Short-Form Audit Report

KEB Hana Bank (D) Aktiengesellschaft, Frankfurt am Main (formerly Korea Exchange Bank (Deutschland) AG)

Frankfurt am Main

Annual Financial Statements as of December 31, 2015, Management Report for Financial Year 2015 and Auditors' Report

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KEB Hana Bank (D) AG

Frankfurt am Main

Annual Financial Statements of December 31, 2015

Management Report 2015

1. Description of the business model and the microeconomic and industry-specific framework conditions

1.1 Organizational structure of the company

As in the previous year, the bank is one of the smallest banks in Germany with a total of 27 employees (including the Management Board). The governing bodies of the bank comprise the annual general meeting, a three-member Supervisory Board, and the Management Board (Board Chairman and member). There are no further committees in these boards. The Bank was established as a stock corporation in December 1992 and since then has been owned 100% by the Korea Exchange Bank located in Seoul. The latter was renamed KEB Hana Bank in the reporting year. This was followed by Korea Exchange Bank (Deutschland) AG being entered in the Commercial Register of the Frankfurt am Main District Court on October 19, 2015. This entity has since been renamed KEB Hana Bank (D) AG. The KEB Hana Bank Seoul, Korea, is also a non-listed company and since 2013 has been owned 100% by Hana Financial Group Inc., Seoul, Korea, which itself is listed on the Seoul stock exchange.

1.2 Locations of the Bank

As in the previous year, the Bank does not maintain locations or branches apart from its headquarters in Frankfurt am Main. Only within the scope of our cross-border service transactions did the Bank establish an office in Ostrava, Czech Republic in October 2008 to serve existing customers in the Czech Republic. Since then, this office has been maintained unchanged and is currently staffed with two people.

1.3 Products and services

The Bank is authorised to perform all banking transactions in the sense of the German Banking Act (KWG). The Bank is particularly active in the area of import and export financing and supporting Korean subsidiaries, especially in Central and Eastern Europe. There were no changes in this regard compared to the previous year.

1.4 Business processes

The Bank's business processes are described in the detailed organisation manuals. Considering the size of the institution, the Management Board is already directly involved in the early initial stages of large exposures. The Management Board is informed of all changes in the Bank which are relevant to risk and significantly and personally involved in the decision-making processes.

1.5 Sales markets

As in the previous years, the Bank concentrates on services for the subsidiaries of Korean companies in Germany and within Central and Eastern Europe.

1.6 External influential factors

Due to its focus on the support of Korean subsidiaries and its close involvement in the Hana Financial Group and KEB Hana Bank, both located in Seoul, Korea, the political and especially economic development in Korea is crucial for the bank's economic success. This influential factor is moderated by the tendency of Korean industrial customers to relocate its production and sales activities from Korea to other countries, in particular Germany, Central Europe, and Eastern Europe.

1.7 Changes to the business models

The Bank's business model was maintained unchanged as in the previous year.

1.8 Macroeconomic and industry-specific conditions

1.8.1. Economy in Germany

Solid economic growth

Germany's economic upswing continued in 2015. Despite weak growth in the emerging markets and the renewed escalation of the Greek debt crisis during the summer months, domestic macroeconomic development trends remained positive. According to initial estimates by the German Federal Statistical Office, the gross domestic product adjusted for price was 1.7 % higher than in the previous year. Thus, growth was marginally stronger than in 2014 (1.6 %) and noticeably stronger than in 2012 and 2013 (+0.4 % and +0.3 %, respectively). Economic growth was comparatively steady over the course of the year. Compared to previous years, the quarterly rates of change for the gross domestic product after price, calender, and seasonal adjustments only showed slight fluctuation. Consumption was again the most significant driver of macroeconomic growth. In contrast, capital investments and foreign trade played a less important role in gross domestic product growth.

Economic growth in Germany adjusted for price

	Change compared to previous year (%)		Growth in percentage points	
	2014	2015	2014	2015
Consumption	1.1	2.1	0.9	1.6
Private consumer spending	0.9	1.9	0.5	1.0
Public consumption	1.7	2.8	0.3	0.5
Gross capital investments	3.5	1.7	0.7	0.3
Investment for plants and machinery	4.5	3.6	0.3	0.2
Construction investments	2.9	0.2	0.3	0.0
Other investments	3.1	2.7	0.1	0.1
Changes in inventory	-0.3	-0.4	-0.3	-0.4
Domestic use	1.3	1.6	1.2	1.5
Exports	4.0	5.4	1.8	2.5
Imports	3.7	5.7	-1.5	-2.2
Net export	0.4	0.2	0.4	0.2
Gross Domestic Product (GDP)	1.6	1.7	1.6	1.7

Source: German Federal Statistical Office, as of: January 14, 2016 Growth: Possible differences in the sums are a result of rounding off the numbers.

Sharp rise in consumption

Within the previous course of the economic upswing, private consumer spending increased more dynamically than in earlier cycles. It expanded by 1.9 % in 2015, which is stronger growth than has been seen since 2000. In addition to employment and standard wage trends which have already been increasing for a while, this was mostly due to extraordinary factors such as the enactment of the general statutory minimum wage of € 8.50 per working hour and purchasing power gains thanks to low oil prices. In addition, the intense immigration of refugees to Germany boosted demand. Public consumption (+ 2.8 %) rose even more sharply than private consumption. In this context, the personnel and material costs associated with caring for, sheltering, and integrating refugees led to additional expenditures.

Restrained investment activity

In light of the persistent high level of uncertainty regarding future economic development and economic policy, in particular in Greece and in the euro area as a whole, the increase in investment for plants and machinery in 2015 (+ 3.6 %) was again lower than the growth rates of the former upturns. Construction investment (+ 0.2 %) showed only moderate expansion with varied development within the individual construction sectors. While residential construction investment (+ 1.5 %) reported further gains stimulated by low mortgage interest rates and a lack of investment alternatives, activity fell for non-residential construction (- 1.9 %). Because there was also a decline in inventories from a macroeconomic vantage point, the growth contribution of investments was slightly negative overall.

Virtually no stimuli from foreign trade

Notwithstanding weaker development in the emerging markets, exports of the German economy expanded noticeably (+ 5.4 %). The decreased euro exchange rate most likely played a role here by rather improving the price competitiveness of domestic export goods on foreign markets. However, imports (+ 5.7 %) to Germany also rose markedly because of high domestic demand. Therefore, foreign trade as a whole only contributed 0.2 percentage points to macroeconomic growth.

Further national budget surplus

In regards to public finances, the situation continued to relax. Buoyant revenue in the course of persistent higher levels of employment, gross earnings which have increased sharply in many cases, and favourable consumption activity was offset by clearly expanding expenses. Moreover, non-recurring revenue from auctioning off mobile communications licenses had a relieving effect. However, additional unplanned expenditures also became necessary due to refugee migration. Overall, the public sector was able to close of the year with a surplus for the second year in a row. Net lending/net borrowing in relation to the gross domestic product rose from 0.3 % in 2014 to 0.5 % in 2015. In contrast, the debt ratio declined year-on-year from 74.9 % to 71.4 %.

Persistent higher levels of employment

The underlying mood on the German labour market was again positive in 2015. However, employment growth slowed somewhat in the year under review in light of the enactment of the general statutory minimum wage and the implementation of full pension entitlements at 63 years of age for a certain group of people. In 2015, the labour force with German workplaces increased on annual average by 329,000 to 43.0 million after increasing by 375,000 in 2014. On another positive note, unemployment continued to fall. The number of people registered as unemployed with the Federal Employment Agency fell by 104,000 year-on-year to around 2.8 million people, which corresponds to an unemployment rate of 6.4 %. The immigration of refugees has not yet impacted the unemployment rate.

