525,734
Commercial paper	35,000	34,794	34,790
Others	431,875	346,999	378,354
	<u>2,095,374</u>	<u>9,573,897</u>	<u>9,626,992</u>
Securities denominated in foreign currencies/off-shores:			
Stocks	-	7,491	6,875
Equity investments	-	33,975	21,371
Beneficiary certificates	-	541,129	547,905
Debt securities	56,399	57,330	59,686
	<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>

December 31, 2021 and 2020

(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, 2021 and 2020 are as follows:

Company	December 31, 2021		
	Number of shares	Carrying amount	Restricted period
National Happiness Fund Co., Ltd.	34,066	₩ 47,647	Undecided
Shinhan Metal Co., Ltd.	7,692	-	Until December 31, 2022
	<u>41,758</u>	<u>₩ 47,647</u>	
	December 31, 2020		
Company	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>	

Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

December 31, 2021 and 2020

(In millions of won)

### 6. Securities Measured at FVOCI

(1) Details of securities measured at FVOCI as of December 31, 2021 and 2020 are as follows:

	December 31, 2021		
	Face value	Acquisition cost	Fair value (Carrying amounts)
Securities denominated in Korean won:			
Stocks and equity investments	₩ -	10,204,480	10,476,340
Government and public bonds	1,160,000	1,158,713	1,157,222
Financial bonds	1,820,000	1,820,839	1,817,298
Corporate bonds	8,444,966	8,445,272	8,303,980
Others	2,137,933	2,137,928	8,399,956
	13,562,899	23,767,232	30,154,796
Securities denominated in foreign currencies/off-shores:			
Stocks	-	7,631	6,995
Debt securities	8,101,939	8,311,303	8,484,959
	8,101,939	8,318,934	8,491,954
Loaned securities	420,000	416,002	417,640
	₩ 22,084,838	32,502,168	39,064,390
	December 31, 2020		
	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
	15,600,069	25,615,763	28,354,829
Securities denominated in foreign currencies/off-shores:			
Stocks	-	6,068	1,187
Debt securities	6,075,435	6,180,134	6,274,837
	6,075,435	6,186,202	6,276,024
Loaned securities	290,000	289,641	289,806
	₩ 21,965,504	32,091,606	34,920,659

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, 2021 and 2020 are the amount of ₩74,720 million of gain and ₩48,186 million of loss, respectively, which is directly recognized in retained earnings.

December 31, 2021 and 2020

(In millions of won)

### 6. Securities Measured at FVOCI, Continued

(2) Changes in securities measured at FVOCI for the years ended December 31, 2021 and 2020 are as follows:

		2021	2020
Beginning balance	₩	34,920,659	31,992,665
Acquisition		37,441,512	58,105,098
Disposal		(37,229,695)	(50,940,708)
Change due to amortization		(46,583)	(47,692)
Change in fair value		3,273,627	3,039,746
Reclassification (*1)		(15,657)	(6,794,338)
Foreign exchange differences		574,342	(447,826)
Others (*2)		146,185	13,714
Ending balance	₩	39,064,390	34,920,659

(\*1) For the year ended December 31, 2021, the amount arising from the effect that securities measured at FVOCI held by Daewoo Engineering & Construction Co., Ltd. are transferred to assets-held for sale is included. For the year ended December 31, 2020, 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, 2021, others represent the increase in securities measured at FVOCI including shares of DAE SUN SHIPBUILDING & ENGINEERING CO., LTD., HEUNG-A SHIPPING CO., LTD. and others acquired in accordance with the workout plan decided by the Council of Financial Creditors, shares of Woongjin Energy Co., Ltd. and others acquired in accordance with the rehabilitation plan under the Debtor Rehabilitation and Bankruptcy Act. and shares of L&F CO., LTD., NKMAX Co., Ltd., KASA NETWORK PTE. LTD. and others acquired through exercise of conversion rights of the convertible bonds. 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.

Korea Development Bank and Subsidiaries

# Notes to the Consolidated Financial Statements

December 31, 2021 and 2020

(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, 2021 and 2020 are as follows:

Company (*1)	December 31, 2021		
	Number of shares	Carrying amount	Restricted period
UAMCO., Ltd.	113,050 ₩	176,628	Undecided
High Gain Antenna Co., Ltd.	18,138	273	Undecided
DNGV., Co. Ltd. (*2)	500,000	1	Undecided
HEUNG-A SHIPPING CO., LTD.	3,019,800	8,153	Until July 11, 2022
K Shipbuilding Co., Ltd.	1,115,242	1,258	Until August 3, 2022
WOOJEON CO., LTD.	591,118	1	Until November 12, 2022
Kumho Tire Co., Inc.	21,339,320	98,374	Until July 6, 2023 (*3)
POSCO PLANTEC CO., LTD.	1,838,744	1,806	Until December 31, 2023 or listing date
	<u>28,535,412 ₩</u>	<u>286,494</u>	

(\*1) For the year ended December 31, 2021, shares of Taihan Electric Wire Co., Ltd., CREA IN Co., Ltd. held as of December 31, 2020 have been sold.

(\*2) For the year ended December 31, 2021, the name of Engine Tech Co., Ltd. has been changed to DNGV., Co. Ltd.

(\*3) From July 6, 2021, 50% of the shares may be sold every year.

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>	

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

December 31, 2021 and 2020

(In millions of won)

## 6. Securities Measured at FVOCI, Continued

(4) Changes in the loss allowance in relation to securities measured at FVOCI for the years ended December 31, 2021 and 2020 are as follows:

	2021			
	12-month expected credit loss	Lifetime expected credit losses		Total
		Non credit-impaired	Credit-impaired	
Beginning balance	₩ 9,218	1,358	71,354	81,930
Transfer to 12-month expected credit loss	400	(400)	-	-
Transfer to lifetime expected credit losses:				
Transfer to non credit-impaired debt securities	(1,786)	1,786	-	-
Provision for loss allowance	5,246	1,469	822	7,537
Disposal	(485)	-	-	(485)
Foreign currency translation	103	-	766	869
Others	(1,241)	(944)	(318)	(2,503)
Ending balance	₩ 11,455	3,269	72,624	87,348

	2020			
	12-month expected credit loss	Lifetime expected credit losses		Total
		Non credit-impaired	Credit-impaired	
Beginning balance	₩ 4,062	265	70,976	75,303
Transfer to 12-month expected credit loss	3	(3)	-	-
Transfer to lifetime expected credit losses:				
Transfer to non credit-impaired debt securities	(361)	361	-	-
Provision for loss allowance	6,779	300	60	7,139
Disposal	(864)	-	-	(864)
Foreign currency translation	(62)	-	(667)	(729)
Others	(339)	435	985	1,081
Ending balance	₩ 9,218	1,358	71,354	81,930

Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

December 31, 2021 and 2020

(In millions of won)

### 7. Securities Measured at Amortized Cost

(1) Securities measured at amortized cost as of December 31, 2021 and 2020 are as follows:

	December 31, 2021	
	Amortized cost	Fair value
Securities denominated in Korean won:		
Government and public bonds	₩ 1,437,496	1,437,496
Financial bonds	1,088,249	1,088,203
Corporate bonds	3,616,291	3,607,456
	<u>6,142,036</u>	<u>6,133,155</u>
Securities denominated in foreign currencies:		
Corporate bonds	71,057	70,703
	<u>6,213,093</u>	<u>6,203,858</u>
Less:		
Loss allowance	(9,235)	
	<u>₩ 6,203,858</u>	
	December 31, 2020	
	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>	

(2) Changes in securities measured at amortized cost for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Beginning balance	₩ 2,120,469	5,551,600
Acquisition	4,794,058	1,957,404
Redemption	(700,000)	(1,373,805)
Change due to amortization	(6,118)	(4,388)
Impairment loss	(4,788)	(4,218)
Foreign exchange differences	237	(1,036)
Reclassification, etc. (*)	-	(4,005,088)
Ending balance	<u>₩ 6,203,858</u>	<u>2,120,469</u>

(\*) For the year ended December 31, 2020, 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.

December 31, 2021 and 2020

(In millions of won)

### 8. Loans Measured at FVTPL

(1) Loans measured at FVTPL as of December 31, 2021 and 2020 are as follows:

	December 31, 2021	
	Amortized cost	Fair value (Carrying amounts)
Loans in Korean won:		
Privately placed corporate bonds	₩ 471,645	644,412
	December 31, 2020	
	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
	<u>₩ 801,311</u>	<u>1,434,514</u>

(2) Gains (losses) related to loans measured at FVTPL for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Transaction gains (losses) on loans measured at FVTPL		
Transaction gains	₩ 1,860,411	4,568
Transaction losses	(9,692)	(29,155)
	<u>1,850,719</u>	<u>(24,587)</u>
Valuation gains (losses) on loans measured at FVTPL		
Valuation gains	83,760	676,776
Valuation losses	(4,349)	(27,509)
	<u>79,411</u>	<u>649,267</u>
	<u>₩ 1,930,130</u>	<u>624,680</u>

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### 9. Loans Measured at Amortized Cost

(1) Loans measured at amortized cost and allowance for loan losses as of December 31, 2021 and 2020 are as follows:

	December 31, 2021	
	Amortized cost	Fair value
Loans in Korean won:		
Loans for working capital	₩ 63,555,754	61,980,947
Loans for facility development	60,215,183	59,032,685
Loans for households	310,800	306,840
Inter-bank loans	2,787,493	2,598,921
Others	1,744	-
	<u>126,870,974</u>	<u>123,919,393</u>
Loans in foreign currencies:		
Loans	24,531,460	24,186,081
Inter-bank loans	2,170,975	2,170,110
Off-shore loans	16,602,690	16,193,012
	<u>43,305,125</u>	<u>42,549,203</u>
Other loans:		
Bills bought in foreign currency	2,776,677	2,774,875
Advances for customers on acceptances and guarantees	6,408	1,438
Privately placed corporate bonds	2,500,388	2,599,374
Credit card loans	120,536	119,739
Others	6,927,185	6,791,561
	<u>12,331,194</u>	<u>12,286,987</u>
	<u>182,507,293</u>	<u>178,755,583</u>
Less:		
Allowance for loan losses	(3,312,276)	
Present value discount	(15,881)	
Deferred loan origination costs and fees	3,219	
	<u>₩ 179,182,355</u>	

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(In millions of won)

### 9. Loans Measured at Amortized Cost, Continued

	December 31, 2020	
	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>	

(2) Changes in allowance for loan losses for the years ended December 31, 2021 and 2020 are as follows:

	2021			
	12-month expected credit loss	Lifetime expected credit losses		Total
		Non credit-impaired	Credit-impaired	
Beginning balance	₩ 662,190	665,018	1,839,870	3,167,078
Transfer to 12-month expected credit loss	3,453	(3,453)	-	-
Transfer to lifetime expected credit losses:				
Transfer to non credit-impaired loans	(2,108,992)	2,108,992	-	-
Transfer to credit-impaired loans	(1,400,952)	(6,603)	1,407,555	-
Provision for (reversal of) loss allowance	3,250,579	(1,479,207)	(1,148,333)	623,039
Write-offs	-	(1,844)	(34,640)	(36,484)
Recovery	-	-	57,778	57,778
Sale	(55)	-	(195,397)	(195,452)
Debt-to-equity swap	-	-	(402,680)	(402,680)
Foreign currency translation	15,037	7,948	39,620	62,605
Other	(39,691)	43,989	32,094	36,392
Ending balance	₩ 381,569	1,334,840	1,595,867	3,312,276

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### 9. Loans Measured at Amortized Cost, Continued

	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 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	₩ 662,190	665,018	1,839,870	3,167,078

(3) Losses related to loans measured at amortized cost for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Provision for loan losses	₩ (623,039)	(1,231,062)
Gains (losses) on disposal of loan	36,152	(105,615)
	₩ (586,887)	(1,336,677)

(4) Changes in net deferred loan origination costs and fees for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Beginning balance	₩ (2,188)	(4,779)
New deferrals	(7,578)	8,164
Amortization	12,985	(5,573)
Ending balance	₩ 3,219	(2,188)

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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.

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(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, 2021 and 2020 are as follows:

	December 31, 2021			
	Notional amounts (*1)		Carrying amounts (*1)	
	Buy	Sell	Assets	Liabilities
Trading purpose derivative financial instruments:				
Interest rate				
Futures	₩ -	702,640	-	-
Swaps	244,254,542	244,041,721	858,605	485,957
Options	8,369,912	14,664,093	305,022	377,850
	252,624,454	259,408,454	1,163,627	863,807
Currency				
Futures	17,783	-	-	-
Forwards	60,581,549	53,453,895	1,775,680	1,135,352
Swaps	57,998,582	70,368,555	1,620,744	2,497,574
Options	377,494	375,834	889	578
	118,975,408	124,198,284	3,397,313	3,633,504
Stock				
Options	53,753	50,736	10,911	221
Allowance and other adjustments	-	-	(11,531)	(850)
	371,653,615	383,657,474	4,560,320	4,496,682
Hedging purpose derivative financial instruments:				
Interest rate (*2)				
Futures	-	69,707	-	-
Swaps	24,135,814	24,135,534	331,117	45,477
	24,135,814	24,205,241	331,117	45,477
Currency				
Swaps	9,073,004	9,023,151	210,660	214,707
Allowance and other adjustments	-	-	(135)	(4,028)
	33,208,818	33,228,392	541,642	256,156
	₩ 404,862,433	416,885,866	5,101,962	4,752,838

(\*1) The notional amounts, derivative financial assets and liabilities of Daewoo Shipbuilding & Marine Engineering Co., Ltd., KDB Life Insurance Co., Ltd. and Daewoo Engineering & Construction Co., Ltd. classified as assets and liabilities held for sale as of December 31, 2021, 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.

December 31, 2021 and 2020

(In millions of won)

### 10. Derivative Financial Instruments, Continued

	December 31, 2020			
	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
	195,991,756	199,742,897	1,774,709	1,141,264
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
	105,467,541	107,676,880	5,118,007	4,938,325
Stock				
Options	53,571	7,315	12,511	661
Others	866	-	-	-
Allowance and other adjustments	-	-	(6,288)	(870)
	301,513,734	307,427,092	6,898,939	6,079,380
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)
	27,544,089	27,221,191	1,423,311	86,631
	₩ 329,057,823	334,648,283	8,322,250	6,166,011

(\*1) The notional amounts, derivative financial assets and liabilities of Daewoo 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

(2) The notional amounts outstanding for the hedging instruments by period as of December 31, 2021 and 2020 are as follows:

	December 31, 2021					
	Within 1 month	1~3 months	3~12 months	1~5 years	Over 5 years	Total
Interest rate: Swaps	₩ 306,695	1,441,003	1,437,526	17,596,972	3,353,618	24,135,814
Currency: Swaps	-	17,178	2,412,941	5,159,516	1,483,369	9,073,004
	December 31, 2020					
	Within 1 month	1~3 months	3~12 months	1~5 years	Over 5 years	Total
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

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(In millions of won)

### 10. Derivative Financial Instruments, Continued

(3) Details of the balances of the hedging instruments by risk type as of December 31, 2021 and 2020 are as follows:

	December 31, 2021				
	Notional amounts		Balances		Changes in fair value for 2021
	Buy	Sell	Assets	Liabilities	
Cash flow hedge accounting: Interest rate risk Swaps	₩ 82,985	82,985	-	-	2,035
Fair value hedge accounting: Interest rate risk Futures Swaps	-	69,707	-	-	-
	24,052,829	24,052,549	331,117	45,477	(699,622)
	24,052,829	24,122,256	331,117	45,477	(699,622)
Currency risk Swaps	9,073,004	9,023,151	210,660	214,707	(469,520)
	33,125,833	33,145,407	541,777	260,184	(1,169,142)
₩	33,208,818	33,228,392	541,777	260,184	(1,167,107)
	December 31, 2020				
	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
	27,467,929	27,145,031	1,423,828	91,014	842,476
₩	27,544,089	27,221,191	1,423,828	91,014	842,499

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### 10. Derivative Financial Instruments, Continued

(4) Details of the balances of the hedged items by risk type as of December 31, 2021 and 2020 are as follows:

	December 31, 2021					
	Carrying amounts		Adjustments from fair value hedge accounting		Changes in fair value for 2021	Other comprehensive income for cash flow hedge
	Assets	Liabilities	Assets	Liabilities		
Cash flow hedge accounting:						
Interest rate risk						
Debt debentures	₩ -	82,985	-	-	-	1,930
Fair value hedge accounting:						
Interest rate risk						
Securities measured at FVOCI	3,459,504	-	(122,926)	-	(67,612)	-
Debt debentures	-	21,621,572	-	(2,069)	643,184	-
Other liabilities (Deposits, etc.)	-	121,593	-	3,043	9,589	-
	3,459,504	21,743,165	(122,926)	974	585,161	-
Currency risk						
Debt debentures	-	9,012,029	-	170,860	504,818	-
	3,459,504	30,755,194	(122,926)	171,834	1,089,979	-
₩	3,459,504	30,838,179	(122,926)	171,834	1,089,979	1,930
	December 31, 2020					
	Carrying amounts		Adjustments from fair value hedge accounting		Changes in fair value for 2020	Other comprehensive 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)	-
	2,460,255	18,670,343	28,845	640,463	(347,876)	-
Currency risk						
Debt debentures	-	8,413,087	-	24,675	(503,895)	-
	2,460,255	27,083,430	28,845	665,138	(851,771)	-
₩	2,460,255	27,159,590	28,845	665,138	(851,771)	47

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### 10. Derivative Financial Instruments, Continued

(5) Details of hedge ineffectiveness recognized in profit or loss from derivatives for the years ended December 31, 2021 and 2020 is as follows:

		2021	2020
Interest rate risk	₩	(114,461)	4,537
Currency risk (*)		35,298	(13,832)
	₩	(79,163)	(9,295)

(\*) 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, 2021 and 2020 is as follows:

	2021		
	Change in the value of the hedging instrument recognized in other comprehensive income	Hedge ineffectiveness recognized in profit or loss (*)	Amount reclassified from other comprehensive income to profit or loss (*)
Interest rate risk and currency risk	₩ 1,883	152	-
(*) Recognized in gains or losses related to hedging purpose derivatives.			
	2020		
	Change in the value of the hedging instrument recognized in other comprehensive income	Hedge ineffectiveness recognized in profit or loss (*)	Amount reclassified from other comprehensive income to profit or loss (*)
Interest rate risk and currency risk	₩ 47	(24)	403
(*) Recognized in gains or losses related to hedging purpose derivatives.			

