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# ***Short-Form Audit Report***

KEB Hana Bank (D) Aktiengesellschaft  
Frankfurt am Main

Annual Financial Statements for the Period Ending  
December 31, 2016 and the Management Report for the Financial  
Year 2016

Auditor's Report

(Translation - the German text is authoritative)





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## **KEB Hana Bank (D) AG**

Frankfurt am Main

Annual Financial Statements of December 31, 2016

### **Management Report 2016**

#### **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 25 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, Korea. 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. Private customer business is only made to a limited extent.

##### **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 model**

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

## **1.8 Macroeconomic and industry-specific conditions**

### **1.8.1 Overall economic environment**

After a weak start, the global economy picked up visibly in the course of 2016. Although the growth rate is still moderate, the gross domestic product rose by roughly 0.9 percent in the second half of the year, roughly as much as on average since the end of the global financial crisis in 2009. The IfW indicator for the Global activity, calculated on the basis of sentiment indicators from 42 countries, has continued to rise at the current level and is currently at the highest level since the beginning of 2011. The robust development of the global economy since mid-2016 is a positive surprise due to the political risks. The decision by the United Kingdom to leave the EU has also contributed to this, as has the election in the United States and the growing likelihood that nationalist tendencies will continue to grow in the course of upcoming elections in Europe.

### **1.8.2 Economic development in Korea**

#### **Current economic situation**

Rep. of Korea is the G-20 country and since 1996 a member of the OECD. With a gross domestic product of USD 1.378 billion (2015), it ranks 11th out of the world's economies (IMF). The gross national income per head was 201,340 USD. In terms of currency reserves, South Korea was ranked 7th at the end of July 2016, at USD 371.4 billion.

The inflation rate of consumer prices in August 2016 was 0.4% (January 2015: 0.8%). Since June 11, 2015, the key interest rate has risen to 1.5%. Total public debt stood at about 37.9% of GDP at the end of 2015, remaining at a comparatively low level. In 2015 Korea achieved an economic growth of 2.6%. 2015 was strongly influenced by a slowdown in the Korean economy. Instead of the government's planned 3.8% growth, "only" 2.6% could be achieved. For 2016, a slight increase in growth is projected to 2.8%. For 2017, growth of about 3.1% is expected.

The Korean labor market continues to be very stable with a low unemployment rate. The unemployment rate was 3.6% in August 2016; the youngest population group (15-29 years) is most affected by an unemployment of 9.3%. This is the highest rate of youth unemployment in the past 15 years.

#### **Foreign trade**

In addition to a general commitment to the multilateral world trade talks, the Korean government has systematically pursued the conclusion of free trade agreements in recent years. Free trade agreements with Singapore, the EFTA, Chile, the ASEAN countries, India, Peru, the EU, the USA and Turkey are in force. The free trade agreements with New Zealand, China and Vietnam entered into force on 20 December 2016, the free trade agreement with Canada signed on 23 September 2014 on 1 January 2015. The free trade agreement with Colombia was signed on 21.02.2013. Negotiations

continue with Mexico, Gulf Cooperation Council (GCC), Indonesia and Japan. A trilateral agreement between South Korea, Japan and China is also under negotiation.

Foreign trade turnover (imports and exports) totaled USD 963 billion in 2015, a year-on-year decrease of 12.3%. China (excluding Hong Kong), the USA, the EU and Japan are among the most important trading partners.

Exports fell by 8% in 2016 compared to the previous year. The main export goods were semiconductors, machinery, chemical products, cars, steel products, communications equipment, ships and oil products. The export of semiconductors increased by 0.5% and exports of steel products fell by 12.8%. Imports also declined by 16.9% over the same period. The main import goods were petroleum (-41.9%), machinery / precision equipment (-3.4%), chemical products (-9.7%), semiconductors (+ 5%), communication equipment (+ 10.9%) (-21.7%) and natural gas.

Compared with the previous year, the actual foreign direct investment in 2015 rose sharply by 32.3% to USD 15.95 billion. The total number of foreign companies operating in South Korea is around 7,500. The most important investors in the period were the Netherlands (some USD 2.30 billion), Singapore (USD 2.29 billion), the US (2.25 billion USD), China (1.72 billion USD) and Japan US \$ 1.21 billion). For the EU countries, Germany is second with USD 0.29 billion after the Netherlands with USD 2.30 billion and with USD 0.20 billion with the UK.