Slight price increases

The inflation rate in Germany dropped by 0.9 % in 2014 to a low 0.3 % in 2015. The decisive factor in this context were falling crude oil prices which had stabilised temporarily in the spring months before continuing to slide again towards the end of the year. Energy prices dropped by a marked 7 % on annual average and itself decreased the inflation rate by 0.7 % However, consumers were confronted with slightly higher prices for food (+ 0.8 %) and services (+ 1.2 %) than in the previous year. Net rent (excluding utilities) (+ 1.2 %) was the primary driving factor in the increase in service prices. Moreover, the enactment of the general statutory minimum wage had a price-increasing effect, which was reflected for example in a disproportionate rise in prices for taxi rides (+ 12.1 %).

1.8.2. Financial markets

Central banks played a significant role on financial markets in 2015.

The major central banks set the pace on financial markets in 2015. In addition to fluctuating economic and inflation expectations, particularly the central banks in North America, Western Europe, and Eastern Asia provided decisive impetus for the international financial markets. In this context, there was a focus on easing monetary policy in the European monetary area and China, as well as the interest rate turnaround in the USA, which is diametrically opposed to these monetary policy decisions. After the dispute between Greece and the euro group regarding the Greek reform program and billions in financial aid caused turbulence on the financial markets during the first months of the year, the problems concerning Greece's being highly indebted had a diminishing echo on the markets during the further course of the year. This was a result of the noticeably more moderate policies of the Greek government under the re-elected Prime Minister Alexis Tsipras. Furthermore, the agreement between Greece and the other euro countries concerning additional aid payments and a reform program reassured the markets. In contrast, speculations regarding economic issues in the emerging markets increased in the second half of the year. In particular, the focus of investors was turned to the economic slowdown in China. On the other hand, the armed conflicts in the Eastern Ukraine and Syria only caused temporary uncertainty on the markets.

Loosened ECB monetary policy

The European Central Bank (ECB) further loosened the already expansive monetary policy framework conditions for the euro area over the previous year. The Governing Council of the ECB passed a resolution to purchase assets at its first monetary policy assembly in January 2015. As part of this quantitative easing, starting in March 2015 the ECB began buying securities in that amount of € 60 billion each month on secondary markets, factoring in the previously adopted purchase programs. The program's objective is increasing inflation up to the intermediate-term objective of the ECB of less than but nearly 2 %. These securities relate to investment grade securities denominated in euro from euro area countries, issuers with mandates, and European institutions. Exceptions to this rule are countries in the euro area with credit ratings which are too low, provided they are participating in a recognised aid program. As a reaction to the persistently low inflation rates in the monetary area, during its last assembly of the year on December 3, the Governing Council of the ECB extended the period of the current securities purchase program from September 2016 to March 2017 Thus, the overall volume of the program rose from € 1.14 trillion initially to € 1.50 trillion. In the previous year, the ECB left the main refinancing rate and peak financing rate unchanged at 0.05 % and 0.3 %, respectively. However, at its monetary policy assembly on December 3, the Governing Council of the ECB cut the deposit rate, i.e. the interest for overnight deposits of the commercial banks at the ECB, by 10 basis points to - 0.3 %.

Interest rate turnaround initiated by the US Central Bank

The American Central Bank (Fed) initiated an interest policy turnaround in the previous year. However, the financial markets have to be patient until the end of the year. High-level Central Bank officials did provoke speculations on the markets regarding an earlier interest rate turnaround time and again. However, weaker economies in the emerging markets and persistently low inflation caused the Fed to delay raising the interest rate. The Federal Open Market Committee, which is responsible for monetary policy resolutions, did not resolve to enact the first interest rate increase since June 2006 until December, after already discontinuing the broad purchase of bonds in 2014. The committee raised the target range of the US base rate by 25 basis points to between 0.25 % and 0.50 %. Thus the de facto zero-percent interest rate policy of the Federal Reserve ended after seven years. In the course of the serious upheavals on the financial markets and a drastic economic slowdown, the US Central Bank lowered the base rate (the Federal Funds Rate) in December 2008 from 1.0 % to a target range between 0 % and 0.25 % The US Central Bank justified raising the Federal Funds Rate in December with the better economic situation in the USA and the much improved labour market situation in this context.

Federal bond yields remained low

In the previous year, the international bond markets were firmly in the grasp of the monetary policy. The yield levels of federal bonds remained low. In the first quarter, the quantitative easing of the ECB had a particularly negative impact on the yields of government bonds from the euro area. Moreover, the Greek debt issues squeezed the yields of federal bonds. In contrast, there was a strong increase in yields on the bond markets during the second period, especially for long terms. Speculations regarding an interest rate turnaround in the USA coming up in the summer and temporarily higher growth and inflation expectations drove these yields in the spring of 2015. The interest rate leadership of American government bonds was particularly meaningful during this phase. As a result, the yields of federal bonds with a ten-year residual term rose to around 1.0 % by June. However, this trend could not be maintained throughout the rest of the year. Demand for both federal bonds and government bonds from the rest of the euro area was much higher in the second half of the year. The primary reasons for this were falling economic and inflation expectations for the entire global economy, which led to a correction in the monetary policy expectations of investors. In light of this, the yields of federal bonds fell in the second half of the year. Over the course of the year, yields for ten-year federal bonds reported a slight gain of 9 basis points to 0.63 %. Traditionally, quantitative easing and cutting the deposit rate in the euro area effect shorter terms more. Therefore, the yields of federal bonds with two-year residual terms saw a decrease of 24 basis points in 2015 and were quoted strongly negative at 0.34 %.

Euro falls below $ 1.10

In 2015, the euro had to accept exchange rate losses against the US dollar for the second year in a row. The monetary policies on each side of the Atlantic have drifted apart, which was the primary deciding fact for the weak development of the euro against the US dollar. While the ECB is pursuing an even more expansive political course for the European monetary area, the Federal Reserve introduced a more restrictive interest rate policy for the American economy within the course of the year and followed it up with the interest rate turnaround in December 2015. The beginning of the quantitative easing in the euro area triggered the greatest losses for the euro. The euro had fallen to an exchange rate of $ 1.05 by mid-March. Later in the year, the dollar exchange rate reflected the ever-changing monetary policy expectations on each side of the Atlantic. In this context, the exchange rate of the euro to the US dollar fluctuated between $ 1.05 and $ 1.15. At the end of the year, the euro was traded for $ 1.09, which is 12 cents lower than at the end of the previous year.

Year-on-year DAX gain

The DAX wrapped up 2015 with a considerable annual gain. There was strong demand for stocks, in particular during the first quarter of the year. They especially profited from the renewed easing of the monetary policy in the euro area and swelling economic optimism for the euro area. By mid-April, the leading German index had climbed to a new all-time high of around 12,500 points, although it was not able to maintain this level throughout the rest of the year as economic expectations clouded over worldwide. In addition, speculations regarding an upcoming interest rate turnaround in the USA weighed heavily on exchange rates. The DAX lost almost all of its profits from the spring by the end of the third quarter. The German stock index DAX did not record higher values again till the final quarter of the year. In this context, demand for stocks was driven by the prospect of further monetary policy easing in the monetary area. There was not a distinct year-end rally in December 2015 in light of the interest rate turnaround in the USA and persistent worries about the Chinese economy. The DAX ended the year at 10,743 points, which was 9.6 % higher than at the end of the previous year.