(7) Details of net investments in foreign operations for the year ended December 31, 2021 and 2020 are as follows:

	2021	
	Changes in fair value	Other comprehensive income (loss) for hedges of a net investment in a foreign operation
Currency (foreign exchange risk)	₩ 78,096	(29,120)
	2020	
	Changes in fair value	Other comprehensive income (loss) for hedges of a net investment in a foreign operation
Currency (foreign exchange risk)	₩ (43,437)	48,975

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### 10. Derivative Financial Instruments, Continued

(8) Detail of hedging instruments in hedge of net investment in a foreign operation as of December 31, 2021 and 2020 is as follows:

December 31, 2021				
	Book value	Changes in fair value for 2021	Change in the value of the hedging instrument recognized in other comprehensive loss for 2021	Hedge ineffectiveness recognized in profit or loss for 2021
Debentures in foreign currencies	₩ 1,006,263	(78,095)	(78,095)	-

December 31, 2020				
	Book value	Changes in fair value for 2020	Change in the value of the hedging instrument recognized in other comprehensive income for 2020	Hedge ineffectiveness recognized in profit or loss for 2020
Debentures in foreign currencies	₩ 732,566	43,437	43,437	-

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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, 2021 and 2020 are as follows:

		Market value		Carrying amounts	
		December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Korea Electric Power Co., Ltd.	₩	4,668,299	5,787,846	20,982,893	22,801,747
HMM Co., Ltd.		2,722,261	574,730	3,305,985	-
KG Dongbu Steel Co., Ltd.		15,966	127,359	17,421	106,880
HANJIN KAL		433,616	445,621	509,168	500,000

(2) Changes in investments in associates for the years ended December 31, 2021 and 2020 are as follows:

	2021									
	January 1, 2021	Acquisition / transfer	Disposal / transfer	Share of profit (loss)	Impairment loss (*)	Share of other comprehensive income (loss)	Dividends	Others	December 31, 2021	
Korea Electric Power Co., Ltd.	₩ 22,801,747	-	-	(1,748,894)	-	184,270	(256,862)	2,632	20,982,893	
Korea Tourism Organization	315,812	-	-	(46,356)	-	4,909	-	-	274,365	
HMM Co., Ltd.	-	2,658,000	-	924,528	-	69,453	-	(345,996)	3,305,985	
Korea Infrastructure Fund II	240,389	-	(6,911)	5,661	-	-	(10,210)	-	228,929	
Korea Ocean Business Corporation	1,196,393	-	-	924,696	-	18,236	-	(22,186)	2,117,139	
HANJIN KAL	500,000	-	-	4,738	-	(3,443)	-	7,873	509,168	
Others	4,174,146	957,467	(779,741)	698,077	(46,997)	56,159	(639,784)	(289,736)	4,129,591	
	₩ 29,228,487	3,615,467	(786,652)	762,450	(46,997)	329,584	(906,856)	(647,413)	31,548,070	

(\*) The Group recognized ₩46,997 million as impairment losses considering the decline in net asset values due to the decrease in fair value of assets held as indications of impairment for Unison Savor Private Equity Fund and 17 others for the year ended December 31, 2021. Recoverable amount is ₩193,487 million as of December 31, 2021.

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### 11. Investments in Associates, Continued

	2020								December 31, 2020
	January 1, 2020	Acquisition / transfer	Disposal / transfer	Share of profit (loss)	Impairment loss (*2)	Share of other comprehensive income (loss)	Dividends	Others	
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
HMM 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

(3) The key financial information of associates invested and ownership ratios as of and for the years ended December 31, 2021 and 2020 are as follows:

	December 31, 2021									
	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	₩ 211,108,870	145,797,021	65,311,849	60,574,819	(5,315,055)	(4,754,046)	32.90
Korea Tourism Organization	Korea	December	Culture and tourism administration	1,130,031	312,593	817,438	465,281	(71,016)	(59,751)	43.58
HMM Co., Ltd.	Korea	December	Shipping	17,876,100	7,517,806	10,358,294	13,794,148	5,337,056	5,696,643	20.69
GM Korea Company (*)	Korea	December	Manufacturing	5,013,939	3,496,897	1,517,042	6,973,860	(166,475)	(166,475)	17.02
Korea Infrastructure Fund II	Korea	December	Financial investment	851,153	51,177	799,976	70,165	40,891	40,891	26.67
Korea Ocean Business Corporation	Korea	December	Financial investment	15,040,759	5,845,062	9,195,697	5,499,512	4,187,673	4,207,691	22.11
HANJIN KAL (*)	Korea	December	Holding company	3,754,742	1,930,524	1,824,218	395,278	17,234	46,260	10.66

(\* ) 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.

	December 31, 2020									
	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

(\*1) Although the Group's shareholding in HMM 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, 2021 and 2020 are as follows:

	2021						
	January 1, 2021	Acquisition/depreciation	Disposal	Reclassification (*2)	Foreign exchange differences	Others	December 31, 2021
Acquisition cost:							
Land	₩ 630,688	132	(62)	(120,671)	-	4	510,091
Buildings and structures	1,203,197	3,585	(744)	(207,811)	15	560	998,802
Leasehold improvements	43,674	3,707	(5,615)	54	721	148	42,689
Vehicles	90,788	121	(111)	(87,933)	52	82	2,999
Equipment	151,821	9,307	(2,944)	(68,949)	137	(273)	89,099
Construction in progress	110,391	22,433	(1,350)	(82,599)	-	(380)	48,495
Right-of-use assets	410,760	122,850	(27,065)	(301,477)	(7,598)	651	198,121
Others	692,443	10,865	(36,271)	(333,182)	204	(15)	334,044
	3,333,762	173,000	(74,162)	(1,202,568)	(6,469)	777	2,224,340
Accumulated depreciation: (*1)							
Buildings and structures	383,452	24,646	(311)	(92,865)	14	4,519	319,455
Leasehold improvements	37,525	3,081	(5,085)	-	651	-	36,172
Vehicles	83,159	252	(109)	(78,189)	32	11	5,156
Equipment	124,022	6,026	(2,404)	(55,523)	160	193	72,474
Construction in progress	2,887	-	-	(77)	-	-	2,810
Right-of-use assets	105,598	32,515	(20,429)	(54,165)	536	2,960	67,015
Others	547,180	22,285	(35,567)	(283,844)	167	1,829	252,050
	1,283,823	88,805	(63,905)	(564,663)	1,560	9,512	755,132
Accumulated impairment losses:							
Land	11,721	-	-	(8,697)	-	-	3,024
Buildings and structures	40,190	1,664	(10)	(7,203)	-	-	34,641
Vehicles	26	13	-	-	-	-	39
Equipment	852	58	(5)	-	-	-	905
Construction in progress	20,163	-	-	(20,163)	-	-	-
Others	9,667	425	(139)	-	-	-	9,953
	82,619	2,160	(154)	(36,063)	-	-	48,562
₩	1,967,320	82,035	(10,103)	(601,842)	(8,029)	(8,735)	1,420,646

(\*1) The amounts include government grants.

(\*2) The property and equipment of Daewoo Engineering &amp; Construction Co., Ltd. are reclassified as assets held for sale as of December 31, 2021.

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(In millions of won)

### 12. Property and Equipment, Continued

	2020						
	January 1, 2020	Acquisition/depreciation	Disposal	Reclassification (*2)	Foreign exchange differences	Others	December 31, 2020
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
	4,137,973	108,943	(524,321)	(231,936)	(2,817)	(154,080)	3,333,762
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
	1,432,950	197,426	(148,375)	(71,142)	(2,020)	(125,016)	1,283,823
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
	169,752	1,396	(93,242)	4,713	-	-	82,619
₩	2,535,271	(89,879)	(282,704)	(165,507)	(797)	(29,064)	1,967,320

(\*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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### 13. Investment Property

Changes in investment property for the years ended December 31, 2021 and 2020 are as follows:

	2021				
	January 1, 2021	Acquisition/ depreciation/ impairment	Disposal	Reclassifi- cation (*)	December 31, 2021
Acquisition cost:					
Land	₩ 211,192	-	-	(150,541)	60,651
Buildings and structures	357,013	-	-	(297,657)	59,356
	568,205	-	-	(448,198)	120,007
Accumulated depreciation:					
Buildings and structures	88,113	2,209	-	(56,925)	33,397
Accumulated impairment losses:					
Land	8,321	-	-	(7,124)	1,197
Buildings and structures	11,034	-	-	(9,258)	1,776
	19,355	-	-	(16,382)	2,973
	₩ 460,737	(2,209)	-	(374,891)	83,637

(\*) The investment property of Daewoo Engineering & Construction Co., Ltd. are reclassified as assets held for sale as of December 31, 2021.

	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
	642,215	2,327	(237)	(76,100)	568,205
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
	5,210	14,891	-	(746)	19,355
	₩ 525,009	(23,059)	(237)	(40,976)	460,737

The fair value of the Group's investment property, as determined on the basis of valuation by an independent appraiser, amounts to ₩98,784 million and ₩464,235 million as of December 31, 2021 and 2020, 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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(In millions of won)

### 14. Intangible Assets

Changes in intangible assets for the years ended December 31, 2021 and 2020 are as follows:

	2021								
	January 1, 2021	Acquisition	Disposal	Reclassifi- cation (*)	Amortiza- tion	Impairment loss	Foreign exchange differences	Others	December 31, 2021
Goodwill	₩ 12,402	-	(26)	(542)	-	-	707	-	12,541
Customers related	125,965	-	-	(125,965)	-	-	-	-	-
Membership	30,525	1,431	(1,517)	(15,099)	-	-	23	-	15,363
Others	539,048	15,356	(5,767)	(344,447)	(56,262)	-	88	277	148,293
	₩ 707,940	16,787	(7,310)	(486,053)	(56,262)	-	818	277	176,197

(\*) The intangible assets of Daewoo Engineering & Construction Co., Ltd. are reclassified as assets held for sale as of December 31, 2021.

	2020								
	January 1, 2020	Acquisition	Disposal	Reclassifi- cation	Amortiza- tion	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

### 15. Other Assets

Other assets as of December 31, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Accounts receivable	₩ 3,454,691	3,575,002
Domestic exchange receivables	1,793,452	1,312,604
Accrued income	626,629	527,823
Guarantee deposits	230,379	481,658
Trade accounts receivables	316,058	2,519,408
Inventories	25,914	1,498,789
Prepaid expenses	59,959	188,418
Advance payments	57,694	722,424
Financial guarantee asset	20,127	22,982
Others	69,039	220,797
	6,653,942	11,069,905
Allowance for credit losses	(75,578)	(125,837)
Present value discount	(4,629)	(5,063)
	₩ 6,573,735	10,939,005

(\*) The carrying amounts of financial assets included in other assets above amounted to ₩6,441,337 million and ₩8,439,476 million as of December 31, 2021 and 2020, respectively, and their fair value amounted to ₩6,385,842 million and ₩8,366,766 million as of December 31, 2021 and 2020, respectively.

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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 and Hyundai Heavy Industries Co., Ltd. (“Hyundai Heavy Industries”) made the contract on investment on March 8, 2019. 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.

As the event after the reporting period, the European Commission did not approve the merger between Korea Shipbuilding & Marine Engineering Co., Ltd. and Daewoo Shipbuilding & Marine Engineering. As a result of the disapproval, the contract’s precondition including governmental permission of different countries was not satisfied and the Bank and Korea Shipbuilding & Marine Engineering Co., Ltd. cancelled this contract on March 8, 2022.

#### (2) Classification of KDB Life Insurance Co., Ltd., the Group’s subsidiary, as assets and liabilities held for sale

The Group selected 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 is conducting sale processes based on the agreement of purchase and sale of shares made on December 31, 2020.

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.

As the event after the reporting period, CONSUS ASSET MANAGEMENT CO., LTD., the co-general partner of KDB Consus Value Private Equity Fund, applied to Seoul Central District Court for an injunction to suspend the execution of the agreement of purchase and sale of shares on January 11, 2022.

#### (3) Classification of Daewoo Engineering & Construction Co., Ltd., the Group’s subsidiary, as assets and liabilities held for sale

The Group selected Jungheung consortium as the preferred bidder for the shares of Daewoo Engineering & Construction Co., Ltd. held by KDB Investment PEF No.1, the Group’s subsidiary on July 5, 2021, and is conducting sale processes based on the agreement of purchase and sale of shares made on December 9, 2021. The Group classified a disposal group of Daewoo Engineering & Construction Co., Ltd. as assets and liabilities held for sale and profit or loss on Daewoo Engineering & Construction Co., Ltd. as profit or loss from discontinued operations.

As the event after the reporting period, the Group’s sale of shares of Daewoo Engineering & Construction Co., Ltd. has been completed on February 28, 2022.

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### 16. Assets and Liabilities Held for Sale, Continued

(4) Assets and liabilities held for sale as of December 31, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Assets held for sale		
Cash and cash equivalents	₩ 4,568,551	1,433,023
Securities measured at FVTPL	4,853,630	4,433,181
Securities measured at FVOCI	7,505,861	6,858,963
Securities measured at amortized cost	6,541,467	6,950,951
Investments in associates	130,022	85,367
Derivative financial instruments	462,068	132,917
Property and equipment	4,202,414	3,690,986
Investment property	395,542	77,148
Intangible assets	100,219	9,714
Other assets	11,536,977	5,195,857
	<u>40,296,751</u>	<u>28,868,107</u>
Liabilities held for sale		
Policy reserves	17,742,225	17,248,607
Borrowings	2,619,675	811,194
Debentures	1,389,298	1,091,812
Demand repayment share	36,066	36,783
Derivative financial instruments	108,571	126,348
Other liabilities	11,104,089	4,836,426
	<u>32,999,924</u>	<u>24,151,170</u>
Net assets	₩ <u>7,296,827</u>	<u>4,716,937</u>

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### 16. Assets and Liabilities Held for Sale, Continued

(5) Other comprehensive income in relation to assets and liabilities held for sale as of December 31, 2021 and 2020 are as follows:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Net gain (loss) on securities measured at FVOCI	₩ (150,723)	76,922

(6) Details of profit and loss from discontinued operations and cash flows from discontinued operating activities for the years ended December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Profit (loss) from discontinued operations		
Profit (loss) before income taxes	₩ (600,457)	59,745
Income tax expense	291,052	18,495
Profit (loss) for the year	₩ (891,509)	41,250
Cash flows from discontinued operations		
Net cash flows from operating activities	₩ 3,504,266	564,691
Net cash flows from investing activities	(740,458)	39,296
Net cash flows from financing activities	(445,696)	(363,751)
Effects from changes in foreign currency exchange rate for cash and cash equivalents held	10,931	(26,743)
Net cash flows from discontinued operations	₩ 2,329,043	213,493

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### 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, 2021 and 2020 are as follows:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Debentures	₩ 1,636,163	1,510,793
Deposits	430,981	184,164
	<u>2,067,144</u>	<u>1,694,957</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, 2021 and 2020 are as follows:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Carrying amount	₩ 2,067,144	1,694,957
Contractual cash flow amount	2,110,955	1,580,800
Difference amount	₩ (43,811)	114,157

### 18. Deposits

Deposits as of December 31, 2021 and 2020 are as follows:

	<u>December 31, 2021</u>		<u>December 31, 2020</u>	
	Amortized cost	Fair value	Amortized cost	Fair value
Deposits in Korean won:				
Demand deposits	₩ 85,432	85,432	108,480	108,480
Time and savings deposits	40,145,859	40,109,531	36,305,068	36,318,065
Certificates of deposit	342,105	341,901	467,329	467,342
	<u>40,573,396</u>	<u>40,536,864</u>	<u>36,880,877</u>	<u>36,893,887</u>
Deposits in foreign currencies:				
Demand deposits	2,562,673	2,562,673	2,460,089	2,460,089
Time and savings deposits	5,116,944	5,115,951	3,209,368	3,208,643
Certificates of deposit	4,554,217	4,554,217	3,805,888	3,805,888
	<u>12,233,834</u>	<u>12,232,841</u>	<u>9,475,345</u>	<u>9,474,620</u>
Off-shore deposits in foreign currencies:				
Demand deposits	670,777	670,777	605,133	605,133
Certificates of deposit	361,122	360,884	-	-
	<u>1,031,899</u>	<u>1,031,661</u>	<u>605,133</u>	<u>605,133</u>
	₩ <u>53,839,129</u>	<u>53,801,366</u>	<u>46,961,355</u>	<u>46,973,640</u>

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### 19. Borrowings

(1) Borrowings as of December 31, 2021 and 2020 are as follows:

	December 31, 2021			
	Minimum interest rate (%)	Maximum interest rate (%)	Amortized cost	Fair value
Borrowings in Korean won	-	4.62	₩ 8,265,608	7,938,340
Borrowings in foreign currencies	-	5.31	14,286,316	14,265,382
Off-shore borrowings in foreign currencies	-	3.35	2,281,488	2,279,425
Share capital repayable on demand	-	-	1,184,034	1,184,034
Others	0.01	3.29	2,549,509	2,392,122
			28,566,955	28,059,303
Present value discount			(5,744)	
Deferred borrowing costs			(148)	
			₩ 28,561,063	
	December 31, 2020			
	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
			24,550,595	24,546,709
Present value discount			(7,747)	
Deferred borrowing costs			(60)	
			₩ 24,542,788	

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### 19. Borrowings, Continued

(2) Borrowings in Korean won before adjusting for deferred borrowing costs as of December 31, 2021 and 2020 are as follows:

Lender	Classification	Annual interest rate (%)	December 31, 2021	December 31, 2020
The Bank of Korea	Borrowings from Bank of Korea	0.25	₩ 378,160	373,881
Ministry of Economy and Finance	Borrowings from government fund (*)	0.98 ~ 1.19	108,932	125,101
Korea SMEs and Startups Agency	Borrowings from small and medium enterprise promotion fund	0.51 ~ 2.76	61,240	64,892
Ministry of Culture, Sports and Tourism	Borrowings from tourism promotion fund	0.50 ~ 2.00	3,005,749	2,934,681
Korea Energy Agency	Borrowings from fund for rational use of energy	0.25 ~ 2.30	282,178	295,088
Local governments	Borrowings from local small and medium enterprise promotion fund	0.00 ~ 2.70	27,658	37,198
Others	Borrowings from petroleum enterprise fund	0.00 ~ 4.62	4,401,691	3,738,729
			₩ 8,265,608	7,569,570

(\*) Borrowings from government fund are subordinated borrowings.

(3) Borrowings and off-shore borrowings in foreign currencies before adjusting for deferred borrowing costs as of December 31, 2021 and 2020 are as follows:

Lender	Classification	Annual interest rate (%)	December 31, 2021	December 31, 2020
Mizuho and others	Bank loans from foreign funds	3M Libor + 0.29 ~ 6M Libor + 0.24	₩ 355,650	435,200
Ministry of Economy and Finance	Exchange equalization fund borrowings in foreign currencies	3M Libor + 0.65 ~ 3M Libor + 0.74	199,792	183,360
Central Bank of the Republic Uzbekistan and others	Off-shore short-term borrowings	0.16 ~ 1.89	1,273,928	1,478,220
HSBC and others	Off-shore long-term borrowings	2.68 ~ 3.36	1,007,560	302,692
Others	Short-term borrowings in foreign currencies	0.07 ~ 5.31	12,796,587	9,399,395
	Long-term borrowings in foreign currencies	0.10 ~ 1.00	934,287	809,796
			₩ 16,567,804	12,608,663

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### 20. Debentures

Debentures as of December 31, 2021 and 2020 are as follows:

	December 31, 2021			
	Minimum interest rate (%)	Maximum interest rate (%)	Amortized cost	Fair value
Debentures in Korean won:				
Debentures	0.75	6.60	₩ 114,231,093	114,044,603
Discount on debentures			(78,927)	
Valuation adjustment for fair value hedges			(89,080)	
			<u>114,063,086</u>	
Debentures in foreign currencies:				
Debentures	-	10.87	19,519,310	20,665,552
Discount on debentures			(40,592)	
Premium on debentures			1,338	
Valuation adjustment for fair value hedges			143,824	
			<u>19,623,880</u>	
Off-shore debentures:				
Debentures	-	7.00	16,242,288	16,420,828
Discount on debentures			(28,401)	
Valuation adjustment for fair value hedges			114,066	
			<u>16,327,953</u>	
			₩ <u>150,014,919</u>	<u>151,130,983</u>
	December 31, 2020			
	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>

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(In millions of won)

### 21. Policy Reserves

Details of policy reserves categorized by insurance type as of December 31, 2021 and 2020 are as follows:

	Classification	December 31, 2021	December 31, 2020
		(*)	(*)
Premium reserve	Pure endowment	₩ 5,395,804	5,345,547
	Death	6,916,124	6,431,155
	Endowment	4,274,623	4,365,994
	Group	22,451	19,489
		<u>16,609,002</u>	<u>16,162,185</u>
Unearned premium reserve	Pure endowment	1	1
	Death	9,923	3,982
	Group	54	1,464
		<u>9,978</u>	<u>5,447</u>
Reserve for outstanding claims	Pure endowment	99,736	101,450
	Death	258,962	273,838
	Endowment	626,189	599,532
	Group	3,526	4,314
		<u>988,413</u>	<u>979,134</u>
Reserve for participating policyholders' dividends	Pure endowment	40,304	39,700
	Death	2,859	3,128
	Endowment	1,782	1,841
	Group	4	6
		<u>44,949</u>	<u>44,675</u>
Excess participating policyholders' dividend reserve		3,503	4,775
Reserve for losses on participating insurance		6,934	7,587
Guaranteed benefit reserve		79,446	44,804
		₩ <u>17,742,225</u>	<u>17,248,607</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, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Present value of defined benefit obligation	₩ 440,643	909,847
Fair value of plan assets (*)	(431,562)	(663,192)
Net defined benefit liabilities	9,081	246,655
Liabilities for other long-term employment benefits	165	4,839
	₩ <u>9,246</u>	<u>251,494</u>

(\*) The plan assets are in trusts with Kookmin Bank, Samsung Life Insurance Co., Ltd., etc.

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### 22. Defined Benefit Liabilities, Continued

(2) Changes in defined benefit liabilities for the years ended December 31, 2021 and 2020 are as follows:

	2021			
	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liabilities	Liabilities for other long-term employment benefits
Beginning balance	₩ 909,847	(663,192)	246,655	4,839
Current service costs	46,832	-	46,832	-
Interest expense (income)	10,813	(9,741)	1,072	-
Remeasurements of defined benefit liabilities:				
Demographic assumption	15	-	15	-
Financial assumption	(45,986)	-	(45,986)	-
Return on plan assets	-	5,827	5,827	-
Experience adjustment	(10,674)	-	(10,674)	-
	<u>(56,645)</u>	<u>5,827</u>	<u>(50,818)</u>	<u>-</u>
Payments from the plan	(24,394)	22,371	(2,023)	-
Reclassification (*)	(446,551)	269,846	(176,705)	(4,697)
Contribution to the plan	-	(56,673)	(56,673)	-
Others	74	-	74	23
Ending balance	₩ <u>440,643</u>	<u>(431,562)</u>	<u>9,081</u>	<u>165</u>

(\*) For the year ended December 31, 2021, the amount arising from the effect that defined benefit liabilities held by Daewoo Engineering & Construction Co., Ltd. are transferred to assets-held for sale is included.

	2020			
	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liabilities	Liabilities for other long-term employment benefits
Beginning balance	₩ 942,542	(642,544)	299,998	3,416
Current service costs	86,750	-	86,750	-
Interest expense (income)	19,150	(10,597)	8,553	-
Remeasurements of defined benefit liabilities:				
Demographic assumption	13,073	-	13,073	-
Financial assumption	(54,716)	-	(54,716)	-
Return on plan assets	-	(46)	(46)	-
Experience adjustment	(1,075)	-	(1,075)	-
	<u>(42,718)</u>	<u>(46)</u>	<u>(42,764)</u>	<u>-</u>
Payments from the plan	(45,702)	31,791	(13,911)	-
Reclassification	(50,992)	30,596	(20,396)	-
Contribution to the plan	-	(73,274)	(73,274)	-
Others	817	882	1,699	1,423
Ending balance	₩ <u>909,847</u>	<u>(663,192)</u>	<u>246,655</u>	<u>4,839</u>

December 31, 2021 and 2020

(In millions of won)

### 22. Defined Benefit Liabilities, Continued

(3) Fair value of plan assets for each type as of December 31, 2021 and 2020 are as follows:

	December 31, 2021		December 31, 2020	
	Quoted market prices	Unquoted market prices	Quoted market prices	Unquoted market Prices
Debt securities	₩ 3,566	-	-	-
Due from banks	-	427,776	271,263	391,929
Others	220	-	-	-
	<u>₩ 3,786</u>	<u>427,776</u>	<u>271,263</u>	<u>391,929</u>

(4) Defined benefit costs recognized in profit or loss for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Current service costs	₩ 46,832	86,750
Interest expense, net	1,072	8,553
	<u>₩ 47,904</u>	<u>95,303</u>

(5) The principal actuarial assumptions used as of December 31, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Discount rate (%)	0.60 ~ 7.30	0.20 ~ 2.54
Future salary increasing rate (%)	2.00 ~ 5.69	2.00 ~ 10.00

(6) The present value sensitivity of defined benefit obligation as changes in principal actuarial assumptions as of December 31, 2021 is as follows:

	Sensitivity	
	1% increase in assumption	1% decrease in assumption
Discount rate	9.47% decrease	11.15% increase
Future salary increasing rate	10.75% increase	9.34% decrease

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### 23. Provisions

(1) Provisions as of December 31, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Provision for payment guarantees	₩ 215,388	272,818
Provision for unused commitments	182,468	162,233
Financial guarantee provision	56,238	62,207
Lawsuit provision	2,028	26,949
Provision for restoration	16,187	15,717
Other provision	173,020	426,782
	<u>₩ 645,329</u>	<u>966,706</u>

(2) Changes in provision for payment guarantees for the years ended December 31, 2021 and 2020 are as follows:

	2021			
	12-month expected credit loss	Lifetime expected credit losses		
	Non credit- impaired	Credit- impaired	Total	
Beginning balance	₩ 79,221	98,719	94,878	272,818
Transfer to 12-month expected credit loss	105,507	(105,507)	-	-
Transfer to lifetime expected credit losses:				
Transfer to non credit-impaired exposures	(90,952)	90,952	-	-
Transfer to credit-impaired exposures	(4,090)	(1,552)	5,642	-
Provision for (reversal of) unused commitments	(27,213)	(73,778)	23,228	(77,763)
Foreign currency translation	4,874	5,213	10,245	20,332
Others	1	-	-	1
Ending balance	<u>₩ 67,348</u>	<u>14,047</u>	<u>133,993</u>	<u>215,388</u>

	2020			
	12-month expected credit loss	Lifetime expected credit losses		
	Non credit- impaired	Credit- impaired	Total	
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	<u>₩ 79,221</u>	<u>98,719</u>	<u>94,878</u>	<u>272,818</u>

December 31, 2021 and 2020

(In millions of won)

### 23. Provisions, Continued

(3) Changes in provision for unused commitments for the years ended December 31, 2021 and 2020 are as follows:

	2021			
	12-month expected credit loss	Lifetime expected credit losses		
	Non credit- impaired	Credit- impaired	Total	
Beginning balance	₩ 77,088	85,145	-	162,233
Transfer to 12-month expected credit loss	267,476	(267,476)	-	-
Transfer to lifetime expected credit losses:				
Transfer to non credit-impaired exposures	(34,669)	34,669	-	-
Transfer to credit-impaired exposures	(3,793)	(3,513)	7,306	-
Provision for (reversal of) unused commitments	(290,224)	275,637	601	(13,986)
Foreign currency translation	33,641	442	88	34,171
Others	50	-	-	50
Ending balance	<u>₩ 49,569</u>	<u>124,904</u>	<u>7,995</u>	<u>182,468</u>

	2020			
	12-month expected credit loss	Lifetime expected credit losses		
	Non credit- impaired	Credit- impaired	Total	
Beginning balance	₩ 18,898	101,203	-	120,101
Transfer to 12-month expected credit loss	287,107	(287,107)	-	-
Transfer to lifetime expected credit losses:				
Transfer to non credit-impaired exposures	(15,151)	15,151	-	-
Provision for (reversal of) unused commitments	(190,171)	257,021	-	66,850
Foreign currency translation	(23,599)	(1,123)	-	(24,722)
Others	4	-	-	4
Ending balance	<u>₩ 77,088</u>	<u>85,145</u>	<u>-</u>	<u>162,233</u>

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### 23. Provisions, Continued

(4) Changes of financial guarantee provision for the years ended December 31, 2021 and 2020 are as follows:

	2021			
	12-month expected credit loss	Lifetime expected credit losses		Total
		Non credit- Impaired	Credit- impaired	
Beginning balance	₩ 30,354	26,007	5,846	62,207
Transfer to 12-month expected credit loss	86	(14)	(72)	-
Transfer to lifetime expected credit losses:				
Transfer to non credit-impaired exposures	(1,517)	1,522	(5)	-
Transfer to credit-impaired exposures	(9,226)	(94)	9,320	-
Provision for (reversal of) unused commitments	(16,975)	(12,100)	23,105	(5,970)
Others	1	-	-	1
Ending balance	₩ 2,723	15,321	38,194	56,238
	2020			
	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	7,710	1,638	16,979	26,327
Ending balance	₩ 30,354	26,007	5,846	62,207

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(In millions of won)

### 23. Provisions, Continued

(5) Changes of lawsuit provision, restoration provision and other provision for the years ended December 31, 2021 and 2020 are as follows:

	2021		
	Lawsuit provision	Restoration provision	Other provision
Beginning balance	₩ 26,949	15,717	426,782
Increase (reversal) of provision	1,611	(1,820)	115,432
Provision used	-	(849)	(142)
Reclassification (*)	(26,374)	-	(366,001)
Others	(158)	3,139	(3,051)
Ending balance	₩ 2,028	16,187	173,020

(\*) For the year ended December 31, 2021, the amount arising from the effect that lawsuit provision and other provision held by Daewoo Engineering & Construction Co., Ltd. are transferred to assets-held for sale is included.

	2020		
	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

(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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## Notes to the Consolidated Financial Statements

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### 23. Provisions, Continued

(8) Provision for possible losses from lawsuits

As of December 31, 2021, the Group is involved in 164 lawsuits as a plaintiff and 401 lawsuits as a defendant. The aggregate amounts of claims as a plaintiff and a defendant amounted to ₩848,439 million and ₩1,937,810 million, respectively. The Group provided a provision against contingent loss from pending lawsuits as of December 31, 2021 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, 2021 and 2020 are as follows:

	December 31, 2021		
	Contents	Amounts	Status of lawsuit
Plaintiff:			
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 Securitization Specialty Co., Ltd.	Transfer of claim	8,792	1 <sup>st</sup> trial ruled partially in favor of the Group; 2 <sup>nd</sup> trial in progress
Hana Bank and 6 others	Claim for undue benefit	1,647	1 <sup>st</sup> trial in progress
Kappa Korea and one other	Claim for loans	1,000	1 <sup>st</sup> trial in progress
Plaza Rakyat	Claim for construction cost due to termination of contractor contract	264,198	1 <sup>st</sup> trial in progress
AOA	Claim for construction cost	63,809	1 <sup>st</sup> trial in progress
Defendant:			
Shinhan Bank and one other	Claim for damages	58,474	1 <sup>st</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
Hana Bank	Claim for settlement money and others	7,500	1 <sup>st</sup> , 2 <sup>nd</sup> trial ruled in favor of the Group; 3 <sup>rd</sup> trial in progress
KAMCO 1st JV Securitization Specialty Co., Ltd.	Claim for transaction amount	7,000	1 <sup>st</sup> trial ruled partially in favor of the Group

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(In millions of won)

### 23. Provisions, Continued

	December 31, 2020		
	Contents	Amounts	Status of lawsuit
Plaintiff:			
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 Securitization Specialty Co., Ltd.	Transfer of claim	8,792	1 <sup>st</sup> trial in progress
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
Defendant:			
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

(9) Other provision

The Group recognized other provision as a reserve for other miscellaneous purpose.