### **1.8.3 Economic activity in Germany**

#### **Economy continues to boom**

The German economy remained on course for growth in 2016. According to the first official data, gross domestic product rose by a strong 1.9% compared to the previous year,

Which expanded by 1.7% in 2015. The increase could have been even higher if the global economic environment were less unfavorable. In the course of the year, growth showed marked fluctuations. In the first quarter, the overall production output was strongly expanded, with the once again markedly lower oil price, which relieved private households and companies from the cost side and stimulated higher expenditures. However, the mild weather, which led to an early spring revival, also had a positive impact on growth. In the summer half-year, economic growth then lost momentum before it recovered again in the fourth quarter. Consumption spending remained the key drivers of economic development over the year as a whole. On the other hand, there was only limited momentum from foreign trade and investment.

## Economic growth in Germany adjusted for price

	Change compared to previous year (%)		Growth in percentage points	
	2015	2016	2015	2016
Consumption	2.2	2,5	1,6	1,9
Private consumer spending	2,0	2,0	1,1	1,1
Public consumption	2,7	4,2	0,5	0,8
Gross capital investments	1,7	2,5	0,3	0,5
Investment for plants and machinery	3,7	1,7	0,2	0,1
Construction investments	0,3	3,1	0,0	0,3
Other investments -	3.1	2.7	0.1	0.1
Changes in inventory	-0.5	-0.4	-0.5	-0.4
Domestic use	1.6	2,2	1,5	2,0
Exports	5,2	2,5	2,4	1,2
Imports	5,5	3,4	-2,1	-1,3
Net export	0,2	-0.1	0,2	-0,1
Gross Domestic Product (GDP)	1,7	1,9	1,7	1,9

Source: German Federal Statistic Office, as of: January 12, 2017 Growth: Possible differences in the sums are a result of rounding of the numbers.

**Behavioral foreign trade**

The foreign trade business of the German economy developed rather cautiously. Exports and imports grew at a rate of growth of 2.5% and 3.4% compared to the previous year (+5.2 and +5.5%), mainly due to the difficult international environment. Contrary to the experience of past decades, the expansion of world trade remained behind the global production. The reasons for this are, among other things, the transformation of the Chinese growth model as well as the generally growing reservations about the integration of the economy in the world, which were also expressed in the British Brexit vote. In a referendum in June 2016, the citizens of Great Britain expressed their opinion in favor of the withdrawal of the country from the European Union.

**Powerless investment activity**

The global climate also had an impact on the investment climate Germany dampening. Many companies have withdrawn their planned investment projects due to the high uncertainties about the economic and economic development in Europe and the world. The expenditure on equipment (+1.7%) was therefore only slightly expanded. On the other hand, investments in buildings (+3.1%) were significantly higher. In this context, factors such as the still very favorable financing conditions, the good labor market situation, the populated municipal infrastructure and the increased need to accommodate refugees had a stimulating effect.

**1.8.4 Financial markets****Key interest rate to zero**

Last year, the ECB launched its extremely expansive monetary policy against a backdrop of a never-

Inflationary pressure in the euro area. The European central bankers were deeply involved in the monetary policy box. In March 2016, the Council decided, among other things, to reduce the main refinancing rate by which banks of the euro area could borrow money in exchange for collateral at the ECB by 5 basis points to a new historical low of 0.0%. The interest rate on the Deposit Facility also



lowered the ECB by 10 basis points to a new all-time low of -0.40%. The interest rate for the marginal lending facility decreased by 5 basis points to 0.25%. In addition to lowering key interest rates for the euro area, the ECB's monetary policy council also decided to expand the ECB's securities buying program by raising the monthly volume of purchases of securities by 20 to 80 billion euros.