2. Net assets, financial position, and income

Total assets rose sharply by € 94.9 million from € 532.7 million to € 627.6 million. This rise is a result of the increase in cash reserve and receivables from customers. The cash reserve is € 108.6 million, which is significantly higher than at the end of the previous year (€ 59.5 million). Receivables from customers also rose from € 133.3 million to € 151.5 million. Loans and advances to other banks were at the previous year's level at € 262.8 million (2014: € 266.4 million). The portfolio of fixed-interest securities increased from € 71.5 million to € 103.9 million. As in the previous years, all securities should be held until their final maturity. A nominal value of € 0.5 million is invested in a fixed-interest federal bond, like last year. In September 2015, the Bank invested an additional € 16.0 million in French government bonds and € 8.0 million in Dutch government bonds (each of these represents nominal values). This is caused by the regulatory requirements of the Liquidity Coverage Ratio. As in the previous year, all of the other securities held are floating rate notes (FRN), issued by a first-rate company with a Korean background. Investing in these securities serves as an alternative to participating in syndicated loans. Six of the seven FRN will mature in 2016. Our customers are predominately domestic and European subsidiaries of major Korean companies. This development is an expression of our ongoing cautious business policy.

The liabilities side indicates customer deposits of € 285.5 million, compared to € 268.9 million in the previous year. In particular, this affects the high level of liquid assets of our industrial clients. Bank deposits increased sharply from € 196.2 million to € 273.5 million.

On the balance sheet date, the issued capital totalled € 23.0 million, compared to € 20.5 million in the previous year. As in the previous year, the capital reserves totalled € 2.6 million. The number of issued shares has been 45,000 since January 1, 2015. After the resolution of the annual general meeting to transfer the net profit in full to retained earnings as in the previous years, the Bank's capital resources on the balance sheet will amount to € 64.7 million (previous year: € 62.7 million).

The net interest income fell slightly year-on-year from € 4.7 million to € 4.5 million. For the first time since the Bank was founded, the Bank paid negative interest arising from money market transactions (€ 0.1 million).

Compared to the previous year, the net commission income increased slightly from € 3.7 million to € 4.0 million, especially fuelled by income from its Group-wide function as a euro clearing house.

On the expenses side, other administrative expenses rose noticeably to € 2.4 million (previous year: € 1.7 million), and personnel expenses rose slightly to € 2.3 million (previous year: € 2.2 million). Expenses for the net provision of risks were T€ 22 in the reporting period, compared to T€ 219 in the previous year. General valuation allowances contributed T€ 55 (previous year: T€ 200), while reserves in accordance with Section 340f HGB made up T€ 3 (previous year: T€ 31). This was offset by reversals of T€ 36 (previous year: T€ 12) for provisions for sureties.

Due to the small size, the low level of complexity of the operations, and the manageable business volume, internal management using financial indicators, as is common in major companies, can only be presented to a limited degree in the Bank. A comparison with last year's figure and quantitative guidelines of the parent company is performed on a monthly, quarterly, and annual basis. The Bank's return on equity in relation to the previous year's issued equity capital was 10.2 % as of December 31, 2015 (previous year: 15.0 %).

The return on investment to be reported in accordance with Section 26a (1) KWG calculated as a quotient of the net income and total assets was 0.0035 on the balance sheet date (previous year: 0.0058).

A qualified representation of non-financial performance indicators is also not possible for a niche bank like the KEB Hana Bank (D) AG. Because of the limited number of customers, there is always direct contact between the customer and the level of performance.

All in all, we are satisfied with the economic development in the reporting year.

3. Comparison of the forecast reported in the previous period and the actual business development

In summary, in the management report for the 2014 financial year, the Management Board of the Bank already assumed that "due to the planned actions, positive development is guaranteed in the medium term, whereas corresponding investment and the ongoing high regulation and margin pressure will continue to burden earnings in the short term."
The predicted regulation and margin pressure was confirmed in the preceding financial year. The Bank's net income for the year fell by nearly one-third compared to the previous year and the forecast net income for the year. The Bank's business model, which has been in effect for many years, also ensured a stable commercial basis in 2015.

Explanation of the capital structure

Like at the beginning of 2015, the Bank's issued capital in the amount of € 23.0 million comprised 45,000 no-par registered shares. This guarantees a transparent equity structure for the Bank in the future in compliance with CRR regulations for so-called common equity.
As in the previous year, the basis for refinancing was customer deposits in the amount of € 321.2 million average (previous year: € 249.5 million), as well as liabilities to banks of an average of € 189.4 million (previous year: € 168.2 million), whereas an average of € 58.1 million (previous year: € 123.0 million) represented liabilities to the Bank's parent company.

The Bank's off-balance-sheet liabilities T€ 11.1 (previous year: T€ 16.2 million) did not change significantly year-on-year in terms of structure, volume, and risk content after the deduction of the compensating balance and after provisions for recourse claims. Thus they do not have a relevant impact on the Bank's risk situation.

4. Breakdown of operating income according to products, regions, and currencies

The interest income held steady year-on-year at € 5.9 million despite higher loan expenses. This was caused by sustained margin pressure and negative interest from deposits at the Deutsche Bundesbank.
With regard to regions, Asia contributed the major portion of interest income with 53 %, compared to 62 % in the previous year. The European share fell to 19 % from 21 % in 2014, and in particular the share for Germany increased to 14 % compared to 6 % in the previous year.
The commission income overall rose slightly year-on-year from € 5.7 million to € 6.1 million. As in the previous year, the largest items in this context were payments and documentary collections (previous year's figures are stated in parentheses) with € 3.3 million (€ 3.0 million), this time followed by non-recourse sales of € 1.0 million (€ 1.0 million), currency transactions of € 1.0 million (€ 0.8 million), and the letter of credit business with € 0.5 million (€ 0.6 million). As in 2014, minor items include flat-rate adjustment for costs of € 0.2 million (€ 0.2 million) and guarantees of a total of € 0.2 million (€ 0.2 million).
As in the previous year, with regard to region Germany contributed the largest share of commission income at 74 % compared to 73 % in the previous year, followed by 16 % in Europe (previous year: 17 %) and 9 % in Asia (also 9 % in the previous year).

Income accrued in the foreign currency are immediately converted to EUR.

5. Liquidity, unutilised irrevocable credit lines

The Bank had adequate solvency to meet payments at all times. There was compliance with the liquidity regulations of the Federal Financial Supervisory Authority at all times.

IT systems which are used to prepare forecast calculations are available for ongoing liquidity monitoring. The department calculates the liquidity status daily and notifies the Management Board as part of risk reporting. This takes into account all possible cash and payment obligations which were contractually agreed. For cash and payment obligations with an indefinite term, certain assumptions are created and considered during liquidity management. Liquidity management is fundamentally performed for each currency.

The prepared overviews of short-term, medium-term, and long-term liquidity in the form of funding matrices ease the monitoring and control of liquidity. Liquidity management based on a 10-day overview is always performed to ensure the liquidity ratio can be complied with daily in accordance with the liquidity regulation. As in the previous year, the liquidity ratio was complied with daily in 2015. The observation ratios pursuant to the liquidity regulation are determined daily and also used for liquidity control. The liquidity ratio was 1.39 on the balance sheet date (previous year: 1.22).

As of December 31, 2015 there was not an unutilised irrevocable credit line, as had been the case on the same reference date of the previous year.

6. Analysis of the relationships to related parties

In the reporting period there was a loan to a Board member in the amount of T€ 10, as well as loans or commitments to the Hana Bank Group, Seoul and KEB Hana Bank, Seoul. These intrabank loans were within the permissible range pursuant to GroMiKV. The terms of the loans were always in line with market conditions.