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### 24. Other Liabilities

Other liabilities as of December 31, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Accounts payable	₩ 3,447,940	3,605,427
Lease liabilities	126,778	530,829
Accrued expense	1,609,113	2,492,997
Domestic exchange payable	617,446	587,194
Borrowing from trust accounts	1,009,233	933,406
Advance receipts	317,268	1,490,948
Guarantee money received	577,055	1,269,216
Trade payable	80,771	183,591
Unearned income	69,166	74,982
Deposits withholding tax	27,749	65,357
Foreign exchanges payable	58,241	77,587
Financial guarantee liability	23,093	60,111
Others	96,879	125,031
	8,060,732	11,496,676
Present value discount	₩ (23,467)	(19,526)
	₩ 8,037,265	11,477,150

The carrying amount of financial liabilities included in other liabilities above amounted to ₩7,564,991 million and ₩9,747,271 million as of December 31, 2021 and 2020, respectively, and their fair value amounted to ₩7,636,399 million and ₩9,835,751 million as of December 31, 2021 and 2020, respectively.

(2) Details of lease liabilities as of December 31, 2021 and 2020 are as follows:

	December 31, 2021		
	Face value	Discount	Carrying amounts
Real estate	₩ 287,097	(168,594)	118,503
Vehicles	8,139	(1,163)	6,976
Others	1,447	(148)	1,299
	₩ 296,683	(169,905)	126,778

	December 31, 2020		
	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 ₩38,232 and ₩167,232 million for the years ended December 31, 2021 and 2020, respectively and cash payments for the interest portion of the lease liabilities are ₩797 and ₩14,187 million for the years ended December 31, 2021 and 2020, respectively.

December 31, 2021 and 2020

(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 4,377,311,768 shares and 4,153,145,768 shares issued as of December 31, 2021 and 2020, respectively, and outstanding with a total par value (₩ 5,000 of par value per share) of ₩21,886,559 million ₩20,765,729 million as of December 31, 2021 and 2020, respectively. Due to the Group's paid-capital increase, total number and par value of the shares increased in 2021.

(2) Capital surplus

Capital surplus as of December 31, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Paid-in capital in excess of par value	₩ 44,142	49,530
Surplus from capital reduction	47,973	47,973
Share of capital surplus of associates	122,810	122,810
Other capital surplus	543,635	835,575
	₩ 758,560	1,055,888

(3) Capital adjustments

Capital adjustments as of December 31, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Share of capital adjustment of associates	₩ 220,936	220,605
Other capital adjustment	57,456	57,446
	₩ 278,392	278,051

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### 25. Equity, Continued

(4) Accumulated other comprehensive income

(i) Accumulated other comprehensive income as of December 31, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Net gain on securities measured at FVOCI:		
Valuation gain on securities measured at FVOCI (before tax)	₩ 6,074,595	2,733,356
Loss allowance for securities measured at FVOCI (before tax)	87,348	81,930
Income tax effect	(1,694,708)	(769,084)
	<u>4,467,235</u>	<u>2,046,202</u>
Share of other comprehensive income of associates:		
Share of other comprehensive income of associates (before tax)	756,192	433,885
Income tax effect	6,477	8,925
	<u>762,669</u>	<u>442,810</u>
Exchange differences on translation of foreign operations:		
Exchange differences on translation of foreign operations (before tax)	(371,866)	(578,627)
Income tax effect	123,419	131,026
	<u>(248,447)</u>	<u>(447,601)</u>
Valuation loss on cash flow hedge:		
Valuation loss on cash flow hedge (before tax)	(1,154)	(1,526)
Income tax effect	418	520
	<u>(736)</u>	<u>(1,006)</u>
Net gain (loss) on hedges of net investments in foreign operations :		
Net gain (loss) on hedges of net investments in foreign operations (before tax)	(29,121)	48,975
Income tax effect	8,008	(13,468)
	<u>(21,113)</u>	<u>35,507</u>
Remeasurements of defined benefit liabilities:		
Remeasurements of defined benefit liabilities (before tax)	23,774	(25,232)
Income tax effect	(8,573)	6,264
	<u>15,201</u>	<u>(18,968)</u>
Fair value changes on financial liabilities designated at fair value due to credit risk:		
Valuation gain (loss) on financial liabilities designated at fair value due to credit risk (before tax)	657	(7,958)
Income tax effect	(180)	2,189
	<u>477</u>	<u>(5,769)</u>
Others:		
Others (before tax)	881	881
Income tax effect	1,503	1,455
	<u>2,384</u>	<u>2,336</u>
	<u>₩ 4,977,670</u>	<u>2,053,511</u>

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(In millions of won)

### 25. Equity, Continued

(ii) Changes in accumulated other comprehensive income for the years ended December 31, 2021 and 2020 are as follows:

	2021			
	January 1, 2021	Increase (Decrease)	Tax Effect	December 31, 2021
Net gain (loss) on securities measured at FVOCI	₩ 2,046,202	3,346,657	(925,624)	4,467,235
Share of other comprehensive income of associates	442,810	322,307	(2,448)	762,669
Exchange differences on translation of foreign operations	(447,601)	206,761	(7,607)	(248,447)
Valuation gain (loss) on cash flow hedge	(1,006)	372	(102)	(736)
Net gain (loss) on hedges of net investments in foreign operations	35,507	(78,096)	21,476	(21,113)
Remeasurements of defined benefit liabilities	(18,968)	49,006	(14,837)	15,201
Fair value changes on financial liabilities designated at fair value due to credit risk	(5,769)	8,615	(2,369)	477
Others	2,336	-	48	2,384
	<u>₩ 2,053,511</u>	<u>3,855,622</u>	<u>(931,463)</u>	<u>4,977,670</u>
	2020			
	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
	<u>₩ 50,783</u>	<u>2,814,564</u>	<u>(811,836)</u>	<u>2,053,511</u>

(\*) The effect of changes in accounting policy is included.

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(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, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Legal reserve	₩ 1,551,154	1,356,142
Voluntary reserve		
Regulatory reserve for credit losses (*)	482,885	1,146,038
Unappropriated retained earnings	12,056,067	9,844,908
	₩ 14,090,106	12,347,088

(\*) 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, 2021 and 2020 are as follows:

	2021	2020
Beginning balance	₩ 1,356,142	1,177,851
Transfer from retained earnings	195,012	178,291
Ending balance	₩ 1,551,154	1,356,142

(iii) Changes in unappropriated retained earnings for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Beginning balance	₩ 9,844,908	8,253,241
Changes in accounting policy	(31,821)	(9,847)
Profit attributable to owners of the parent for the year	1,926,033	1,845,056
Contribution to legal reserve	(195,012)	(178,291)
Dividends	(209,638)	(111,978)
Reclassification of valuation gain or loss on equity securities measured at FVOCI	54,172	(34,935)
Transfer from regulatory reserve for credit losses	672,712	82,217
Others	(5,287)	(555)
Ending balance	₩ 12,056,067	9,844,908

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(In millions of won)

### 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, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Beginning balance	₩ 502,744	1,175,456
Planned reversal of regulatory reserve for credit losses	(229,939)	(672,712)
Ending balance	₩ 272,805	502,744

(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, 2021 and 2020 are as follows:

	2021	2020
Profit for the year	₩ 1,323,469	1,961,347
Obligated amount of reversal of regulatory reserve for loan losses	229,939	672,712
Profit after adjusting regulatory reserve for loan losses	₩ 1,553,408	2,634,059
Earnings per share after adjusting regulatory reserve for loan losses (in won)	₩ 360	669

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### 26. Net Interest Income

Net interest income for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Interest income:		
Due from banks	₩ 77,922	53,154
Securities measured at FVTPL	51,223	50,202
Securities measured at FVOCI	377,940	422,101
Securities measured at amortized cost	87,700	26,892
Loans measured at FVTPL	17,042	21,939
Loans measured at amortized cost	4,001,204	4,302,276
	<u>4,613,031</u>	<u>4,876,564</u>
Interest expense:		
Financial liabilities measured at FVTPL	(82,058)	(79,318)
Deposits	(369,945)	(511,848)
Borrowings	(205,925)	(325,480)
Debentures	(1,969,581)	(2,411,986)
	<u>(2,627,509)</u>	<u>(3,328,632)</u>
	<u>₩ 1,985,522</u>	<u>1,547,932</u>

### 27. Net Fees and Commission Income

Net fees and commission income for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Fees and commission income:		
Loan commissions	₩ 111,351	118,224
Underwriting and investment consulting commissions	118,749	106,256
Brokerage and agency commissions	7,317	8,100
Trust and retirement pension plan commissions	34,561	32,961
Fees on asset management	12,440	10,742
Other fees	160,926	142,301
	<u>445,344</u>	<u>418,584</u>
Fees and commission expenses:		
Brokerage and agency fees	(9,667)	(10,674)
Other fees	(47,374)	(45,323)
	<u>(57,041)</u>	<u>(55,997)</u>
	<u>₩ 388,303</u>	<u>362,587</u>

December 31, 2021 and 2020

(In millions of won)

### 28. Dividend Income

Dividend income for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Securities measured at FVTPL	₩ 187,360	157,121
Securities measured at FVOCI	117,268	123,062
	<u>₩ 304,628</u>	<u>280,183</u>

### 29. Net Gain on Securities Measured at FVTPL

Net gain related to securities measured at FVTPL for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Gains on securities measured at FVTPL:		
Gains on redemption	₩ 4,787	1,760
Gains on sale	219,470	127,646
Gains on valuation	413,747	262,419
	<u>638,004</u>	<u>391,825</u>
Losses on securities measured at FVTPL:		
Losses on redemption	(30,647)	(1,548)
Losses on sale	(105,975)	(78,323)
Losses on valuation	(272,595)	(218,519)
Purchase related expense	(172)	(48)
	<u>(409,389)</u>	<u>(298,438)</u>
	<u>₩ 228,615</u>	<u>93,387</u>

### 30. Net Gain on Financial Liabilities Measured at FVTPL

Net gain related to financial liabilities measured at FVTPL for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Gains on financial liabilities measured at FVTPL:		
Gains on redemption	₩ 625	999
Gains on sale	322	-
Gains on valuation	152,245	44,748
	<u>153,192</u>	<u>45,747</u>
Losses on financial liabilities measured at FVTPL:		
Losses on redemption	(310)	(14,545)
Losses on sale	(285)	-
Losses on valuation	(2,679)	(3,314)
	<u>(3,274)</u>	<u>(17,859)</u>
	<u>₩ 149,918</u>	<u>27,888</u>

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### 31. Net Gain (Loss) on Securities Measured at FVOCI

Net gain (loss) related to securities measured at FVOCI for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Gains on securities measured at FVOCI:		
Gains on redemption	₩ -	414
Gains on sale	15,869	105,141
Reversal of impairment losses	-	2,632
	<u>15,869</u>	<u>108,187</u>
Losses on securities measured at FVOCI:		
Losses on redemption	(387)	(40)
Losses on sale	(38,593)	(14,959)
Impairment losses	(7,537)	(9,771)
	<u>(46,517)</u>	<u>(24,770)</u>
	<u>₩ (30,648)</u>	<u>83,417</u>

### 32. Net Loss on Securities Measured at Amortized Cost

Net loss related to securities measured at amortized cost for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Losses on securities measured at amortized cost:		
Losses on sale	₩ -	(164)
Impairment losses	(4,788)	(4,217)
	<u>(4,788)</u>	<u>(4,381)</u>
	<u>₩ (4,788)</u>	<u>(4,381)</u>

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(In millions of won)

### 33. Net Gain (Loss) on Derivatives

Net gain (loss) on derivatives for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Net gain (loss) on trading purpose derivatives:		
Gains on trading purpose derivatives:		
Interest rate	₩ 2,490,212	2,195,002
Currency	10,924,533	13,390,509
Stock	17,952	16,026
Commodities	-	-
Embedded derivatives	-	-
Gains on adjustment of derivatives	77,021	(5)
	<u>13,509,718</u>	<u>15,601,532</u>
Losses on trading purpose derivatives:		
Interest rate	(2,369,340)	(2,282,121)
Currency	(10,927,318)	(13,349,973)
Stock	(21,083)	(29,778)
Losses on adjustment of derivatives	(92,242)	(18,806)
	<u>(13,409,983)</u>	<u>(15,680,678)</u>
	<u>99,735</u>	<u>(79,146)</u>
Net gain (loss) on hedging purpose derivatives:		
Gains on hedging purpose derivatives:		
Interest rate	78,163	458,699
Currency	198,592	675,709
Gains on adjustment of derivatives	9,199	23
	<u>285,954</u>	<u>1,134,431</u>
Losses on hedging purpose derivatives:		
Interest rate	(713,067)	(119,802)
Currency	(717,141)	(412,840)
Losses on adjustment of derivatives	(422)	(746)
	<u>(1,430,630)</u>	<u>(533,388)</u>
	<u>(1,144,676)</u>	<u>601,043</u>
Net loss on fair value hedged items:		
Gains on fair value hedged items:		
Gains on valuation	773,826	308,842
Gains on redemption	184,599	356,885
	<u>958,425</u>	<u>665,727</u>
Losses on fair value hedged items:		
Losses on valuation	(271,319)	(598,515)
Losses on redemption	(205,224)	(92,557)
	<u>(476,543)</u>	<u>(691,072)</u>
	<u>481,882</u>	<u>(25,345)</u>
	<u>₩ (563,059)</u>	<u>496,552</u>

Related with cash flow hedge, the Group recognized ₩152 million of gain and ₩24 million of loss in the consolidated statement of comprehensive income as the ineffective portion for the years ended December 31, 2021 and 2020, respectively.

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### 34. Net Foreign Currency Transaction Gain (Loss)

Net foreign currency transaction gain (loss) for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Net loss on foreign exchange transactions:		
Gains on foreign exchange transactions	₩ 579,660	620,727
Losses on foreign exchange transactions	(590,955)	(632,331)
	<u>(11,295)</u>	<u>(11,604)</u>
Net gain (loss) on foreign exchange translations:		
Gains on foreign exchange translations	8,853,481	8,411,284
Losses on foreign exchange translations	(8,694,786)	(8,607,596)
	<u>158,695</u>	<u>(196,312)</u>
	<u>₩ 147,400</u>	<u>(207,916)</u>

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(In millions of won)

### 35. Other Operating Income, net

Other operating income and expense for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Other operating income:		
Gains on sale of investments in associates	₩ 37,414	102,779
Gains on sale of loans	64,484	20,168
Gains on disposal of loans measured at FVTPL	1,860,411	4,568
Gains on valuation of loans measured at FVTPL	83,760	676,776
Gains on demand equity redemption	73,863	105,627
Reversal of provisions	3,781	1,522
Gains on bargain purchase	96	-
Income from construction business	718,668	717,770
Gains on redemption of debentures	1	-
Others	229,228	284,965
	<u>3,071,706</u>	<u>1,914,175</u>
Other operating expense:		
Insurance losses	(75,286)	(67,135)
Losses on sale of investments in associates	(325,424)	(134,606)
Losses on sale of loans	(28,332)	(125,783)
Losses on disposal of loans measured at FVTPL	(9,692)	(29,155)
Losses on valuation of loans measured at FVTPL	(4,349)	(27,509)
Losses on demand equity redemption	(125,063)	(92,153)
Increase of provisions	(10,438)	(9,290)
Cost of construction business	(829,358)	(694,995)
Losses on redemption of debentures	(1)	(138)
Others	(382,420)	(462,483)
	<u>(1,790,363)</u>	<u>(1,643,247)</u>
	<u>₩ 1,281,343</u>	<u>270,928</u>

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December 31, 2021 and 2020

(In millions of won)

### 36. Provision for Credit Losses

Provision for credit losses for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Provision for loss allowance	₩ 623,039	1,231,062
Provision for other manufacturing-related assets	12	-
Provision for (reversal of) other assets	(33,179)	17,166
Provision for due from banks	1	167
Provision for (reversal of) unused commitments	(13,986)	66,850
Provision for (reversal of) financial guarantees	(5,970)	26,327
Reversal of payment guarantees	(77,763)	(25,365)
	₩ 492,154	1,316,207

### 37. General and Administrative Expenses

General and administrative expenses for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Payroll costs:		
Short-term employee benefits	₩ 463,704	445,943
Long-term employee benefits	-	28
Defined benefit costs	43,682	42,710
Defined contribution costs	9,022	7,941
	516,408	496,622
Depreciation and amortization:		
Depreciation of property and equipment	83,699	80,638
Amortization of intangible assets	56,039	56,043
	139,738	136,681
Other:		
Employee welfare benefits	44,106	40,706
Rent expenses	6,826	8,105
Taxes and dues	39,177	36,688
Advertising expenses	17,955	17,141
Others	186,252	181,504
	294,316	284,144
	₩ 950,462	917,447

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(In millions of won)

### 38. Other Non-Operating Income and Expense

Other non-operating income and expense for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Other non-operating income:		
Gain on exemption of debt	₩ -	7,829
Interest income of non-financial business	74	174
Gain on assets held for sale	3,637	-
Gain on disposal of property and equipment	2,437	1,617
Rental income on investment property	2,877	2,192
Others	17,153	11,696
	26,178	23,508
Other non-operating expense:		
Interest expense of non-financial business	-	(23,015)
Loss on assets held for sale	(2)	-
Loss on disposal of property and equipment	(1,038)	(4,957)
Impairment loss of property and equipment	(2,161)	(1,397)
Depreciation of investment property	(2,255)	(1,394)
Loss on disposal of intangible assets	(14)	(152)
Impairment loss of intangible assets	-	(1,002)
Donations	(6,656)	(15,445)
Others	(4,655)	(5,954)
	(16,781)	(53,316)
	₩ 9,397	(29,808)