### **Euro drops to 1.05 US dollars**

Last year, the euro experienced a change of emotions. He was usually one game of monetary policy expectations on both sides of the Atlantic. The dollar exchange rate could grow significantly by May. The European Community currency climbed to just under US \$ 1.16 per euro a year ago on May 3, 2016. Brexit fear and renewed loosening of the ECB's monetary policy have not been able to sustainably slow the euro in the first months of last year. The reason for the good performance of the euro was the restrained gait of the US central bank, which hesitated with a further rate hike in view of the uncertain economic situation. This changed however in the summer. The outlook on further monetary policy on the other side of the Atlantic as well as the surprising vote of the citizens of the United Kingdom to withdraw from the European Union pushed the euro-dollar exchange rate down to 1.10 US during the summer months -Dollar. The euro was able to regain its position in the meantime. In the wake of the US election, the mood turned. In the foreign exchange markets, the signs that the monetary policy in the euro area and the USA will be further removed from one another in November intensified. The extension of the ECB's buying-up program as well as the interest rate hike in the USA confirmed this expectation in December. The euro-dollar exchange rate fell to 1.05 US dollars by the end of the year. He was more than 3 US cents below his last year's run.

## **2. Net assets, financial position, and income**

Total assets have increased significantly by EUR 30.6 million from EUR 627.6 million to EUR 656.2 million. The increase is due to an increase in cash reserves and a simultaneous decline in receivables from customers. At EUR 198.7, the cash reserve is well above that at the end of the previous year (EUR 108.6 million). Receivables from customers decreased from EUR 151.5 million to 130.3 million. At EUR 250.4 million, loan and advances to other banks are slightly below the previous year's level (EUR 262.7 million). The portfolio of fixed-interest securities decreased from EUR 103.9 million to EUR 76.5 million. This includes Dutch and French government bonds as well as a corporate bond (Covered Bond) from the Dutch ABN AMRO Bank NV, Amsterdam, which the Bank has acquired in July 2016. These fixed-interest securities are all assigned to the bank book as a liquidity reserve. As in the previous year, all other securities held are allocated floating rate notes (FRN), issued by first-class companies with a Korean background and the investment status. The investment in these papers serves as an alternative to participation in syndicated loans. One of four FRNs is due in 2017. Most of our customers are domestic and European subsidiaries of large Korean companies. This development reflects our continued cautious business policy.

The liabilities side showed increased customer deposits of EUR 341.9 million compared to EUR 285.5 million in the previous year. This is due in particular to the high liquidity of our industrial customers. The bank deposits decreased from EUR 273.5 million to EUR 245.9 million. At the balance sheet date, the subscribed capital amounted to 23.0 million (previous year: 23.0 million). As in the previous year, the capital reserve amounted to EUR 2.6 million. The number of issued shares has been 45,000 since 01. 01. 2015. The Bank's balance sheet assets will amount to EUR 67.6 million (previous year: EUR 64.7 million) in accordance with the resolution adopted by the Annual General Meeting to include the balance sheet profit as a whole in the profit reserve as in previous years.

Net interest income fell from EUR 4.5 million year-on-year to EUR 3.6 million due to continued low-interest rates and negative interest rates from money market transactions (EUR 0.5 million).

The net commission income rose significantly to EUR 5.6 million compared to the previous year (EUR 4.0 million) and is particularly benefiting from the group-wide function as a EURO clearing house.

On the expense side, the other administrative expenses decreased significantly to EUR 2.0 million (previous year: EUR 2.4 million) as a result of the fall in the Group's capital contribution. Personnel expenses rose slightly by EUR 2.4 million (previous year: EUR 2.3 million). The expenses for the net provision of risks amounted to TEUR 256 in the reporting period compared to TEUR 22 in the previous year. All-in-one valuation allowances contributed TEUR 422 (previous year: expenses TEUR 55) and reserves according to § 340f HGB TEUR 204 (previous year TEUR 3). This was offset by releases of TEUR 11 (previous year: TEUR 36) for provisions for sureties. All-in-one valuation allowances on securities amounted to TEUR 485 and resulted in an increase in the cost of net provision of risk returns compared to the previous year.

<b>Risk provision:</b>	<b>2016</b>
EWB	236.809,27
PWB für Wertpapiere	485.946,41
PWB Kundenkredit	713.372,59
Rückstellung Avale	15.739,35
§ 340f HGB	379.824,45
<b>Total:</b>	<b>1.831.692,07</b>

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 12.3 % as of December 31, 2016 (previous year: 10.2 %).

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 0.0043 on the balance sheet date (previous year: 0.0035).

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 the ongoing high regulation and margin pressure will continue to burden earnings in the short term.

Despite the predicted continued regulatory and margin pressure in the past financial year, the Bank's annual surplus rose by almost one third compared to the previous year as well as the projected

annual surplus, and the bank's business model, which has been in effect for many years, thus ensured a stable commercial basis in 2016 as well.