Overall the Bank's net assets, financial position, and income continued to be proper.

7. Forecast, opportunities, and risk report

This report is based on the following assumptions:

- The economic development of the Republic of Korea will at least remain stable.
- The political conditions on the Korean peninsula and with regard to the People's Republic of Korea will remain orderly.
- Stable to positive developments for the economic conditions in the euro zone.

The Bank does not plan to revert to qualitative and quantitative performance indicators. Provided the expected stabilizing interest rate margins and a moderately increasing granting of credit, we anticipate earnings performance to be at least stable. Therefore, slightly higher earnings before taxes of approximately 4 % are expected due to expenses which are increasing further due to the strong regulation pressure. The Bank selected the current financial year 2016 as the forecast period.

Due to continually tight interest margins, the unchanged high equity share, and the tough competition in the commission area, it is assumed that only very slight increases in the operating result can be expected among regular customers. To combat this, the Bank will continue to attempt to establish new business relationships with Korean companies, especially in the eastern countries of the EU. The Bank considers this option to expand the customer base to be realistic because founding Korean subsidiaries in Eastern Europe remains possible. An environment is being offered there which makes this relocation interesting from an economic point of view and allows companies to react to changes in the European market faster.

In this context, the Bank also expects further expansion in the forward exchange transaction business because experience has shown that customers in Eastern Europe demand other currencies in addition to EUR and USD. There is an opportunity in this context to make interesting contributions to income from margins and commissions in the medium term. In addition, there are further possibilities for returns due to brokering banking transactions in this geographic area directly to the parent company or other units within the Hana Financial Group.

We continue to anticipate that the Group name change which was implemented worldwide in 2015 to reflect the complete transfer of shares from the former Korea Exchange Bank, now KEB Hana Bank Seoul, to the Hana Financial Group will result in positive effects for the Bank's development.

In summary, the Bank assumes that positive development is guaranteed in the medium term by the actions initiated in the reporting period, whereas ongoing high regulation and margin pressure will continue to burden earnings.

Risk-relevant framework conditions

The objective of the Bank's business strategy is generating earnings by consciously assuming risks in a controlled manner, while limiting and avoiding potential losses.

In order to limit unavoidable risks specific to banking, the Bank records, manages, and limits these risks. To this end, the Management Board implemented special risk limitation processes that are based on the Bank's risk strategy and comply with legal and supervisory requirements. The risk strategy is designed to ensure on the one hand it satisfies the supervisory requirements and on the other hand that the risks which may arise through the business strategy are limited.

The full Management Board carries responsibility for defining the risk strategy and for properly organising and monitoring business transactions with a view to risk.

The Bank's overall risk exposure is contained by the Management Board determining the acceptable level of risk and imposing limits for risk categories (counterparty risks, market risks, and liquidity risks, among other risks). Compliance with these limits is reviewed regularly. In addition, stress scenarios are defined by the management, and their results are in turn compared to the overall acceptable level of risk.

The risks are quantified when calculating the risk exposure. The opportunities are not quantified because the Bank's internal management is based on significant risks only, rather than opportunities determined to be significant.

In the case of new products or new markets, a checklist is used to review which statutory regulations must be observed and in particular which risks could arise in this context.

There is a risk management committee in the Bank in which all risk-relevant business segments and the Management Board are represented. It analyses the current risk situation each quarter on a rotating schedule and evaluates all the risk reports which are prepared. If necessary, meetings are called at short notice. The committee's meeting minutes are submitted to the Supervisory Board shortly thereafter for their information and explained in a meeting.

Besides the local risk monitoring system which is used, the Bank's parent company uses control systems which limit and monitor risks at a group level.

No own risk models were used in the determination of equity requirements pursuant to CRR.

Risk management system

All risks which may arise at the Bank have been recorded in an inventory, been determined to be complete by the risk management committee , and included in a risk manual.

The Bank uses a comprehensive risk control and management system which includes risk recording, risk measurement, risk analysis, risk assessment, and on going risk monitoring, and which is continuously being developed further. This system is the basis for risk management. All these processes are designed in such a way that all supervisory regulations, especially the Minimum Requirements for Risk Management (MaRisk), can be met.

The responsibilities are laid out in job descriptions.

Through appropriate reports and analyses, the Management Board, the Supervisory Board, and the parent company of the Bank are informed continually, at times on a daily basis, of the Bank's risk situation.

A multi-year written testing plan of the internal audit department encompasses all divisions. It includes all operational and business divisions, taking the volume of business activities and risk content into account. Along with the business processes, it examines the effectiveness and appropriateness of risk recording, risk measurement, risk analysis, risk assessment, and risk monitoring. The testing cycle of each area is defined based on risk aspects and is fundamentally 3 years. Particularly risk-relevant fields are subject to an annual testing cycle. The audit plan is coordinated annually and approved by the Management Board.

Risk strategies

The risk strategy is divided into partial risk strategies, focussed on the business strategy, and is orientated on the requirements of the KEB Hana Bank Group. In addition, the objective of risk management is compliance with all future supervisory requirements (particularly equity requirements).

The framework conditions for the credit business are contained in the credit risk strategy.

The liquidity risk strategy focuses on permanently securing the Bank's solvency.

Measures for the separation of functions, the internal control system, and IT access are provided in the risk strategy for operating risks.

All working processes and business divisions were subject to risk inventory with the goal of determining significant risks. Taking the type, scope, and complexity of the operating activities into account, the Management Board has defined the following risks as significant:

- Counterparty risks (essentially credit risks and country risks)
- Liquidity risks
- Operating risks

- Market price risks (including interest rate risks)

In order to limit the risks, the Bank defined ceilings for the material – and some of the immaterial – risks as part of the risk exposure calculation.

The Bank consistently pursues a gross consideration of risk – i.e. prior to countermeasures, provisions which are set up, or payments which were already made.

Monitoring and controlling the concentration risks is performed Group-wide in coordination with the KEB Hana Bank, Seoul.

The partial risk strategies are reviewed at least once a year by the Management Board to ensure they are up-to-date and adapted if necessary. They are submitted to the responsible departmental heads and the Supervisory Board for their information.

Organization of the risk management

The members of the Management Board are jointly responsible for risk management.

The procedural regulations for risk management system are laid out in a dedicated organisational directive and supplementary work instructions.

Risk reporting is based on the quarterly risk report. Besides risk quantification, it includes comments on the current development of the individual risk types which are discussed in the risk management committee that meets quarterly. The risk report is addressed to the Bank's Supervisory Board, along with the Management Board and the risk management committee. In addition, the Management Board is informed regularly regarding various lists and evaluations concerning the Bank's current situation as part of regular reporting. The Management Board is notified immediately of unplanned and risk-relevant occurrences in the form of ad hoc messages from the respective department head.

Risk exposure calculation

The Bank's risk exposure calculation is based on success and the balance sheet. The Bank assumes the principle of going concern for the Company. The Bank determines the acceptable level of risk both for a normal scenario and a stress scenario at least quarterly or additionally as required.

In the normal scenario, the impact of the risks from usual business operation on the income are calculated. In contrast, the impact on crisis situations is simulated in a stress scenario on a gone concern basis.

In addition, the Bank established, analysed, and documented inverse stress test scenarios in the reporting period. In the Bank's opinion, the material stress scenario in terms of earnings would be a military strike against the Republic of Korea, which would severely impair the economic fundamentals of the country, etc.