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### 39. Income Tax Expenses

(1) Income tax expenses for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Current income tax	₩ 339,860	197,050
Changes in income tax before the prior years	(350,718)	-
Changes in deferred income taxes on temporary differences	2,210,157	1,276,901
Income tax recognized directly to equity:		
Other comprehensive income (owners of the parent)	(931,463)	(811,836)
Other comprehensive income (non-controlling interests)	(1,746)	2,634
Retained earnings (including non-controlling interests)	(20,548)	13,251
Income tax expenses:	₩ 1,245,542	678,000
Continuing operations	954,490	659,505
Discontinued operations	291,052	18,495

(2) Profit before income taxes and income tax expenses for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Profit before income taxes	₩ 3,169,468	2,579,602
Income taxes calculated using enacted tax rates	871,604	709,390
Adjustments:		
Non-deductible losses and tax-free gains	(52,087)	(17,351)
Non-recognition effect of deferred income taxes	257,652	(29,515)
Net adjustments for prior years	(33,707)	(15,735)
Consolidation adjustments	(342,775)	281,057
Others	253,803	(268,341)
	82,886	(49,885)
Income tax expenses	₩ 954,490	659,505
Effective tax rate	30.12%	25.57%

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(In millions of won)

### 39. Income Tax Expenses, Continued

(3) Changes in deferred income taxes recognized directly to equity for the years ended December 31, 2021 and 2020 are as follows:

	2021				
	December 31, 2021		January 1, 2021		Changes in tax effect
	Amounts before tax	Tax effect	Amounts before tax	Tax effect	
Net gain (loss) on securities measured at FVOCI	₩ 6,161,943	(1,694,708)	2,815,286	(769,084)	(925,624)
Share of other comprehensive income (loss) of associates	756,192	6,477	433,885	8,925	(2,448)
Exchange differences on translation of foreign operations	(371,866)	123,419	(578,627)	131,026	(7,607)
Gain (loss) on valuation of cash flow hedge	(1,154)	418	(1,526)	520	(102)
Net gain (loss) on hedges of net investments in foreign operations	(29,121)	8,008	48,975	(13,468)	21,476
Remeasurements of defined benefit liabilities	23,774	(8,573)	(25,232)	6,264	(14,837)
Fair value changes on financial liabilities designated at fair value due to credit risk	657	(180)	(7,958)	2,189	(2,369)
Others	881	1,503	881	1,455	48
	₩ 6,541,306	(1,563,636)	2,685,684	(632,173)	(931,463)

₩20,548 million of income tax expenses which is directly recognized in retained earnings consist of tax effects from ₩74,270 million of realized gain on disposal of equity securities measured at FVOCI.

	2020				
	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
	₩ 2,685,684	(632,173)	(128,880)	179,663	(811,836)

(\*) The effect of changes in accounting policy is 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.



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### 41. Pledged Assets

Assets pledged by the Group as collateral as of December 31, 2021 and 2020 are as follows:

	December 31, 2021		December 31, 2020	
	Pledged assets	Related liabilities	Pledged assets	Related liabilities
Cash and due from banks (*1)	₩ -	-	81,883	79,091
Securities (*2)	6,838,083	1,685,428	6,228,271	7,621,493
Others (*3)	5,905,571	7,374,187	5,977,580	3,103,578
	₩ 12,743,654	9,059,615	12,287,734	10,804,162

(\*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, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Confirmed acceptances and guarantees:		
Acceptances in foreign currency	₩ 281,354	414,928
Guarantees for bond issuance	2,224,142	2,281,329
Guarantees for loans	570,588	443,169
Letter of guarantee	37,262	38,540
Guarantees for on-lending debt	6,794	11,127
Others	3,862,877	3,367,313
	6,983,017	6,556,406
Unconfirmed acceptances and guarantees:		
Letter of credit	1,851,986	1,220,169
Others	2,380,519	1,226,209
	4,232,505	2,446,378
Commitments:		
Commitments on loans	42,266,415	37,468,997
Commitments on purchase of securities	2,533,599	2,097,659
Others	-	55,026
	44,800,014	39,621,682
Bills endorsed:		
With recourse	-	971
	₩ 56,015,536	48,625,437

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### 43. Leases

(1) Finance lease

Details of finance lease receivables of the Group as lessor as of December 31, 2021 and 2020 are as follows:

	December 31, 2021		
	Finance lease receivables in Korean won	Finance lease receivables in foreign currency	Total
Within 1 year	₩ 429,398	90,723	520,121
Over 1 year through 5 years	1,201,426	117,115	1,318,541
Over 5 years	1,357	-	1,357
Gross investment in the lease	1,632,181	207,838	1,840,019
Unearned finance income	(170,240)	(20,847)	(191,087)
Net investment in the lease (*)	₩ 1,461,941	186,991	1,648,932
Contingent rent recognized in the current profit or loss	₩ (383)	-	(383)

(\* ) Finance lease receivables are included in loans measured at amortized cost on the consolidated statements of financial position.

	December 31, 2020		
	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

(\* ) 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, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Within 1 year	₩ 2,911	5,731
Over 1 year through 5 years	4,208	6,975
	<u>₩ 7,119</u>	<u>12,706</u>
Contingent rent recognized in the current loss	₩ -	-

(3) Cancellable lease

Cancellable lease as of December 31, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Cancellable financial lease	₩ 4,414	4,854
Allowance for credit losses	(3,796)	(4,046)
	<u>₩ 618</u>	<u>808</u>

(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, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Advanced payment for leased assets	₩ 8,076	6,783
Allowance for credit losses	-	(24)
	<u>₩ 8,076</u>	<u>6,759</u>

(5) Leasehold deposits

The Group withholds collateral money received from the lessees as of December 31, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Leasehold deposits	₩ 414,810	340,987

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### 44. Trust Accounts

(1) Trust accounts as of December 31, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Accrued trust fees	₩ 8,083	7,530
Borrowings from trust accounts	870,168	874,316
Accrued interest on deposits	574	878

(2) Transactions with trust accounts for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Fees on trust accounts	₩ 28,977	27,744
Interest expenses on deposits	-	3
Interest expenses of borrowings from trust accounts	6,700	7,688

### 45. Related Party Transactions

(1) The Group's related parties as of December 31, 2021 are as follows:

Classification	Corporate name
Associates	Korea Electric Power Co., Ltd., Korea Tourism Organization, Korea Appraisal Board, GM Korea Company, HMM Co., Ltd., HANJIN KAL, Korea Ocean Business Corporation and 74 others, Troika Resources Investment PEF and 100 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, 2021 and 2020 are as follows:

	Account	December 31, 2021	December 31, 2020
Associates:			
Korea Electric Power Co., Ltd.	Securities	₩ 10,759	5,779
	Loans	236,223	197,539
	Allowances for loan losses	(1,428)	(1,778)
	Derivative financial assets	2,409	80,203
	Other assets	2,074	20,631
	Deposits	400,963	135,837
	Borrowings	2,649	53,107
	Derivative financial liabilities	149,969	41,212
	Other liabilities	3,434	10,599
	Other provisions	12	10
KG Dongbu Steel Co., Ltd.	Loans	783,695	614,062
	Allowances for loan losses	(4,093)	(55,321)
	Other assets	375	622
	Deposits	12,294	3,871
	Other liabilities	76	129
	Other provisions	682	15,320
HMM Co., Ltd.	Securities	7,315,547	3,866,467
	Loans	202,509	1,040,638
	Allowances for loan losses	(30,614)	(93,017)
	Other assets	7,236	7,302
	Deposits	1,876,483	440,127
	Other liabilities	9,145	2,536
	Other provisions	-	8,200
Hanjin Heavy Industries & Construction Co., Ltd. (*)	Loans	-	213,052
	Deposits	-	110,914
	Other liabilities	-	1,464
	Other provisions	-	128,819
HANJIN KAL	Securities	-	20,098
	Loans	449,252	390,902
	Other assets	518	616
Korea Ocean Business Corporation	Loans	15,237	15,464
	Allowances for loan losses	(2)	(1)
	Other assets	16	17
	Deposits	40,000	-
	Other liabilities	237	4
Others	Securities	1,454	-
	Loans	445,904	803,266
	Allowances for loan losses	(8,250)	(355,141)
	Other assets	6,900	6,390
	Deposits	470,808	439,113
	Other liabilities	2,307	2,169
	Other provisions	76,500	60,070

(\*) For the year ended December 31, 2021, Hanjin Heavy Industries &amp; Construction Co., Ltd. was excluded from the related parties due to the Group's sale of shares.

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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, 2021 and 2020 are as follows:

	Account	2021	2020
Associates:			
Korea Electric Power Co., Ltd.	Interest income	₩ 2,994	4,125
	Dividend income	256,862	-
	Reversal of allowance for loan losses	351	-
	Fees and commission income, other income	19,298	178,140
	Interest expenses	(1,006)	(2,180)
	Provision for loan losses	-	(934)
	Other operating expenses	(254,043)	(46,166)
KG Dongbu Steel Co., Ltd.	Interest income	11,889	12,687
	Dividend income	1,101	-
	Reversal of allowance for loan losses	51,228	62,035
	Fees and commission income, other income	27,840	33,704
	Interest expenses	(13)	(41)
	Other operating expenses	(10,866)	(14,044)
HMM Co., Ltd.	Interest income	43,330	41,080
	Reversal of allowance for loan losses	62,402	4,761
	Fees and commission income, other income	1,830,596	558,057
	Interest expenses	(3,377)	(2,107)
	Other operating expenses	(85,660)	(11,334)
Hanjin Heavy Industries & Construction Co., Ltd. (*)	Interest income	2,962	5,704
	Fees and commission income, other income	133,190	12,226
	Interest expenses	(177)	(346)
	Provision for loan losses	(3,514)	-
	Other operating expenses	(2,930)	(22,460)
HANJIN KAL	Interest income	7,012	-
	Fees and commission income, other income	58,399	-
Korea Ocean Business Corporation	Interest income	213	380
	Fees and commission income, other income	1,338	3
	Interest expenses	(237)	(19)
	Provision for loan losses	-	(1)
	Other operating expenses	-	(969)
Others	Interest income	20,066	13,853
	Dividend income	606,017	243,044
	Reversal of allowance for loan losses	348,053	380,524
	Fees and commission income, other income	23,393	73,290
	Interest expenses	(2,332)	(3,481)
	Provision for loan losses	(641)	(3,320)
	Other operating expenses	(31,566)	(17,095)

(\*) The amounts are profit or loss recognized until the Hanjin Heavy Industries &amp; Construction Co., Ltd. was excluded from the related parties due to the Group's sale of shares for the year ended December 31, 2021.

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## 45. Related Party Transactions, Continued

(4) Details of guarantees and commitments to the related parties as of December 31, 2021 and 2020 are as follows:

	Account	December 31, 2021	December 31, 2020
Associates:			
KG Dongbu Steel Co., Ltd.	Unconfirmed acceptances and guarantees	₩ 32,487	20,265
	Loan commitments	186,021	339,823
HMM Co., Ltd.	Confirmed acceptances and guarantees	-	13,056
Hanjin Heavy Industries & Construction Co., Ltd. (*)	Confirmed acceptances and guarantees	-	414,630
	Unconfirmed acceptances and guarantees	-	3,337
	Loan commitments	-	22,614
Others	Confirmed acceptances and guarantees	-	76,628
	Unconfirmed acceptances and guarantees	-	28,431
	Loan commitments	221,182	244,384
	₩	<u>439,690</u>	<u>1,163,168</u>

(\*) For the year ended December 31, 2021, Hanjin Heavy Industries & Construction Co., Ltd. was excluded from the related parties due to the Group's sale of shares.

(5) Details of compensation to key management personnel for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Short-term employee benefits	₩ 6,341	4,798
Post-employment benefits	356	360
₩	<u>6,697</u>	<u>5,158</u>

(6) The Group is not pledged any assets as collaterals to the related parties and from the related parties as of December 31, 2021 and 2020.

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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, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Associates:		
K-Five 8th Securitization Specialty Co., Ltd. (*)	₩ -	40,000
U-BEST 5th Securitization Specialty Co., Ltd. (*)	-	95,000
Sinoker SF 3rd Co., Ltd. (*)	-	43,200
Corporate Liquidity Assistance Agency Co.,Ltd. (*)	560,000	780,000
Sinoker SF 4th Co., Ltd. (*)	45,000	-
K-Five 9th Securitization Specialty Co., Ltd. (*)	20,000	-
KKC 2ND INC. (*)	30,000	-
KDB ESG 1ST INC. (*)	100,500	-
KDB ESG 2ND INC. (*)	155,500	-
KDB ESG 3RD INC. (*)	150,800	-
₩	<u>1,061,800</u>	<u>958,200</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, 2021 and 2020 are as follows:

Type	Characteristics and objective	Financing method
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, 2021 and 2020 are as follows:

December 31, 2021						
	Investment funds and investment trusts	Real estate finance	Asset-backed securitization	Shipping and acquisition finance	Others	Total
Assets:						
Securities	₩ 9,049,362	319,205	190,652	3,727	375	9,563,321
Loans	1,851,419	9,276,341	932,618	1,210,208	5,080,851	18,351,437
Derivatives	9,936	1,898	2,272	-	2,805	16,911
Others	10,390	26,655	1,453	3,105	21,301	62,904
	10,921,107	9,624,099	1,126,995	1,217,040	5,105,332	27,994,573
Liabilities:						
Provisions	138	1,955	168	56	1,003	3,320
Financial guarantees	-	-	10,913	-	439	11,352
Derivatives	15,226	44	15,174	-	662	31,106
Others	7,708	3,510	172	174	2,908	14,472
	23,072	5,509	26,427	230	5,012	60,250
Granting of credit and other commitments	170,070	2,326,019	895,605	73,718	823,647	4,289,059
Maximum exposure to loss (*)	₩ 11,091,177	11,950,118	2,022,600	1,290,758	5,928,979	32,283,632

(\*) 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.

December 31, 2020						
	Investment funds and investment trusts	Real estate finance	Asset-backed securitization	Shipping and acquisition finance	Others	Total
Assets:						
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
	9,958,016	8,814,811	1,591,946	1,616,786	4,475,517	26,457,076
Liabilities:						
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
	70,782	8,535	49,909	195	9,954	139,375
Granting of credit and other commitments	1,064,546	3,442,417	975,491	80,432	1,487,437	7,050,323
Maximum exposure to loss (*)	₩ 11,022,562	12,257,228	2,567,437	1,697,218	5,962,954	33,507,399

(\*) 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, 2021 and 2020 are as follows:

- Non-controlling interests:

December 31, 2021			
	Non-controlling interests ownership (%)	Profit on non-controlling interests	Dividend to non-controlling interests
Daewoo Engineering & Construction Co., Ltd.	48.66	₩ 205,231	1,697,922
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	44.32	(753,384)	2,283,106
December 31, 2020			
	Non-controlling interests ownership (%)	Profit on 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

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### 46. Disclosure of Interests in Other Entities, Continued

- Summary of financial information:

		December 31, 2021							
		Assets	Liabilities	Operating revenue	Profit (loss) for the year	Total comprehensive income (loss)	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities
Daewoo Engineering & Construction Co. Ltd.	₩	10,457,977	7,241,599	8,685,208	484,685	537,466	1,746,845	(916,461)	(581,481)
Daewoo Shipbuilding & Marine Engineering Co., Ltd.		10,623,210	8,405,626	4,486,586	(1,699,829)	(1,650,289)	485,787	101,326	(157,013)
		December 31, 2020							
		Assets	Liabilities	Operating revenue	Profit for the year	Total comprehensive 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)

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### 47. Statements of Cash Flows

(1) Cash and cash equivalents in the consolidated statements of cash flows as of December 31, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Continuing operations:		
Cash and due from banks:		
Cash and foreign currencies	₩ 618,444	481,957
Due from banks in Korean won	6,448,589	5,600,080
Due from banks in foreign currencies / off-shores	4,786,331	5,712,200
	<u>11,853,364</u>	<u>11,794,237</u>
Less: Restricted due from banks, others	(6,948,282)	(4,449,593)
Add: Financial instruments reaching maturity within three months from date of acquisition		
Call loans	499,240	465,485
Inter-bank loans	233,898	359,125
	<u>733,138</u>	<u>824,610</u>
Cash and cash equivalents	₩ <u>5,638,220</u>	<u>8,169,254</u>

(2) Significant transactions not involving cash flows for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Decrease in loans due to write-offs	₩ 36,484	158,617
Increase in securities measured at FVOCI due to debt-to-equity swap and others	146,185	13,714
Increase in investments in subsidiaries due to debt-to-equity swap, etc.	2,658,000	-
Increase in accumulated other comprehensive income due to securities valuation	3,315,848	2,978,623
Transfer from investment property to property and equipment	-	16,037
Transfer from property and equipment to investment property	4,004	-
Reclassification to assets held for sale	2,579,890	182,728
Recognition of right-of-use assets and lease liabilities	122,850	36,209