#### **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.

A statutory reserve pursuant to section 150 (2) of the German Stock Corporation Act (AktG) was not to be formed at the balance sheet date, since the capital reserve amounts to more than 10% of the share capital.

As in the previous year, the basis for the refinancing was customer deposits of EUR 303.22 million (previous year: EUR 321.2 million) and the liabilities to credit institutions of EUR 243.7 million (previous year: EUR 189.4 million), whereas an average of EUR 164.7 million (previous year: EUR 58.1 million) represented liabilities to the Bank's parent company.

The bank's off-balance sheet liabilities of TEUR 8.8 (previous year: TEUR 11.1) in terms of structure, volume and risk was not significantly changed compared to the previous year after deduction of the compensating balance and other 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**

Interest income fell slightly by EUR 5.2 million (previous year: EUR 5.9 million). The reason for this was the sustained margin pressure as well as negative interest on deposits with the Deutsche Bundesbank.

As in the previous year, Asia accounted for the largest share of interest income, up from 66% against 53% in the previous year. The proportion of Europe has risen by 30% compared to 19% in 2015 and the proportion of Germany fell by 2% compared to 14% in the previous year.

Total commission income fell slightly against the previous year from EUR 6.1 million to EUR 5.8 million. As in the previous year, the largest item here was payment transactions and documentary acquisitions (previous year figures in parentheses) of EUR 3.6 million (EUR 3 million), followed by non-recourse receivables sales of EUR 0.8 million (EUR 1.0 million), foreign exchange business of EUR 0.6 million (EUR 0.9 million) and the letter of credit of EUR 0.6 million (EUR 0.5 million). As in the previous year, minor items amount to EUR 0.2 million (EUR 0.2 million) as well as the guarantees and guarantees totaling EUR 0.1 million (EUR 0.2 million).

As in the previous year, Germany accounted for the largest share of commission income (74%), followed by 15% in Europe (previous year: 16%) and 11% in Asia (9% in the previous year).

Income earned in foreign currency will be immediately converted into 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.

For the ongoing monitoring of liquidity, IT systems are available, which are used to make pre-payment assessments. The department determines the liquidity status on a daily basis and informs the Management Board in the context of risk reporting. All contractually agreed and possible cash and payment obligations are taken into account. In the case of cash and cash equivalents, certain

assumptions are formed and taken into account when dealing with liquidity. Liquidity management is generally per currency.

The prepared short-term, medium-term and long-term liquidity in the form of liquidity balances facilitate the monitoring and management of liquidity. The management of liquidity on the basis of a 10-day overview is always carried out in such a way that the liquidity figure can be adhered to daily according to the Liquidity Regulation. In 2016, the liquidity ratio was maintained daily as in the previous year. The monitoring figures according to the Liquidity Regulation are also calculated daily and are also used for liquidity control. As of the balance sheet date, the liquidity ratio was 2.10 (previous year: 1.39).

At December 31, 2016, there were no unutilised irrevocable credit lines as at the same reporting date of the previous year.

## **6. Analysis of the relationships to related parties**

In the reporting period there were no loans to management board and/or supervisory board members. There loan commitments in place 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**

### **Economic development 2017**

According to a report by the World Bank, world economic growth is picking up momentum again. For the coming year, the economists in Washington forecast a growth of 2.7 per cent of global economic output.

For 2016, the World Bank predicted growth of only 2.4 percent due to low commodity prices and a doldriver, especially in industrialized countries. "After years of disappointing global growth, we now see better economic prospects on the horizon," said World Bank President Jim Yong Kim.

Uncertainty still exists over the future path of the US as the world's largest economy. The announcements by the designated President Donald Trump to stimulate the economy with infrastructure projects, for example, could lead to faster growth in the US and therefore in the world. On the other hand, Trump's tendency towards protectionism is a major obstacle.

For the US, the World Bank predicts an accelerated increase in the gross domestic product of 2.2 (2016: 1.6) percent this year, while a slowdown in China to 6.2 (2016: 6.7) percent. The World Bank experts believe that growth in industrialized countries will rise to 1.8 percent of economic output. As a result, the emerging and developing countries are also expected to grow by 4.2 per cent, as opposed to 3.4 per cent over the past year, thanks to the slow rise in commodity prices.