The overall risk exposure is a result of comparing the acceptable level of risk and the calculated risk potential. Relieving diversification effects between the separate types of risk are not considered. The

Bank distinguishes between the risk-bearing capacity in the narrow sense and the risk-bearing capacity in the broader sense. The risk-bearing capacity in the narrow sense contains the adjusted average earnings of the last three years, however the target figure for the current year at the most, whereas the target figure is adjusted for current development throughout the year. For the risk-bearing capacity in the broader sense, the Bank considers both the equity and the already accrued earnings of the year, less the respective supervisory equity requirements pursuant to CRR. The risk potential is calculated quarterly as part of the overall risk exposure calculation (see above). The counterparty risks are calculated based on the respective ratings of the borrower, the collateral, and the corresponding probability of default.

The calculation of risk potential respecting individual risk types is based on the following calculation methods:

Risk Type	Risk measurement procedure
Market price risk	Interest rate risks: in the fall-back procedure
Counterparty default risk	Credit-Value-at-Risk based on the Gordy model with the parameters confidence level 95 %, one-year holding period, LGD, reserves
Operational risks	Standard approach
Liquidity risks	Stress tests within the scope of risk-bearing capacity

Ceilings have been set by the Bank for the significant risk categories (market price risks, classic lending business, country risk, liquidity, and operational risks). Insignificant risks are covered by a risk buffer.

For the risk scenario, the risk limit is distributed among the following risk categories.

Risk category	Reporting date		Previous year	
	Limit	Maximum risk scenario	Limit	Maximum risk scenario
	T€	T€	T€	T€
Market price risk	1,000	2,105	600	585
Counterparty risk	2,100	1,558	2,500	1,619
Operational risks	340	313	340	155
Liquidity risks	10	3	10	5
Insignificant risks	100	100	100	100
Total	3,550	4,078	3,550	2,463

Due to regulatory liquidity requirements, we increased the portfolio of bonds and notes significantly. The limits have been adjusted in the meantime. As of December 31, 2015 the total acceptable level of risk in a normal scenario was € 14.5 million with a total utilisation of 28 %.

The acceptable level of risk is ascertained on a quarterly basis and submitted to the risk management committee and subsequently to the Supervisory Board for their information.

Throughout the entire year, the calculated risks were within the acceptable level of risk overall, apart from the exception described above.

Counterparty default risks

The Bank considers counterparty risks to be the potential loss if a business partner (borrower, contracting parting, issuer, or other contractual partner) fails or the potential decline in the value of an original business or a business with derivatives which would result from the non-fulfilment of the corresponding business partners if the performance specified in the contract is not performed. The Bank lists credit risks and country risks among the counterparty risks.

The Bank's counterparty risks result primarily from the customer and bank loan business. Moreover, due to the business strategy and volume, counterparty and issuer default risks arise from money market and currency trading, which are less important to the Bank's overall risk exposure.

At customer level, the Bank's loan loss risk is limited by imposed ceilings. The basis for the limit is the relevant risk assessment by the front and back office. Each limit is approved by the Management Board and if above a certain amount, it is coordinated with the Bank's parent company in the context of Group-wide limit setting.

Counterparty risks are countered by the careful selection of business partners. Here, also, each limit is approved by the Management Board and if above a certain amount, it is coordinated with the Bank's parent company in the context of Group-wide limit setting.

In addition to a creditworthiness appraisal which is continuously monitored, adequate security measures are used to avoid counterparty risks. The creditworthiness appraisal is based on an internal evaluation system which classifies the counterparties into rating classes.

The ongoing monitoring of counterparty risks is the responsibility of the back office. The back office has software programs at its disposal which were specially designed for this purpose and provide comprehensive information for monitoring purposes. Moreover, this information and control system is designed to ensure that the limit fundamentally cannot be exceeded without authorisation, not even during the day.

If, during the monitoring process, something comes to the Bank's attention which points to increased risk, the loan is transferred to intensive care.

Appropriate valuation allowances are recognised if an acute counterparty risk is identified for a loan commitment and the realistic value of the collateral no longer covers the commitment.

Global valuation allowances and reserves under Section 340f HGB are recognised for general counterparty risks. In doing so, the loan loss probability is also taken into account.

Consistent implementation of the Minimum Requirements for Risk Management guarantees that the counterparty risks are permanently monitored.

The country risk is also countered by appropriate ceilings.

Risks arising from concentration on certain countries, industries, loan types, and certain borrower risk groups to which we are necessarily exposed because of our position within the Group structure are covered and controlled at Group level. The CRR figures for liquidity including the observation rations and the core capital ratios pursuant to CRR are used for control purposes pursuant to LiqV within the Bank on a daily basis. The Bank uses the location and industry of the parent company as a breakdown criterion for the counterparty risk.

In the absence of any defaults of our own, the default rate of the KEB Hana Bank, Seoul is drawn upon for the purpose of calculating the acceptable level of risk for the counter-party risks, since the Bank uses the same internal rating system for loan commitments as the KEB Hana Bank, Seoul and the majority of counterparty risks relate to the subsidiaries of Korean companies. In the stress scenarios we add a reasonable mark-up on the default rate taken by us.

Liquidity risks

The liquidity risk is the risk that the Bank cannot meet its current and future payment obligations fully or in a timely manner. The refinancing risk is a material liquidity risk for the Bank.

Liquidity management is performed across departments at the Bank.

IT systems which are used to prepare forecast calculations are available for ongoing liquidity monitoring. The department calculates the liquidity status daily and notifies the Management Board as part of risk reporting. This takes into account all possible cash and payment obligations which were contractually agreed. For cash and payment obligations with an indefinite term, certain assumptions are created and considered during liquidity management. Liquidity management is fundamentally performed for each currency.

The prepared overviews of short-term, medium-term, and long-term liquidity in the form of funding matrices ease the monitoring and control of liquidity. Liquidity management based on a 10-day overview is always performed to ensure the liquidity ratio can be complied with daily in accordance with the liquidity regulation. The liquidity ratio was complied with daily in 2015. The liquidity reserves in the assets are always maintained to secure the Bank against unexpected liquidity outflow or bottlenecks. The Bank does not enter into transaction on "tight" markets. For liquidity control, attention is paid to ensure that various market players are utilised for this purpose. Until further notice and as in previous years, the Bank internally determined a liquidity ratio of 1.13 as the alert threshold.

The overall risk exposure is calculated based on the deduction of a certain percentage of deposits which then must also be covered by a certain premium over the money market. Appropriate money market lines are available for this purpose. Higher percentages and higher premiums are assumed when calculating the stress scenarios.

Market risk positions

For us, market risk positions are potential losses due to unfavourable changes in interest rates and exchange rates.

In principle, the Bank does not enter into fixed interest agreements with a term of more than 6 months. Interest rate agreements over 180 days are only approved restrictively by the Management Board. Most interest rate agreements concluded mature in 3 months at the latest and are tied to the LIBOR interest rate.

In addition to always arranging the refinancing of assets on a back-to-back basis, IT systems are used to check the interest-bearing receivables and liabilities daily for changes in the interest rate risk. The Management Board is notified of existing interest rate risks daily and concluded an interest rate swap to minimise the interest rate risk.

Its imposition of tight ceilings on net foreign currency positions reduces currency risks to a minimum. In particular, currency swaps in the sense of the EMIR regulation are used for this purpose. The net currency positions are continuously monitored using IT systems. The Management Board is informed daily concerning the utilization of the limits. As of the balance sheet date, the net currency position was T€ 1,613 (2014: T€ 1,750) in accordance with CRR.

There are no commodity risk positions, net interest rate positions, trading book risk positions, or other market risk positions.