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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, 2021 and 2020 are as follows:

Characteristics of transactions	December 31, 2021		December 31, 2020	
	Carrying amounts for transferred assets	Carrying amounts for related liabilities	Carrying amounts for transferred assets	Carrying amounts for related liabilities
Repurchase agreements	₩ 3,349,080	1,307,268	2,762,065	1,865,504
Loaned securities	417,640	-	289,806	-
	₩ 3,766,720	1,307,268	3,051,871	1,865,504

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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, 2021 and 2020 are as follows:

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>				
Securities measured at FVTPL	₩ 680,895	481,500	10,575,935	11,738,330
Securities measured at FVOCI	2,386,076	17,970,377	18,707,937	39,064,390
Loans measured at FVTPL	-	-	644,412	644,412
Derivative financial assets	1	5,090,886	11,075	5,101,962
	₩ 3,066,972	23,542,763	29,939,359	56,549,094
<b>Financial liabilities:</b>				
Financial liabilities designated at FVTPL	₩ -	2,067,144	-	2,067,144
Derivative financial liabilities	2	4,735,732	17,104	4,752,838
	₩ 2	6,802,876	17,104	6,819,982

	December 31, 2020			
	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
	₩ 4,164,598	25,913,419	24,862,235	54,940,252
<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
	₩ -	7,847,564	13,404	7,860,968

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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, 2021 and 2020 are as follows:

	2021							
	January 1, 2021	Profit or loss	Other comprehensive loss	Acquisition / Issue	Sale/ Settlement	Reclassification	Others	December 31, 2021
Financial assets:								
Securities measured at FVTPL	₩ 8,668,833	211,802	-	2,827,011	(848,835)	(235,774)	(47,102)	10,575,935
Securities measured at FVOCI	14,746,377	-	3,770,412	467,451	(157,863)	(13,823)	(104,617)	18,707,937
Loans measured at FVTPL	1,434,514	-	-	-	(790,102)	-	-	644,412
Derivatives financial assets	12,511	7,205	-	-	(8,641)	-	-	11,075
	₩ 24,862,235	219,007	3,770,412	3,294,462	(1,805,441)	(249,597)	(151,719)	29,939,359
Financial liabilities:								
Derivatives financial liabilities	₩ 13,404	3,421	-	-	-	-	279	17,104
	2020							
	January 1, 2020	Profit or loss	Other comprehensive loss	Acquisition / Issue	Sale/ Settlement	Reclassification	Others	December 31, 2020
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

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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, 2021 and 2020 are as follows:

	2021	2020
Beginning balance	₩ 4,375	4,763
Amortization	(386)	(388)
Ending balance	₩ 3,989	4,375

(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, 2021 and 2020 are as follows:

	Valuation technique	Input
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,	Volatility, Commodity index,
Currency options	Modified Black model,	etc.
Commodities options	Formula model	
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, 2021 and 2020 are as follows:

	December 31, 2021		
	Valuation technique	Unobservable input	Range (%)
Securities measured at FVTPL: Equity securities	Discounted cash flow method, Relative value approach, Net asset value approach	Discount rate	6.52 ~ 13.22
		Rate of increase in liquidation value	-
		Rate of increase in property disposal price	-
		Volatility	17.89 ~ 41.50
Securities measured at FVOCI: Equity securities	Discounted cash flow method, Relative value approach, Net asset value approach	Discount rate	7.70 ~ 17.56
		Growth rate	-
		Rate of increase in liquidation value	-
		Rate of increase in property disposal price	-
		Volatility	19.48 ~ 33.20
Loans measured at FVTPL Convertible bonds, etc.	LSCM, Binomial model	Volatility	17.89 ~ 34.16
Derivatives financial assets: Interest rate swaps	Discounted cash flow method	Volatility	38.23 ~ 49.07
		Correlation coefficient	0.43 ~ 0.87
Interest rate options	Modified Black model	Volatility	38.23 ~ 49.07
Stock index options	Black-Scholes model	Volatility	5.40 ~ 71.40
Equity options	Discounted cash flow method and others	Volatility	18.87 ~ 25.49

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### 49. Fair Value of Financial Assets and Liabilities, Continued

	December 31, 2020		
	Valuation technique	Unobservable input	Range (%)
Securities measured at FVTPL: Equity securities	Discounted cash flow method, Relative value approach, Net asset value approach	Discount rate	0.72 ~ 19.05
		Rate of increase in liquidation value	-
		Rate of increase in property disposal price	-
		Volatility	17.53 ~ 33.00
Securities measured at FVOCI: Equity securities	Discounted cash flow method, Relative value approach, Net asset value approach	Discount rate	0.20 ~ 19.05
		Growth rate	-
		Rate of increase in liquidation value	-
		Rate of increase in property disposal price	-
		Volatility	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	36.02 ~ 44.87
		Correlation coefficient	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

(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 measured at amortized costs as of December 31, 2021 and 2020 are as follows:

		December 31, 2021			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks (*)	₩	4,905,082	6,948,282	-	11,853,364
Securities measured at amortized cost		1,437,496	4,766,362	-	6,203,858
Loans measured at amortized cost (*)		-	499,240	178,256,343	178,755,583
Other financial assets (*)		-	5,095,939	1,289,903	6,385,842
	₩	<u>6,342,578</u>	<u>17,309,823</u>	<u>179,546,246</u>	<u>203,198,647</u>
Financial liabilities:					
Deposits (*)	₩	-	3,318,883	50,482,483	53,801,366
Borrowings (*)		-	2,025,900	26,033,403	28,059,303
Debentures		-	151,130,983	-	151,130,983
Other financial liabilities (*)		-	3,920,893	3,715,506	7,636,399
	₩	<u>-</u>	<u>160,396,659</u>	<u>80,231,392</u>	<u>240,628,051</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

		December 31, 2020			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks (*)	₩	7,344,644	4,449,593	-	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>8,009,827</u>	<u>10,200,107</u>	<u>167,302,103</u>	<u>185,512,037</u>
Financial liabilities:					
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>

(\*) 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.

(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, 2021 and 2020 are as follows:

	Valuation technique	Input
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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### 50. Categories of Financial Assets and Liabilities

Categories of financial assets and liabilities as of December 31, 2021 and 2020 are as follows:

	December 31, 2021							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	
Financial assets:								
Cash and due from banks	₩ 4,905,082	-	-	-	-	6,948,282	-	11,853,364
Securities measured at FVTPL	-	11,738,330	-	-	-	-	-	11,738,330
Securities measured at FVOCI	-	-	-	20,181,099	18,883,291	-	-	39,064,390
Securities measured at amortized cost	-	-	-	-	-	6,203,858	-	6,203,858
Loans measured at FVTPL	-	644,412	-	-	-	-	-	644,412
Loans measured at amortized cost	733,138	-	-	-	-	178,449,217	-	179,182,355
Derivative financial assets	-	4,560,320	-	-	-	-	541,642	5,101,962
Other financial assets	-	-	-	-	-	6,441,337	-	6,441,337
	₩ 5,638,220	16,943,062	-	20,181,099	18,883,291	198,042,694	541,642	260,230,008
Financial liabilities:								
Financial liabilities measured at FVTPL	₩ -	-	2,067,144	-	-	-	-	2,067,144
Deposits	-	-	-	-	-	53,839,129	-	53,839,129
Borrowings	-	-	-	-	-	28,561,063	-	28,561,063
Debentures	-	-	-	-	-	150,014,919	-	150,014,919
Derivative financial liabilities	-	4,496,682	-	-	-	-	256,156	4,752,838
Other financial liabilities	-	-	-	-	-	7,564,991	-	7,564,991
	₩ -	4,496,682	2,067,144	-	-	239,980,102	256,156	246,800,084

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(In millions of won)

### 50. Categories of Financial Assets and Liabilities, Continued

	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	
Financial assets:								
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
Financial liabilities:								
Financial liabilities measured at FVTPL	₩ -	-	1,694,957	-	-	-	-	1,694,957
Deposits	-	-	-	-	-	46,961,355	-	46,961,355
Borrowings	-	-	-	-	-	24,542,788	-	24,542,788
Debentures	-	-	-	-	-	143,329,298	-	143,329,298
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

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### 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, 2021 and 2020 are as follows:

	December 31, 2021					
	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 (*) ₩	5,101,962	-	5,101,962	3,774,948	17,515	1,309,499
Unsettled spot exchange receivables (*)	3,302,487	-	3,302,487	3,301,014	-	1,473
Unsettled domestic exchange receivables	3,500,909	1,707,457	1,793,452	-	-	1,793,452
Security pledged as collateral for repurchase agreements	3,349,080	-	3,349,080	1,307,268	-	2,041,812
Reverse repurchase agreements	818,442	-	818,442	818,442	-	-
Loaned securities	417,640	-	417,640	417,640	-	-
Receivables from securities transaction	12,553	-	12,553	12,553	-	-
₩	<u>16,503,073</u>	<u>1,707,457</u>	<u>14,795,616</u>	<u>9,631,865</u>	<u>17,515</u>	<u>5,146,236</u>

	December 31, 2020					
	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 (*) ₩	4,752,838	-	4,752,838	2,993,406	105,989	1,653,443
Unsettled spot exchange payables (*)	3,303,447	-	3,303,447	3,301,014	-	2,433
Unsettled domestic exchange payables	2,324,903	1,707,457	617,446	-	-	617,446
Repurchase agreements	1,307,268	-	1,307,268	1,307,268	-	-
Payables from securities transaction	10,036	-	10,036	10,036	-	-
₩	<u>11,698,492</u>	<u>1,707,457</u>	<u>9,991,035</u>	<u>7,611,724</u>	<u>105,989</u>	<u>2,273,322</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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(In millions of won)

### 51. Offsetting of Financial Assets and Liabilities, Continued

	December 31, 2020					
	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>

	December 31, 2020					
	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>

(\*) 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:

Segments	General information
Bank industry	Provides trading services and loans to corporate customers
Investment finance	Provides consulting services to corporate such as capital finance, restructuring, etc.
Asset management	Provides asset management services to individual and corporate customers
Others	Any other segment not mentioned above
Insurance	Subsidiaries that conduct insurance business (KDB Life Insurance Co., Ltd.)
Overseas	Subsidiaries located in foreign countries
Other subsidiaries	Subsidiaries except for overseas subsidiaries and subsidiaries conducting insurance business

(2) Operating income (loss) from external customers and among operating segments for the years ended December 31, 2021 and 2020 are as follows:

	2021							
	Bank industry				Overseas	Other subsidiaries	Adjustment	Total(*)
	Corporate finance	Investment finance	Asset management	Others				
Operating income (loss) from external customers	₩ (924,406)	1,195,329	20,822	1,745,728	75,253	331,892	-	2,444,618
Operating income (loss) from intersegment transactions	₩ 864,685	1,407,971	-	(759,974)	4,280	27,846	(1,544,808)	-
	₩ (59,721)	2,603,300	20,822	985,754	79,533	359,738	(1,544,808)	2,444,618

(\*) Profit from discontinued operations is not included.

	2020							
	Bank industry				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)	323,481	-	716,923
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	376,248	(571,394)	716,923

(\*) Profit from discontinued operations is not included.

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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, 2021 and 2020 are as follows:

	2021							
	Bank industry				Overseas	Other subsidiaries	Adjustment	Total(*3)
	Corporate finance	Investment finance	Asset management	Others				
Net interest income (expense)	₩ 1,181,059	(158,369)	2,328	633,590	99,756	295,000	(67,842)	1,985,522
Non-interest income (expense)								
Income related to securities (*1)	63,729	17,194	-	26,454	17,404	124,677	(56,279)	193,179
Other non-interest income (expense)	602,797	2,807,532	36,449	(21,532)	10,324	20,540	(1,855,087)	1,601,023
	₩ 666,526	2,824,726	36,449	4,922	27,728	145,217	(1,911,366)	1,794,202
Provision for loan losses and others (*2)	(924,878)	95,316	-	4,233	1,450	8,145	431,090	(384,644)
General and administrative expenses	(982,428)	(158,373)	(17,955)	343,009	(49,401)	(88,624)	3,310	(950,462)
Operating income (loss)	₩ (59,721)	2,603,300	20,822	985,754	79,533	359,738	(1,544,808)	2,444,618

	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	225,359	(28,124)	1,547,932
Non-interest income (expense)								
Income related to securities (*1)	(9,932)	116,096	-	28,699	8,401	62,639	(33,694)	172,209
Other non-interest income (expense)	352,061	439,910	34,534	112,290	4,679	165,932	(402,711)	706,695
	₩ 342,129	556,006	34,534	140,989	13,080	228,571	(436,405)	878,904
Provision for loan losses and others (*2)	(1,095,754)	431,878	-	(5,506)	(20,902)	3,106	(105,288)	(792,466)
General and administrative expenses	(656,535)	(107,607)	(13,026)	(12,169)	(45,745)	(80,788)	(1,577)	(917,447)
Operating income (loss)	₩ (194,889)	925,566	20,683	143,152	17,557	376,248	(571,394)	716,923

(\*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, 2021 and 2020 and the geographical non-current asset information as of December 31, 2021 and 2020 are as follows:

	Revenues (*1)		Non-current assets (*2)	
	2021	2020	December 31, 2021	December 31, 2020
Domestic	₩ 32,075,459	40,671,132	33,095,736	32,310,211
Overseas	1,050,037	1,041,060	132,814	54,273
	₩ 33,125,496	41,712,192	33,228,550	32,364,484

(\*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.

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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*

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.

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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, 2021, the key activities of the Risk Management Committee are as follows:

- Major decision
  - Risk management plan for 2021
  - Setting and managing exposure limits by country for 2021
  - Contingency funding plan for 2021
  - Changing the management standard of BIS ratio for 2021
  - Changing the management standard of internal capital related with HMM
- Major reporting
  - Result of integrated crisis analysis for the second half of 2020
  - Result of assessment of suitability for internal capital for 2020
  - Resolution of Credit Committee for the fourth quarter of 2020
  - Result of ex-post validation of credit rating system and default rates, and verification of risk measurement factors for internal purposes
  - Setting management limit of credit portfolios of 2021
  - Allocation of internal capital limits of 2021
  - Resolution of Credit Committee for the first quarter of 2021
  - Result of operation of corporate credit rating system in 2021
  - Result of integrated crisis analysis for the first half of 2021
  - Resolution of Credit Committee for the second quarter of 2021
  - Verification of risk-weighted assets for BIS ratio as of December 31, 2020
  - Result of assessment of suitability for internal capital for 2021
  - Result of BCP training for 2021
  - Resolution of Credit Committee for the third quarter of 2021

#### (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
  - Establishment of the system to comply with the amended regulation relating to risk-weighted assets under Basel III in December 2020
- 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 Risk Watch 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	May. 2006	Manage process and calculate CSA, KRI and OP VaR, etc.
	AMA	May. 2009	Measure by Advanced Measurement Approach
BIS Capital Ratio Calculation/Credit Risk Measurement System	Fermat RaY (*)	Sep. 2006 Dec. 2013	Calculate equity, credit risk-weighted assets and credit risk, etc.
Loan Loss Allowance Calculation System	IFRS	Jan. 2011	Incurred loss model
	IFRS 9	Mar. 2017	Expected loss model

(\*) To comply with the amended regulation relating to risk-weighted assets under Basel III, the upgrade of relevant systems was completed in March 2021.

#### (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 completed the consultation and the development of the relevant systems and the amended regulation has been applied since the calculation of the BIS ratio at the end of 2020.

Korea Development Bank and Subsidiaries

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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.

December 31, 2021 and 2020

(In millions of won)

### 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 frequently 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.