Despite the positive developments expected for the global economy in 2017 - primarily the acceleration in the US economy - major risks remain, especially on a geopolitical level. In addition, interest rate hikes by central banks could lead to financial turmoil, substantial changes in capital flows and the adjustment of exchange rates. Emerging markets could be particularly vulnerable to such shocks.

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.

In the case of stabilizing interest margins and the expansion of credit distribution, we assume that the earnings trend will be at least stable. In the case of further increases in expenses due to the strong regulatory pressure, a slightly increased pre-tax profit of approximately 5.4% is expected. As a forecast period, the Bank has opted for the current financial year 2017.

Due to the continued tight interest rates, the still high equity ratio and the fierce competition in the commission area, it can be assumed that only very slight increases in the business result are to be expected from the core customer segment. To counter this, the Bank will continue to try to build new business relationships with Korean companies, especially in the eastern EU countries. This possibility of expanding the customer area is considered realistic by the Bank, as Korean subsidiaries are likely to be established in Eastern Europe. An environment is offered that makes this shift economically interesting and allows companies to react more quickly to changes in the European market.

In this context, the bank also expects a further expansion in the foreign exchange business, as customers in Eastern Europe are also expected to experience other currencies alongside the EURO and USD. In this area, there is still the opportunity in the medium term to generate interesting contributions to margins and commissions. In addition, there are additional income opportunities through the brokerage of banking transactions in this geographical area directly to the parent company or other units within the Hana Financial Group.

In summary, the Bank assumes that the measures implemented during the reporting period will ensure a positive development in the medium term, with the persistently high regulatory and margin pressure further impacted 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 risk inventory is carried out at least once a year and serves as the basis for the risk matrix.

The Bank uses a comprehensive risk control and management system which includes risk recording, risk measurement, risk analysis, risk assessment and ongoing risk monitoring, 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. This is mainly based on a deterioration of creditworthiness in the risk of counterparty default. For the market risk, a parallel shift of the yield curve of 200 basis points in both directions is planned for interest rates. In addition, other scenarios such as revolutions of the interest curve are foreseen. In the case of liquidity, a tightening of the payment quotas is made.

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.. In addition, the dependency on Chinese economic growth is also a factor that can be used as a stress scenario in a strong economic downturn in China.

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.

Market price risk is distinguished between interest rate risks and exchange rate risks. The changes in interest rates are measured with a run-time-dependent weighting and a parallel offset of the yield curve. For the exchange rate risk, an approach with the open net position of the currency balances with the regulatory factor from CRR is chosen. The liquidity risk is used to determine scenario-based assumptions for payment flows with quotas in order to determine the current financing requirements with currently valid market data. Operational risks are calculated on the basis of the standard approach. In addition, income risks are determined using a fact-based approach based on the main risk arising from market and credit risk.

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

<b>Risk Type</b>	<b>Risk measurement procedure</b>
Counterparty default risk	Credit-Value-at Risk based on the Gordy-model with parameters PD und LGD
Market price risk	Interest rate risk: evasive procedure Exchange rate risk: net-open-Position*8%
Liquiditätsrisiko	Szenariobasierter Ansatz
Operational Risk	Standard approach
Income risk	Factorbased approach

The bank limits have been set for the main risk categories (market price risks, counterparty default risk, country risk, liquidity risk and operational risks). In the case of credit risk, only one limit is set and not for the subcategories (default risk, country risk, sector concentration). Similarly, a limit for market risk is defined, but not explicitly for interest rate risk and exchange rate risk. Insignificant risks are covered by a risk buffer.



The completion of Ernst & Young's risk management project (E & Y) resulted in substantial changes in the risk-bearing capacity calculation. This applies both to the methodology of the risk potential determination, to the risk assessment as well as to the limit setting. As a result of this change in the system, the comparisons to the previous year are to be considered accordingly. The insignificant risks are therefore directly taken into account in the calculation of the risk-bearing capacity by deducting the risk-cover potential.

The limit setting was aligned with the risk cover potential and led to the limiter-

heightening. The new limit allocation process was applied, which in the first step allocates the total limit of the respective utilization and subsequently, in the second step, defines a fixed size which is approved by the Executive Board.