To calculate the overall risk exposure, a certain change in the exchange rates is used for foreign currency risk, with an assumed change in the interest rate for foreign currency risk by means of a fixed-interest rate balance sheet. For the stress scenarios, a significant increase in the exchange rates and interest rates is assumed. As of the balance sheet date, the interest rate risk in the fall-back procedure was € 4.2 million (previous year: € 1.3 million). The considerable increase is based in particular on the (regulation-driven) purchase of fixed-interest government bonds denominated in EUR from France and the Netherlands.

Provisions did not have to be created for impending losses resulting from transactions which were already contracted and pending as of the balance sheet date.

Operating risks (including business and legal risks)

For the Bank, operating risks are potential losses resulting from the inadequacy or failure of internal procedures, human beings, and systems, as well as from external events. This mainly includes transaction risks, control risks, control risks, system risks, method-based risks, business risks, legal risks, as well as risks arising from the loss of reputation.

In order to limit the operating risks, an extensive body of written rules was prepared, and extensive control systems were implemented at various levels. The control risk is, among others, mitigated by the dual control principle for certain transactions, the IT-supported monitoring of compliance with all prescribed limits, as well as by access restrictions to the Bank's IT systems.

The Bank also counters operating risks by outsourcing the activities of certain division to qualified external service providers.

Other general risks are covered with back-up systems, contingency plans, disaster plans, and insurance contracts which provide coverage which is normal for banks.

The Bank also addresses the issue of possible operating risks and defines necessary measures in the risk analysis which is prepared annually. Within the scope of preparing the risk assessment, the effectiveness of existing measures is also reviewed.

A database is available for recording all cases of damage at the Group level of the KEB Hana Bank, Seoul. Measures based on the collected cases of damage are then implemented Group-wide.

In respect to legal risks, the Bank distinguishes between

- Consultancy risks
- Risks arising from loan agreements and agreements for providing collateral
- Risks through the application of foreign law and foreign or international provisions
- Regulatory risks

The Bank counters consultancy risks through the specialised training of the responsible staff.

To avoid legal risks in respect to contracts, the Bank mainly uses standardised contracts whose legal enforceability has been reviewed. Most loan agreements are individual contracts with individual passages or text modules whose legal enforceability has also been reviewed, using external lawyers where appropriate, in particular where foreign law applies.

The regulatory risks are countered by comprehensive organisational guidelines.

There are currently no litigation risks.

Other risks
There are no other material risks.

Summary

As regards the limitation of risks, the Management Board has taken the organisational measures required for risk management and risk monitoring. In particular, this includes a risk manual, the implementation of the Minimum Requirements for Risk Management (MaRisk), a risk management committee, and special regulations for risk classification and early risk detection.

The risk is covered by the available equity. The provision for risk was taken into account on the balance sheet. The total capital ratio pursuant to CRR was 19.37 % on the balance sheet date (previous year: 18.56%). A total of € 62.8 million equity was available to comply with the total capital ratio. We anticipate a slight reduction in the total capital ratio in 2016 because we are planning to expand the lending volume.

Bank supervisory regulations for risk limiting were adhered to both in terms of quantity and quality and supplemented with additional customised requirements.

According to current evaluations, there are no risks which represent a impairment to the Bank's operating activities. In the Bank's assessment, there were no material changes to the risk compared to the previous year. We expect earnings which are 4 % higher than in the previous year.

8. Recommendation for using the earnings

Transferring the net profit of T€ 1,095 to other retained earnings is recommended to the annual general meeting.

9. Our employees

At the end of 2015, the Bank had 27 employees, including the Management. As in the previous years, we promoted the continuing education of our employees by means of internal and external training measures, the latter of which were held particularly as part of our membership in the Association of Foreign Banks.
We wish to express our gratitude and appreciation to all employees for their dedication to serving the interests of our customers and the Bank.

10. Supplementary Report:

Noteworthy significant events have not occurred in our Bank since the 2015 financial year ended.

11. Relations with affiliated companies

In accordance with Section 312 AktG [Aktiengesetz - German Stock Corporation Act], the Bank has compiled a report on our relations with affiliated companies as of December 31, 2015 in which the Bank discloses all its legal transactions with affiliated companies and actions taken or omitted at the behest of or in the interest of affiliated companies.
The Management Board's report on the relations with affiliated companies in accordance with Section 312 AktG concludes with the following statement:

> For the legal transactions disclosed in the report on the relations with affiliated companies of which the Company was aware at the time the transactions

occurred, the Company received adequate consideration for each transaction. No actions were taken or omitted in the reporting period.

Frankfurt am Main, April 14, 2016

KEB HANA BANK (D) AG

The Management Board

Hyuk-Jun Kim

Reinhard Heilmaier

Annual Financial Statements for the Financial Year from January 1 through December 31, 2015

Annual Balance Sheet as of 31. Dezember 2015 of the KEB Hana Bank (D) Aktiengesellschaft, Frankfurt am Main — **Appendix II**

Assets

			EUR	EUR	EUR	EUR	Previous year T€
1.		**Cash reserve**					
	a)	Cash on hand			51.901,44		26
	b)	Balances with central banks			108.572.832,79		59.514
		of which: with Deutsche Bundesbank	108.572.832,79				0
	c)	Post girobank balances			0,00	108.624.734,23	0
2.		**Receivables from other banks**					
	a)	Payable on demand			10.070.928,75		37.688
	b)	Other liabilities			252.683.033,13	262.753.961,88	228.680
3.		**Receivables from customers**				151.521.043,05	133.294
4.		**Certified liabilities**					
		Fixed interest securities					
	a)	Money market securities					
		aa) Public sector issuers		0,00			0
		of which: Eligible as collateral for Deutsche Bundesbank advances	0,00				0
		ab) Other issuers		0,00	0,00		0
		of which: Eligible as collateral for Deutsche Bundesbank advances	0,00				0
	b)	Bonds and notes					
		ba) Public sector issuers		28.756.773,66			526
		of which: Eligible as collateral for Deutsche Bundesbank advances	28.756.773,66				
		bb) Other issuers		75.127.702,54	103.884.476,20		71.546
		of which: Eligible as collateral for Deutsche Bundesbank advances	0,00				0
	c)	Own bonds and notes			0,00	103.884.476,20	0
		Nominal amount					0
5.		**Intangible assets**					
	a)	Self-created industrial property and similar rights and assets					0
	b)	Concessions acquired for a consideration, industrial property and similar rights and assets and licenses in such rights and assets				5.471,56	6
6.		**Tangible assets**				148.919,78	206
7.		**Other assets**				661.839,13	1.246
		Total assets				627.600.445,83	532.732

Liabilities

			EUR	EUR	EUR	Previous year T€
1.		**Bank loans**				
	a)	Payable on demand		33.640.258,45		97.142
	b)	With agreed maturities or periods of notice		239.905.363,51	273.545.621,96	99.065
2.		**Liabilities to customers**				
	a)	Savings deposits				
		aa) with an agreed period of notice of three months	0			0
		ab) with an agreed period of notice from more than three months	0	0		0
	b)	Other liabilities				
		ba) Payable on demand	264.257.904,32			198.001
		bb) With agreed maturities or period of notice period of notice	21.228.166,06	285.486.070,38	285.486.070,38	70.905
3.		**Other liabilities**			2.526.900,60	3.516
4.		**Prepaid expenses and deferred charges**			37.124,02	57
5.		**Provisions**				
	a)	Provisions for pensions and similar obligations		0,00		0
	b)	Tax provisions		1.107.731,58		1.221
	c)	Other provisions		154.543,05	1.262.274,63	167
						0
6.		**equity**				
	a)	Called capital				
		Subscribed capital	23.008.135,44	23.008.135,44		20.452
		less uncalled outstanding capital	0			0
	b)	Capital reserve		2.556.459,41		2.556
	c)	Contributions of silent shareholders		0,00		2.556
	d)	Retained earnings				
		da) Statutory reserve	0			0
		db) Reserve for shares in a controlling or majority-held company	0			0
		dc) Reserves under company statutes	0			0
		dd) Other retained earnings	38.136.016,82	38.136.016,82		35.564
	e)	Net retained profits/losses		1.041.842,57	64.742.454,24	1.530
		(of which profit carried forward € 0.00)				0
		Total liabilities			627.600.445,83	532.732