A borrower that is likely to be insolvent is classified as an early warning borrower, depending on the level of insolvency risk. 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, 2021 and 2020 are as follows:

&lt; Corporate &gt;

	Carrying amounts	December 31, 2021		
		12-month expected credit loss	Lifetime expected credit losses	
			Non credit-impaired loans	Credit-impaired loans
AAA ~ BBB1	₩ 145,246,104	129,624,321	15,607,391	14,392
BBB2 ~ CCC	34,873,228	13,309,599	19,879,966	1,683,663
Below CC	1,509,612	114,972	35,195	1,359,445
	₩ 181,628,944	143,048,892	35,522,552	3,057,500

Korea Development Bank and Subsidiaries

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December 31, 2021 and 2020

(In millions of won)

### 53. Risk Management, Continued

December 31, 2020				
Carrying amounts	12-month expected credit loss	Lifetime expected credit losses		
		Non credit-impaired loans	Credit-impaired loans	
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
₩	165,737,842	147,592,560	15,889,170	2,256,112

< Non-corporate >

December 31, 2021				
Carrying amounts	12-month expected credit loss	Lifetime expected credit losses		
		Non credit-impaired loans	Credit-impaired loans	
Grade 1~ Grade 6	₩ 851,665	832,543	17,233	1,889
Grade 7~ Grade 8	10,031	4,821	5,146	64
Grade 9~ Grade 10	16,653	182	1,529	14,942
₩	878,349	837,546	23,908	16,895

December 31, 2020				
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
₩	598,619	504,820	75,426	18,373

Details of payment guarantees (including financial guarantees) and unused commitments by credit rating as of December 31, 2021 and 2020 are as follows:

< Corporate >

December 31, 2021				
Exposures	12-month expected credit loss	Lifetime expected credit losses		
		Non credit-impaired exposures	Credit-impaired exposures	
Unused commitments:				
AAA ~ BBB1	₩ 36,900,089	34,446,238	2,453,851	-
BBB2 ~ CCC	5,262,853	3,472,941	1,736,397	53,515
Below CC	2	2	-	-
₩	42,162,944	37,919,181	4,190,248	53,515
Payment guarantees (including financial guarantees):				
AAA ~ BBB1	₩ 7,586,234	6,890,331	695,903	-
BBB2 ~ CCC	3,620,260	1,610,162	1,487,244	522,854
Below CC	9,028	158	-	8,870
₩	11,215,522	8,500,651	2,183,147	531,724

December 31, 2021 and 2020

(In millions of won)

### 53. Risk Management, Continued

December 31, 2020				
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	-
₩	37,440,520	35,672,026	1,768,494	-

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
₩	9,003,755	7,927,906	896,291	179,558

< Non-corporate >

December 31, 2021				
Exposures	12-month expected credit loss	Lifetime expected credit losses		
		Non credit-impaired exposures	Credit-impaired exposures	
Unused commitments:				
Grade 1~ Grade 6	₩ 103,445	102,947	498	-
Grade 7~ Grade 8	9	-	9	-
Grade 9~ Grade 10	17	17	-	-
₩	103,471	102,964	507	-

December 31, 2020				
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	-	-
₩	83,503	82,064	1,439	-

Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

December 31, 2021 and 2020

### 53. Risk Management, Continued

#### (iii) Measurement methodology of credit risk

Pursuant to Basel III, 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-	20.0%	0.0%	20.0%
A+ ~ A-	50.0%	20.0%	30.0%
BBB+ ~ BBB-	75.0%	50.0%	50.0%
BB+ ~ BB-	100.0%	100.0%	100.0%
B+ ~ B-	150.0%	100.0%	100.0%
Below B-	150.0%	150.0%	150.0%
Unrated	100.0% (*)	100.0%	Rating based on due diligence

(\*) In case of small and medium-sized business, 85.0% is applied.

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.

December 31, 2021 and 2020

### 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, 2021.

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	- Countries, public institutions, banks and equity
Permanent SA	- Overseas subsidiaries and branches, and other assets, retail, residential mortgage, commercial properties
SA	- Corporate, small and medium enterprises and asset securitization (at each credit level)
Foundation Internal Ratings-Based Approach	- Special lending, non-residence and others
Application of IRB by phase	

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.

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# Notes to the Consolidated Financial Statements

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## 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 (SRO) 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, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Securities measured at FVTPL	₩ 1,254	735
Securities measured at FVOCI	71,668	70,397
Loans measured at amortized cost	3,098,440	2,312,776
Other assets	15,493	10,845

December 31, 2021 and 2020

(In millions of won)

## 53. Risk Management, Continued

### (iv) Credit exposure

Geographical information of credit exposure as of December 31, 2021 and 2020 are as follows:

	December 31, 2021									
	Korea	Hong Kong	Ireland	Uzbekistan	Brazil	Hungary	UK	US	Others	Total
Due from banks (excluding due from BOK)	₩ 986,888	87,706	658	19,383	2	204,510	113,337	2,933,625	913,069	5,259,178
Securities measured at FVOCI:										
Bonds (excluding government bonds)	8,365,200	435,529	40,057	-	627	69,724	350,644	3,903,883	2,634,803	15,800,467
Securities measured at amortized cost:										
Bonds (excluding government bonds)	3,196,288	-	-	-	22,189	-	-	-	16,504	3,234,981
Loans	139,966,901	2,106,550	398,486	708,402	130,688	677,906	1,045,014	2,442,512	29,963,677	177,440,136
Derivative financial assets	174,859	45,847	-	-	166	2,878	3,922	80,543	223,656	531,871
Other financial assets	7,678,538	3,079	323	1,689	225	8,839	11,776	645	219,020	7,924,134
	<u>160,368,674</u>	<u>2,678,711</u>	<u>439,524</u>	<u>729,474</u>	<u>153,897</u>	<u>963,857</u>	<u>1,524,693</u>	<u>9,361,208</u>	<u>33,970,729</u>	<u>210,190,767</u>
Guarantees	10,488,411	-	-	37,883	-	51,599	-	347,919	289,710	11,215,522
Commitments	35,122,646	138,107	148,185	33,042	-	51,285	775,645	979,541	5,017,964	42,266,415
	<u>45,611,057</u>	<u>138,107</u>	<u>148,185</u>	<u>70,925</u>	<u>-</u>	<u>102,884</u>	<u>775,645</u>	<u>1,327,460</u>	<u>5,307,674</u>	<u>53,481,937</u>
	<u>₩ 205,979,731</u>	<u>2,816,818</u>	<u>587,709</u>	<u>800,399</u>	<u>153,897</u>	<u>1,066,741</u>	<u>2,300,338</u>	<u>10,688,668</u>	<u>39,278,403</u>	<u>263,672,704</u>

	December 31, 2020									
	Korea	Hong Kong	Ireland	Uzbekistan	Brazil	Hungary	UK	US	Others	Total
Due from banks (excluding due from BOK)	₩ 1,737,307	64,145	46	14,194	4,201	246,344	81,879	4,015,171	742,729	6,906,016
Securities measured at FVOCI:										
Bonds (excluding government bonds)	7,393,344	154,047	28,850	-	608	99,389	243,717	3,398,517	1,711,905	13,030,377
Securities measured at amortized cost:										
Bonds (excluding government bonds)	1,332,527	-	-	-	2,678	-	-	-	-	1,335,205
Loans	131,384,297	1,986,207	523,181	675,314	149,745	476,973	719,365	1,799,401	24,560,390	162,274,873
Derivative financial assets	643,935	131,153	-	-	-	296	7,240	85,603	581,019	1,449,246
Other financial assets	7,458,086	23,693	309	990	214	7,430	8,175	371	192,378	7,691,646
	<u>149,949,496</u>	<u>2,359,245</u>	<u>552,386</u>	<u>690,498</u>	<u>157,446</u>	<u>830,432</u>	<u>1,060,376</u>	<u>9,299,063</u>	<u>27,788,421</u>	<u>192,687,363</u>
Guarantees	8,100,511	-	-	51,240	-	10,420	-	510,710	329,904	9,002,785
Commitments	31,258,131	32,640	30,740	15,209	-	17,312	550,767	177,213	5,442,011	37,524,023
	<u>39,358,642</u>	<u>32,640</u>	<u>30,740</u>	<u>66,449</u>	<u>-</u>	<u>27,732</u>	<u>550,767</u>	<u>687,923</u>	<u>5,771,915</u>	<u>46,526,808</u>
	<u>₩ 189,308,138</u>	<u>2,391,885</u>	<u>583,126</u>	<u>756,947</u>	<u>157,446</u>	<u>858,164</u>	<u>1,611,143</u>	<u>9,986,986</u>	<u>33,560,336</u>	<u>239,214,171</u>

Korea Development Bank and Subsidiaries

## Notes to the Consolidated Financial Statements

December 31, 2021 and 2020

(In millions of won)

### 53. Risk Management, Continued

Industry information of credit exposure as of December 31, 2021 and 2020 are as follows:

	December 31, 2021			
	Manufacturing	Service	Others	Total
Due from banks (excluding due from BOK)	₩ 3,681	4,186,636	1,068,861	5,259,178
Securities measured at FVOCI:				
Bonds (excluding government bonds)	2,693,912	9,913,375	3,193,180	15,800,467
Securities measured at amortized cost:				
Bonds (excluding government bonds)	18,645	45,357	3,170,979	3,234,981
Loans	74,648,047	83,700,172	19,091,917	177,440,136
Derivative financial assets	-	531,871	-	531,871
Other financial assets	195,335	278,983	7,449,816	7,924,134
	<u>77,559,620</u>	<u>98,656,394</u>	<u>33,974,753</u>	<u>210,190,767</u>
Guarantees	7,318,154	3,050,808	846,560	11,215,522
Commitments	19,661,928	21,124,029	1,480,458	42,266,415
	<u>26,980,082</u>	<u>24,174,837</u>	<u>2,327,018</u>	<u>53,481,937</u>
₩	<u>104,539,702</u>	<u>122,831,231</u>	<u>36,301,771</u>	<u>263,672,704</u>
	December 31, 2020			
	Manufacturing	Service	Others	Total
Due from banks (excluding due from BOK)	₩ 56,982	5,259,409	1,589,625	6,906,016
Securities measured at FVOCI:				
Bonds (excluding government bonds)	2,582,079	7,577,832	2,870,466	13,030,377
Securities measured at amortized cost:				
Bonds (excluding government bonds)	1,293,889	1,236	40,080	1,335,205
Loans	70,894,807	75,915,453	15,464,613	162,274,873
Derivative financial assets	-	1,449,246	-	1,449,246
Other financial assets	204,224	221,725	7,265,697	7,691,646
	<u>75,031,981</u>	<u>90,424,901</u>	<u>27,230,481</u>	<u>192,687,363</u>
Guarantees	5,840,346	2,221,862	940,577	9,002,785
Commitments	16,853,877	20,151,913	518,233	37,524,023
	<u>22,694,223</u>	<u>22,373,775</u>	<u>1,458,810</u>	<u>46,526,808</u>
₩	<u>97,726,204</u>	<u>112,798,676</u>	<u>28,689,291</u>	<u>239,214,171</u>

December 31, 2021 and 2020

(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, 2021 and 2020 are as follows and the exposures by industries could be changed according to economic fluctuations.

	December 31, 2021									
	Due from banks (excluding due from BOK)	Securities measured at FVOCI (excluding government bonds)	Loans	Derivative financial assets	Other assets	Subtotal	Guarantees	Commitments	Subtotal	Total
Manufacturing:										
Display	₩ -	-	730,259	-	2,917	733,176	1,641	267,574	269,215	1,002,391
Semiconductor / Mobile phone	-	204,679	5,059,874	-	7,958	5,272,511	115,211	365,071	480,282	5,752,793
Automotive	-	231,343	10,721,833	-	15,286	10,968,462	435,597	1,685,997	2,121,594	13,090,056
Refinery/Chemical / Energy	-	620,186	13,875,360	-	27,904	14,523,450	150,371	5,520,913	5,671,284	20,194,734
Steel/Metal	-	146,239	9,985,811	-	13,814	10,145,864	617,066	2,343,478	2,960,544	13,106,408
Others	-	1,395,470	32,703,381	-	53,372	34,152,223	9,268,619	11,055,744	20,324,363	54,476,586
	<u>-</u>	<u>2,597,917</u>	<u>73,076,518</u>	<u>-</u>	<u>121,251</u>	<u>75,795,686</u>	<u>10,588,505</u>	<u>21,238,777</u>	<u>31,827,282</u>	<u>107,622,968</u>
Service:										
Air transportation	-	5,844	3,200,683	-	9,284	3,215,811	291,880	21,000	312,880	3,528,691
Sea transportation	-	-	2,083,099	-	21,353	2,104,452	74,721	751,613	826,334	2,930,786
Other transportation	-	140,164	6,261,103	-	12,895	6,414,162	9,110	3,576,532	3,585,642	9,999,804
Leisure/Travel industry	-	-	59,072	-	66	59,138	-	1,700	1,700	60,838
Food/Accommodation	-	72,427	1,990,730	-	3,651	2,066,808	36,674	318,921	355,595	2,422,403
Automotive-related	-	-	513,522	-	876	514,398	12,322	84,891	97,213	611,611
Finance/Insurance and others	5,529,904	9,395,925	68,744,507	528,827	179,047	84,378,210	2,588,124	17,408,058	19,996,182	104,374,392
	<u>5,529,904</u>	<u>9,614,360</u>	<u>82,852,716</u>	<u>528,827</u>	<u>227,172</u>	<u>98,752,979</u>	<u>3,012,831</u>	<u>22,162,715</u>	<u>25,175,546</u>	<u>123,928,525</u>
Other:										
Construction	-	236,235	2,640,398	-	3,628	2,880,261	195,956	1,640,764	1,836,720	4,716,981
Others	655,841	2,411,285	12,062,217	-	5,572,707	20,702,050	155,971	1,548,876	1,704,847	22,406,897
	<u>655,841</u>	<u>2,647,520</u>	<u>14,702,615</u>	<u>-</u>	<u>5,576,335</u>	<u>23,582,311</u>	<u>351,927</u>	<u>3,189,640</u>	<u>3,541,567</u>	<u>27,123,878</u>
₩	<u>6,185,745</u>	<u>14,859,797</u>	<u>170,631,849</u>	<u>528,827</u>	<u>5,924,758</u>	<u>198,130,976</u>	<u>13,953,263</u>	<u>46,591,132</u>	<u>60,544,395</u>	<u>258,675,371</u>

Responding to the COVID-19 pandemic, the Bank recalculates the forward-looking information and recognises additional allowance for loan losses and provisions amounting to ₩924,176 million for the year ended December 31, 2021.

Korea Development Bank and Subsidiaries

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## 53. Risk Management, Continued

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
Manufacturing:										
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
Service:										
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 and others	5,909,550	7,564,234	61,723,627	1,448,906	137,591	76,783,908	1,782,918	12,840,586	14,623,504	91,407,412
	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
Other:										
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 Bank recalculates the forward-looking information and recognises additional allowance for loan losses and provisions amounting to ₩948,225 million for the year ended December 31, 2020.

Credit exposures of debt securities by credit rating as of December 31, 2021 and 2020 are as follows:

December 31, 2021					
	Carrying amounts	12-month expected credit loss	Lifetime expected credit losses Non credit-impaired	Credit-impaired	
AAA ~ BBB1	₩ 26,072,018	25,742,389	329,629	-	-
BBB2 ~ CCC	322,173	322,173	-	-	-
Below CC	-	-	-	-	-
₩	26,394,191	26,064,562	329,629	-	-
December 31, 2020					
	Carrying amounts	12-month expected credit loss	Lifetime expected credit losses Non credit-impaired	Credit-impaired	
AAA ~ BBB1	₩ 21,749,289	21,570,928	178,361	-	-
BBB2 ~ CCC	619,289	609,226	10,063	-	-
Below CC	258	258	-	-	-
₩	22,368,836	22,180,412	188,424	-	-

December 31, 2021 and 2020

## 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.

Korea Development Bank and Subsidiaries

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### 53. Risk Management, Continued

The BIS capital adequacy ratio and capital in accordance to Basel III standards as of December 31, 2021 and 2020 are as follows:

#### BIS capital adequacy ratio

	December 31, 2021	December 31, 2020
Equity capital based on BIS (A):		
Tier 1 capital:		
Common Equity Tier 1	₩ 41,131,484	36,021,786
Additional Tier 1 capital	-	-
	41,131,484	36,021,786
Tier 2 capital	₩ 3,454,548	4,312,476
	₩ 44,586,032	40,334,262
Risk-weighted assets (B):		
Credit risk-weighted assets	₩ 291,238,386	246,279,611
Market risk-weighted assets	1,692,127	1,490,013
Operational risk-weighted assets	6,750,345	4,880,008
	₩ 299,680,858	252,649,632
BIS capital adequacy ratio (A/B):	14.88%	15.96%
Tier 1 capital ratio:	13.73%	14.26%
Common Equity Tier 1 ratio	13.73%	14.26%
Additional Tier 1 capital ratio	-	-
Tier 2 capital ratio	1.15%	1.71%

#### Equity capital based on BIS

	December 31, 2021	December 31, 2020
Tier 1 capital (A=C+D):		
Common Equity Tier 1 (C)		
Capital stock	₩ 21,886,559	20,765,729
Capital surplus	738,802	1,036,196
Retained earnings	14,226,652	12,326,526
Non-controlling interests	-	-
Accumulated other comprehensive income	5,289,110	2,324,417
Common stock deductibles	(1,009,639)	(431,082)
	41,131,484	36,021,786
Additional Tier 1 capital (D)		
Non-controlling interests	-	-
	41,131,484	36,021,786
Tier 2 capital (B):		
Allowance for doubtful accounts, etc.	924,935	1,057,559
Qualified capital securities	2,312,000	2,780,000
Non-qualified capital securities	258,060	516,119
Non-controlling interests	-	-
Additional stock deductibles	(40,447)	(41,202)
	3,454,548	4,312,476
Equity capital (A+B)	₩ 44,586,032	40,334,262

December 31, 2021 and 2020

(In millions of won)

### 53. Risk Management, Continued

#### (4) Market risk

##### (i) Concept

Market risk is defined as the possibility of potential loss resulting from fluctuations in interest rates, foreign exchange rates and the price of stocks and commodities. 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, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Interest rate	94,917	58,154
Stock price	27	33
Foreign exchange rate	20,164	30,959
Option	20,262	30,055
Total	135,370	119,201

##### (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 IRRBB (Interest Rate Risk in Banking Book),  $\Delta$ EVE (change in Economic Value of Equity) and  $\Delta$ NII (change in Net Interest Income).