	EUR	EUR	EUR
Contingent liabilities			
Liabilities from guarantees	11.071.363,24	11.071.363,24	16.233
Other liabilities			
Irrevocable loan commitments	0,00	0,00	0

Income Statement of the KEB Hana Bank (D) Aktiengesellschaft, Frankfurt am Main
For the Period from January 1 through December 31, 2015

	EUR	EUR	EUR	Previous year T€
1. Interest income from				
a) Credit and money market transactions	4.548.545,17			5.006
less Negative interest from credit and money market transactions	-128.284,26			
b) Fixed-income and book entry securities	1.459.322,38	5.879.583,29		898
2. Interest expenses		-1.339.947,80	4.539.635,49	-1.174
3. Commission income		6.062.394,33		5.746
4. Commission expenses		-2.080.552,53	3.981.841,80	-2.001
5. General administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	-2.047.516,59			-1.945
bb) Social security contributions, pension, and other benefits	-266.311,23	-2.313.827,82		-259
of which: for pensions € 41,490.69 (2014: T€ 40).				
b) Other administrative expenses		-2.417.942,54	-4.731.770,36	-1.721
6. Amortization and depreciation of fixed intangible and tangible assets			-60.102,54	-51
7. Other Operating Income			393,90	304
8. Write-downs of and allowances on loans and advances and certain securities and additions to provisions for credit risks		-21.554,18		-219
9. Income from write-ups of and allowances on receivables and certain securities, as well as the reversal of provisions for credit risks		0,00	-21.554,18	0
10. Write-downs of and allowances on other long-term equity investments, shares in affiliated companies, and securities treated as fixed assets		0,00		-13
11. Other Operating Expenses			-358.519,68	-32
12. Income from write-ups of and allowances on other long-term equity investments, shares in affiliated companies and securities treated as fixed assets		0,00	0,00	0
13. Profit on ordinary activities			3.349.924,43	4.539
14. Taxes on Income and Earnings			-1.266.239,30	-1.304
15. Profits transferred under profit pooling, profit transfer agreements, or partial profit transfer agreements			0,00	-175
16. Net income/loss for the year			2.083.685,13	3.060
17. Additions to retained earnings				
a) to the statutory reserve		0		0
b) to the reserve for shares in a controlling or majority-held company		0		0
c) to reserves under company statutes		0		0
d) to other revenue reserves		1.041.842,56	1.041.842,56	1.530
18. Net retained profits/losses			1.041.842,57	1.530

Notes

to the 2015 Financial Statements

of

KEB Hana Bank (D) AG

1. General Information

The KEB Hana Bank (D) AG (named KOREA EXCHANGE BANK (DEUTSCHLAND) until October 19, 2015), hereinafter also referred to as "the Bank" or "the Company", was founded by an agreement dated July 29, 1992 and took up its operations on December 22, 1992. The Company was entered in the Commercial Register of the Frankfurt am Main District Court under registration no. HR B 36083 and has its registered office in Frankfurt am Main.

The Bank is a non-listed company and a wholly-owned subsidiary of the KEB Hana Bank, Seoul, Korea. The latter is also a non-listed company and since 2013 has been owned 100% by Hana Financial Group Inc., Seoul, Korea, which itself is listed on the Seoul stock exchange.

2. Notes to the Annual Financial Statements

The balance sheet and the income statement of Korea Exchange Bank (Deutschland) AG have been prepared in accordance with the provisions of the German Commercial Code (HGB) and the Ordinance Regulating the Accounting of Credit Institutions and Financial Services Institutions.

Due to an incorrect allocation, the previous year's figures for interest earnings and other operating expenses, as well as for interest expenses and commission expenses were adjusted.

Accounting and Valuation Principles

The cash reserve is reported at nominal value.

Loans and advances to other banks and customers are reported at nominal value plus accrued interest, net of allowances.

General and individual valuation allowances and reserves pursuant to Section 340f HGB are set up to cover deferred and acute credit risks.

In compliance with a resolution passed by the Management Board, bonds and notes are allocated to fixed assets and written off regularly to the nominal value. Valuation is in accordance with the mitigated lower of cost or market principle.

Tangible and intangible fixed assets are reported at acquisition cost less scheduled straight-line amortisation or depreciation in compliance with tax regulations. Assets which are classified as low-value goods in terms of tax law are written off in the year of purchase.

Liabilities are recognised at their settlement amount plus accrued interest.

Other assets are recognised at their acquisition costs or at their fair value taking the strict lower of cost or market principle into account.

The issued capital is recognised at its nominal value.

Adequate provisions were created for contingent liabilities whose grounds were certain at the balance sheet date but amounts were not, as well as for deferred risks of default due to contingent assets.

Amounts in foreign currencies are translated pursuant to Section 340h HGB in combination with Section 256a HGB Balance sheet items in foreign currencies are translated at the ECB reference rates prevailing at the balance sheet date.

Foreign currency transactions are translated at the exchange rates on the date of the transaction.

The deferred income item only comprises interest and fees which were generated for future accounting periods.

Expenses and income are accrued in the appropriate period.

It was not necessary to create a provision in the banking book for contingent losses due to transactions with interest rate-related financial instruments.

1. The process for the loss-free valuation of the banking book is broken down as follows:
    - The subject of the valuation is the banking book, which comprises all balance sheet and off-balance sheet interest-related financial instruments beyond those held for training (including securities). The interest-related financial instruments of the banking book are differentiated based on the Bank's interest book.
    - We use an income statement-orientated approach to determine whether it was necessary to create a provision for contingent losses in compliance with Section 340a in connection with Section 249 (1) Clause 1 Alt. 2 HGB.

2. In this context, we took the following decisions regarding the individual questions laid out in IDW BFA 3.
    - Consideration of risk costs: No risk costs had to be considered because a sufficient general valuation allowance had already been established.
    - Consideration of administrative expenses: The administrative expenses are applied using a flat-rate approach. This relates to the share of the interest income in relation to total income.
    - Consideration of the refinancing effect of the equity: The equity is not taken into account for the calculation.
    - Discounting of the cash flows was forgone because the residual terms categorically do not exceed twelve months.

There has been no change in the accounting and valuation methods in comparison with the prior year.

Notes to the Balance Sheet

The item "Loans and advances to other banks" (assets item no. 3) includes non-certificated receivables from affiliated companies in the amount of T€ 54,601 (previous year: T€ 56,591), and the item "Liabilities to other banks" (liabilities item no. 1) includes non-certificated liabilities to affiliated companies in the amount of T€ 127,944 (previous year: T€ 177,613).

Breakdown of Balance Sheet Items According to Residual Terms as of Dec. 31, 2015

Receivables from other banks

	12/31/2015	12/31/2014
	T€	T€
Up to 3 months (incl. payable on demand	110,064	138,818
More than three months, up to one year	151,141	127,408
More than one year, up to five years	-	-
More than five years	-	-
Accrued interest	1,550	151
General valuation allowances	-1	-9
	========	=======
	262,754	266,368

Receivables from customers

	12/31/2015	12/31/ 2014
	T€	T€
Payable on demand	25,257	12,501
up to 3 months	48,492	58,607
More than three months, up to one year	55,932	25,677
More than one year, up to five years	22,925	35,850
More than five years	-	1,631
Individual valuation allowances	-237	-237
General valuation allowances	-1,134	-1,079
Section 340f HGB	-176	-173
Accrued interest	462	517
Total	151,521	133,294

Liabilities to other banks with agreed maturities or periods of notices

	12/31/2015	12/31/2014
	T€	T€
up to 3 months	221,393	82,263
More than three months, up to one year	18,360	16,780
Accrued interest	152	22
	======	======
Total	239,905	99,065

Other liabilities to customers with agreed maturities or periods of notices

	12/31/2015	12/31/2014
	T€	T€
Up to 3 months	16,428	16,272
More than three months, up to one year	4,780	54,567
More than one year	5	0
Accrued interest	15	66
	=====	=====
Total	21,228	70,905

The total of all assets and liabilities denominated in foreign currencies and all contingent liabilities is structured as follows:

	12/31/2015	12/31/2014
	T€	T€
Total assets	331,698	336,791
Total liabilities	310,918	133,282
Total contingent liabilities	34	45

As of the balance sheet date, there was 1 unsettled forward exchange transaction. This relates to a closed position with maturity as of January 14, 2016 in the amount of T€ 10,751 (previous year: T€ 170,614) which covers a customer order and only contains a settlement amount. In addition, there was one interest rate swap transaction totalling T$ 15,000 as a derivative position.

The net market value of the derivatives as of the balance sheet date with regard to the forward exchange transaction and interest rate swap transaction was T€ 675.

Neither the forward transaction nor the interest rate swap transaction relates to a trading transaction.

The federal bond in the Company's portfolio is listed. The portfolio also included other listed and marketable bonds and notes in the form of French and Dutch government bonds. The other securities in the portfolio are non-listed and non-marketable floating rate notes denominated in USD.

Six corporate bonds in the amount of T€ 61,322 will mature in 2016.

Fixed assets

(stated in T€)

	Acquisition costs	Additions	Exchange rate change	Disposals	Amortisation and depreciation		Residual carrying amount	Residual carrying amount
					Cumulated	Financial Year	12/31/ 2015	12/31/ 2014
Intangible assets (software)	6	0	0	0	1	1	5	6
Office and operating equipment	647	2	0	3	497	59	149	206
Securities of the fixed assets	72,091	28,265	7,860	4,112	220	201	103,884	72,072
Total	72,744	28,267	7,860	4,115	718	261	104,038	72,284

The other assets comprise corporate income tax credit for 1993-1999 of T€ 275 and income taxes for 2015 of T€ 344.

In addition to agency and finders fees to the parent company totalling T€ 1,730, other liabilities include unrealised losses totalling T€ 732 from pending forward exchange transactions, T€ 12 from an interest rate swap transaction, savings tax not paid of T€ 10, value-added tax of T€ 6, and rental expenses for the rent-free period of three months totalling T€ 37.

Contingent liabilities and other liabilities before deduction of compensating balance and before the deduction of provisions for recourse claims:

(stated in T€)

12/31/2015	12/31/2014	
-	45	from letters of credit for customers
7,320	12,303	from guarantees for customers
5,830	6,260	from guarantees for banks
=====	=====	
13,150	18,608	

There was a compensating balance for guarantees of T€ 2,052 as of the balance sheet date. There were general valuation allowances for recourse claims totally T€ 27. Moreover, security was rendered for overdraft facilities in the amount of T€ 114.

The contingent liabilities relate mainly to performance guarantees from import and export (on the instructions and for the account of foreign banks), seven performance guarantees, 14 payment guarantees, 1 litigation guarantee, and 2 customs guarantees for reputable companies. Minor contingent liabilities are also included.

According to our assessment, no significant utilization is expected.

Interest income can be broken down into geographical regions as follows:

2015	2014	
53	62	Asia
14	6	Germany
19	21	Europe
14	11	Other

Commission income can be broken down into geographical regions as follows:

2015	2014	
9	9	Asia
74	73	Germany
16	17	Europe
1	1	Other

The currency result in the amount of T€ 339.2 is reported under the other operating expenses.

The negative interest results from the credit in excess of the minimum reserve base held at the Deutsche Bundesbank.

We will recommend that the annual general meeting pass a resolution to transfer the 2015 net profit in full to other retained earnings as in the previous year.

Other financial commitments are as follows:

(stated in T€)

	2016	**2017**	**2018**	**2019**	**2020**
Rents	219	219	219	219	219
Service	75	33	33	30	23

3. Other Disclosures

The company had an average of 25 employees during the 2015 financial year (including the Management Board). Thereof 5 employees were on assignment from the parent company.

The auditors' fee for auditing the financial statements for the financial year under review totalled T€ 81 plus VAT in 2015 and was made up as follows: Audit services (T€ 67), tax consulting services (T€ 14).

A total of T€ 5 was paid to the auditor, PricewaterhouseCoopers AG, Frankfurt am Main, for other confirmation services in the 2015 financial year (particularly for auditing the calculation of the bank levy and EdBBeitrV).

Management Board

The Management Board has the following members:

Sang-Hwa Lee, (Chairman), banker (until January 31, 2016)

Hyuk-Jun Kim, (Chairman), banker (beginning February 1, 2016)

Reinhard Heilmaier, attorney

The remuneration of the Management Board was not disclosed pursuant to Section 286 (4) HGB.

Supervisory Board

The Supervisory Board has the following members:

Dae-Ho Kim, Seoul, banker (Chairman) (until September 15, 2015)

Soon Chul Kwon, Seoul, banker (Chairman) (beginning September 16, 2015)

Tae Gyun Lee, Seoul, banker (Deputy Chairman)

Karsten Weyhausen, bank employee (Employee Representative)

The members of the Supervisory Board do not receive any remuneration for their activities.

Loans to Members of Executive Bodies

The following credit facilities were available to members of the Management Board and Supervisory Board as of the balance sheet date:

Credit lines:

Management Board:	T€ 10
Supervisory board:	T€ -
Total:	T€ 10

Share capital

As of January 1, 2015, the inventory comprised 45,000 registered shares with the nominal value of € 511.29 each (thereof originally 20,000 shares of DM 1,000.00 each).

Parent company

The Bank's annual financial statements are included in the consolidated financial statements of Hana Financial Group, Seoul, which is the largest group of consolidated companies. These statements can be requested from Hana Financial Group – Financial Planning Division – Seoul, Korea. The consolidated financial statements can also be accessed at www.hanafn.com. Financial statements were prepared for subgroups at a lower level than those consolidated financial statements, in particular for the KEB Hana Bank, Seoul, Korea. These subgroup financial statements can also be accessed at the website specified above.

Frankfurt am Main, April 14, 2016

KEB Hana Bank (D) AG

The Management Board

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Hyuk-Jun Kim Reinhard Heilmaier

Auditors' Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of KEB Hana Bank (D) Aktiengesellschaft, Frankfurt am Main, (formerly Korea Exchange Bank (Deutschland) AG, Frankfurt am Main) for the business year from January 1 to December 31, 2015. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Article) 317 HGB ["Handelsgesetzbuch" - "German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Board of Managing Directors as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, May 3, 2016

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(sgd.) Eva Handrick	(sgd.) ppa. Christian Weber
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)