$\Delta$ EVE represents fluctuations in the economic value of equity capital that may occur due to changes in interest rates affecting the present values of assets, liabilities and off-balance sheet items.  $\Delta$ NII represents changes in net interest income that may occur over a certain period of time (e.g. one year) in the future due to changes in interest rates.

The Group's Risk Management Committee sets and manages interest rate risk limits on a yearly basis and interest rate risk is monthly measured and monitored.

$\Delta$ EVE and  $\Delta$ NII of the Group's non-trading positions as of December 31, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
$\Delta$ EVE	₩ 700,092	432,832
$\Delta$ NII	181,243	97,677

Korea Development Bank and Subsidiaries

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### 53. Risk Management, Continued

#### (iv) Foreign currency risk

Outstanding balances by currency with significant exposure as of December 31, 2021 and 2020 are as follows:

	December 31, 2021					
	USD	EUR	JPY	GBP	Others	Total
Financial assets:						
Cash and due from banks ₩	4,642,754	64,208	52,635	17,748	588,217	5,365,562
Securities measured at FVTPL	827,055	-	1,101	-	98,832	926,988
Securities measured at FVOCI	7,509,649	25	311,837	-	670,443	8,491,954
Securities measured at amortized cost	48,513	-	-	-	22,544	71,057
Loans	43,467,636	3,731,252	1,474,839	798,920	2,596,369	52,069,016
Derivative financial assets	1,157,191	2,562	2,460	30,772	30,871	1,223,856
Other financial assets	1,884,015	292,338	25,873	8,015	51,246	2,261,487
	<u>59,536,813</u>	<u>4,090,385</u>	<u>1,868,745</u>	<u>855,455</u>	<u>4,058,522</u>	<u>70,409,920</u>
Financial liabilities:						
Financial liabilities designated at FVTPL	255,902	-	-	-	-	255,902
Deposits	12,185,398	312,629	344,342	972	422,393	13,265,734
Borrowings	16,982,298	349,623	1,037,802	9,600	761,525	19,140,848
Debentures	26,634,144	1,704,147	290,391	791,815	6,531,337	35,951,834
Derivative financial liabilities	733,250	4,569	4,297	16,166	20,835	779,117
Other financial liabilities	2,224,048	13,869	18,401	1,119	152,720	2,410,157
	<u>59,015,040</u>	<u>2,384,837</u>	<u>1,695,233</u>	<u>819,672</u>	<u>7,888,810</u>	<u>71,803,592</u>
Net financial position ₩	<u>521,773</u>	<u>1,705,548</u>	<u>173,512</u>	<u>35,783</u>	<u>(3,830,288)</u>	<u>(1,393,672)</u>

December 31, 2021 and 2020

(In millions of won)

### 53. Risk Management, Continued

	December 31, 2020					
	USD	EUR	JPY	GBP	Others	Total
Financial assets:						
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>
Financial liabilities:						
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

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### 53. Risk Management, Continued

#### (v) Interest rate risk management

The Group is closely monitoring the outputs prepared by the industrial working groups which is managing the transition to alternative benchmark rates and the markets related the rates. The outputs include the information published by regulatory authorities related to IBORs. The authorities have made it clear that after the end of 2021, they will no longer persuade or force banks to submit IBORs. Responding the transition, the Group organized a task force led by the head of the risk management division and the task force has established the LIBOR transition plan that consists of work flows such as alternative interest rate determination, application development, customer communication management, risk management, taxation, finance, legal, and accounting system establishment. The important progress of the plan is reported to the management and may also be reported to the board of directors if necessary. The purpose of the task force is to review where exposure to IBOR occurs within the Group's business, and to develop and implement the plan to transit to the alternative benchmark rates. As of December 31, 2021, the Group has completed the transition and the application of the alternative benchmark rates and plans to complete the transition to the alternative benchmark rates related to the contracts that are contracted in US dollar and are expired after June 2023 before June 2023.

The financial instruments that have yet to transition to alternative benchmark rates as of December 31, 2021 are as follows. The amounts of the non-derivative financial instruments are the carrying amounts and the amounts of the derivatives, the commitments and the guarantees are the nominal amounts.

	USD	EUR	GBP	Others	Total
Non-derivative financial assets:					
Financial assets measured at FVOCI	₩ 109,601	-	-	-	109,601
Financial assets measured at amortized cost	13,865,453	117,123	383,002	437,635	14,803,213
Privately placed corporate bonds	-	-	-	48,771	48,771
	<u>13,975,054</u>	<u>117,123</u>	<u>383,002</u>	<u>486,406</u>	<u>14,961,585</u>
Non-derivative financial liabilities:					
Financial liabilities measured at amortized cost	<u>707,744</u>	-	-	<u>30,000</u>	<u>737,744</u>
Derivative:					
Trading purpose					
Interest rate	60,032,707	-	71,024	-	60,103,731
Currency	41,685,284	-	-	-	41,685,284
Hedging purpose					
Interest rate	15,078,608	-	-	-	15,078,608
Currency	4,701,218	-	-	-	4,701,218
	<u>121,497,817</u>	<u>-</u>	<u>71,024</u>	<u>-</u>	<u>121,568,841</u>
Commitments and guarantees	₩ <u>1,819,774</u>	<u>-</u>	<u>25,620</u>	<u>-</u>	<u>1,845,394</u>

December 31, 2021 and 2020

### 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.

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## Notes to the Consolidated Financial Statements

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(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, 2021 and 2020 are as follows:

	December 31, 2021					
	Within 1 month	1~3 months	3~12 months	1~5 Years	Over 5 years	Total
<b>Financial assets:</b>						
Cash and due from banks	₩ 10,675,868	821,136	556,908	1,029,932	6	13,083,850
Securities measured at FVTPL	888,146	44,825	1,124,769	2,843,518	8,083,770	12,985,028
Securities measured at FVOCI	405,305	1,485,286	4,269,519	11,558,567	15,120,443	32,839,120
Securities measured at amortized cost	10,000	342,645	1,433,943	4,370,661	37,900	6,195,149
Loans	10,569,371	14,952,649	64,409,196	74,652,720	16,280,055	180,863,991
Other financial assets	5,286,452	35,033	42,566	94,468	809,859	6,268,378
	₩ 27,835,142	17,681,574	71,836,901	94,549,866	40,332,033	252,235,516
<b>Financial liabilities:</b>						
Financial liabilities designated at FVTPL	₩ 8,854	125,618	682,882	348,104	214,802	1,380,260
Deposits	26,009,526	8,199,725	17,001,758	3,139,514	526,148	54,876,671
Borrowings	3,167,649	5,502,750	13,839,316	3,786,868	1,075,726	27,372,309
Debentures	4,899,919	11,927,892	48,235,329	79,124,189	6,148,738	150,336,067
Other financial liabilities	5,110,000	1,589,201	70,881	341,262	539,254	7,650,598
	₩ 39,195,948	27,345,186	79,830,166	86,739,937	8,504,668	241,615,905
<b>December 31, 2020</b>						
	Within 1 month	1~3 months	3~12 months	1~5 Years	Over 5 years	Total
<b>Financial assets:</b>						
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
	₩ 26,111,152	16,522,786	72,078,224	85,060,304	38,295,709	238,068,175
<b>Financial liabilities:</b>						
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
	₩ 36,192,388	23,476,995	75,321,302	82,990,281	10,593,282	228,574,248

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(In millions of won)

### 53. Risk Management, Continued

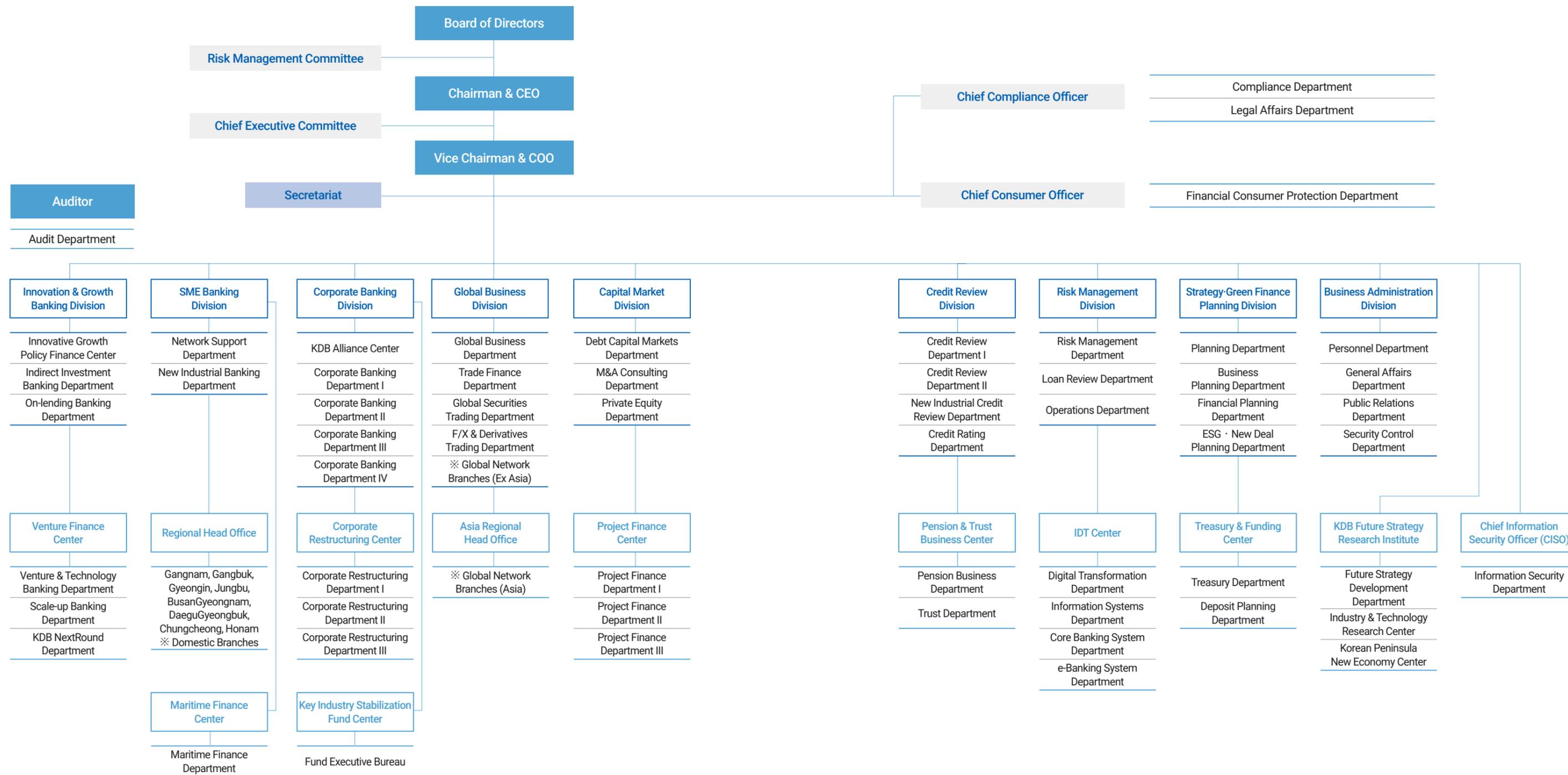
Remaining contractual maturity analysis for derivative financial instruments as of December 31, 2021 and 2020 are as follows:

Net settlement of derivative financial instruments

	December 31, 2021					
	Within 1 month	1~3 months	3~12 months	1~5 Years	Over 5 years	Total
<b>Trading purpose derivatives:</b>						
Currency	₩ 206	(468)	-	(728)	-	(990)
Interest rate	(11,454)	(23,490)	9,271	(153,077)	535,475	356,725
<b>Hedging purpose derivatives:</b>						
Interest rate	33,896	115,454	180,556	631,338	687,222	1,648,466
	₩ 22,648	91,496	189,827	477,533	1,222,697	2,004,201
<b>December 31, 2020</b>						
	Within 1 month	1~3 months	3~12 months	1~5 Years	Over 5 years	Total
<b>Trading purpose derivatives:</b>						
Currency	₩ (1,172)	622	-	29	-	(521)
Interest rate	(12,099)	(8,786)	(21,631)	(138,720)	311,267	130,031
<b>Hedging purpose derivatives:</b>						
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



# Organization



# Global Network



## HEADQUARTERS

14 Eunhaeng-ro, Yeongdeungpo-gu, Seoul 07242, Korea

## KDB Digital Square

177 Misagangbyeonhangang-ro, Hanam-si, Gyeonggi-do 12902, Korea

## OVERSEAS BRANCHES

## REPRESENTATIVE OFFICES

## SUBSIDIARIES

## OVERSEAS BRANCHES

### Asia Regional Head Office

138 Market Street, #35-02/03, Capitagreen, Singapore 048946  
Tel: +65-6322-1700  
Fax: +65-6322-1709

### 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

### Shanghai Branch

Room 3810, 38th Floor, Shanghai World Financial Center, No. 100, Century Avenue, Pudong New Area, Shanghai, 200120, China  
Tel: +86-21-6887-1234  
Fax: +86-21-6877-5556

### Singapore Branch

138 Market Street, #35-02/03, Capitagreen, Singapore 048946  
Tel: +65-6320-7400  
Fax: +65-6320-7413

### New York Branch

320 Park Ave. 32nd Floor, New York, NY 10022  
Tel: +1-212-688-7686  
Fax: +1-212-758-3296

### London Branch

Floor 11 (West Side), 22 Bishopsgate, London, United Kingdom, EC2N 4BQ  
Tel: +44-20-7426-3550  
Fax: +44-20-7426-3567

### Guangzhou Branch

3201, International Finance Place, No.8 Huaxia Road, Pearl River New Town, Guangzhou, 510623, China  
Tel: +86-20-8550-6008  
Fax: +86-20-8550-6010

### Beijing Branch

26th Floor, China Central Place T1, 81 Jianguo Road Chaoyang District, Beijing, China 100025  
Tel: +86-10-6568-8858  
Fax: +86-10-6568-6978

### Shenyang Branch

31F, CR Building, No. 286, Qingnian Street, Heping District, Shenyang, Liaoning Province 110004, China  
Tel: +86-24-3125-9988  
Fax: +86-24-3125-5096

### Qingdao Branch

Room 01-06, 43rd Floor, The HNA Center, No.234 Yari'an 3rd Road, Shinan District, Qingdao, Shandong Province, China 266071  
Tel: +86-532-8288-7700  
Fax: +86-532-8288-7318

### Yangon Branch

Unit #19-08 to 10, 19th 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

### Hong Kong Branch

Suites 2009-2010, Two International Finance Center, 8 Finance Street, Central, Hong Kong  
Tel: +852-2234-2188  
Fax: +852-3702-1357

## REPRESENTATIVE OFFICES

### Frankfurt Representative Office

7th Floor, Bockenheimer Landstrasse 51-53, 60325 Frankfurt am Main, Germany  
Tel: +49-69-9207-1300  
Fax: +49-69-9207-1399

### Ho Chi Minh Representative Office

Unit 604, M(Kumho Asiana) Plaza, 39 Le Duan St., District 1, TP HCM, Vietnam  
Tel: +84-28-6291-7870  
Fax: +84-28-6291-7672

### Abu Dhabi Representative Office

Unit No.1302, Etihad Tower 3, Corniche Rd., Abu Dhabi, U.A.E. PO Box 63057  
Tel: +971-2-666-7173

### Moscow Representative Office

#804C, Entrance 3, World Trade Center, Krasnopresnenskaya nab.12, 123610, Moscow, Russia  
Tel: +7-495-669-6743

### Bangkok Representative Office

15th Fl. Athenee Tower, 63 Wireless Road (Witthayu), Lumpini, Pathumwan, Bangkok 10330, Thailand  
Tel: +66-2-168-8498  
Fax: +66-2-168-8500

### Sydney Representative Office

Suite 3304, MLC Centre, 19-29 Martin Place, Sydney, NSW 2000, Australia  
Tel: +61-2-9221-3638  
Fax: +61-2-9221-9332

### Jakarta Representative Office

Equity Tower 39th Fl, Jl. Jend. Sudirman Kav 52-53, Jakarta Selatan 12190, Indonesia  
Tel: +62-21-5094-1141  
Fax: +62-21-5094-1149

## SUBSIDIARIES

### KDB Asia Ltd. (Hong Kong)

Suites 2005-2008, Two International Finance Center, 8 Finance Street, Central, Hong Kong  
Tel: +852-2524-7011  
Fax: +852-2537-3989

### KDB Ireland DAC

Ground Floor, Russell House, Stokes 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-Zsilinsky 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 Andar Conj. 152, Ed. FARIA LIMA FINANCIAL CENTER, Itaim Bibi, Sao 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

### PT KDB Tifa Finance Tbk

Equity Tower 39th Fl, Jl. Jend. Sudirman Kav 52-53, Jakarta Selatan 12190, Indonesia  
Tel: +62-21-5011-2077  
Fax: +62-21-5011-2177

### KDB Silicon Valley LLC

888 Villa St, 5th Floor, Mountain View, CA  
Tel: +1-650-537-4743



**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)