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	5,000	2,570	1,000	2,105
Counterparty risk	20,000	2,091	2,100	1,558
Operational risk	2,500	1,573	340	313
Liquidity risk	1,500	95	10	5
Income risk	1,000	326	--	--
Insignificant risks	1,500	0	100	100
Total	30,000	6,655	3,550	4,078

The total risk cover potential in the standard scenario amounted to EUR 44.9 million at December 31, 2016, with a total utilization of 22%. In the stress scenario, the total utilization is significantly increased to EUR 30.1 million, which corresponds to a minimum total overrun, but the risk is completely covered by the available risk cover potential of EUR 44.9 million.

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 party, 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 authorization, 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 recognized 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 recognized 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 ratios 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 risk**

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 2016. 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.

A further warning threshold was introduced for the LCR (Liquidity Coverage Ratio ratio) with an additional buffer of 10% above the currently applicable legal requirements. The LCR indicator was never exceeded in the current year.

The calculation of the risk-bearing capacity is based on the deduction of a certain percentage of the deposits, which would then be covered at short notice with a certain premium over the money market. For this purpose, appropriate money market lines with customers and a USD 200 million line from our parent company are available. In the calculation of the stress scenarios, the bank assumes higher percentages and higher surcharges.

### **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 12 months. Interest rate agreements over 360 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 TEUR 1,800 (2015: TEUR 1,613) 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 EUR 5.1 million (previous year: EUR 4.2 million). The considerable increase is based in particular on the (regulation-driven) purchase of the fixed-interest corporate bond denominated in EUR from ABN AMRO Bank N.V..

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 largely 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 26.92% on the balance sheet date (previous year: 19,37%). EUR 64.9 million equity was available to comply with the total capital ratio. We anticipate a slight reduction in the total capital ratio in 2017 because we are planning to expand the lending volume.

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

According to current evaluations, there are no risks which represent an 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 5.4 % higher than in the previous year.

## **8. Recommendation for using the earnings**

Transferring the net profit of TEUR 1,417 to other retained earnings is recommended to the annual general meeting.

## **9. Our employees**

At the end of 2016, the Bank had 25 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. 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:

translation prepared by the management

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, May 4, 2017

KEB HANA BANK (D) AG

*The Management Board*

*Hyuk-Jun Kim*

*Dr. Franz Siener-Kirsch*

## **Annual Financial Statements**





## Balance Sheet as of December 31, 2016

Annual Balance Sheet as of 31. Dezember 2016 of the KEB Hansa Bank (D) Aktiengesellschaft, Frankfurt am Main										Appendix II	
Assets											
	EUR	EUR	EUR	EUR	Previous year TC	Liabilities				EUR	Previous year TC
<b>1. Cash reserve</b>						<b>1. Bank loans</b>					
a) Cash on hand					52	a) Payable on demand				41,267,148.25	33,640
b) Balances with central banks					108,573	b) With agreed maturities or periods of notice				204,592,760.34	239,905
c) Post girobank balances					0	<b>Liabilities to customers</b>					
<b>2. Receivables from other banks</b>						a) Savings deposits					
a) Payable on demand					10,071	aa) with an agreed period of notice					
b) Other liabilities					252,863	ab) of three months				0	0
<b>3. Receivables from customers</b>					151,521	ac) with an agreed period of notice					
<b>4. Fixed interest securities</b>						ad) from more than three months				0	0
a) Public sector issuers					0,00	Other liabilities					
aa) Eligible as collateral for Deutsche Bundesbank advances					0	ba) Payable on demand				321,456,940.62	264,258
ab) Other issuers					0	bb) With agreed maturities or periods of notice				20,420,740.39	21,228
of which: Eligible as collateral for Deutsche Bundesbank advances					0	<b>Other liabilities</b>					
of which: Eligible as collateral for Deutsche Bundesbank advances					0	<b>Prepaid expenses and deferred charges</b>					
<b>5. Bonds and notes</b>						a) Provisions for pensions and similar obligations				0,00	0
aa) Public sector issuers					28,757	b) Tax provisions				369,368.86	118
ab) Other issuers					0	c) Other provisions				340,714.01	155
of which: Eligible as collateral for Deutsche Bundesbank advances					0						
of which: Eligible as collateral for Deutsche Bundesbank advances					75,128						
<b>6. Own bonds and notes</b>						<b>equity</b>					
Nominal amount					0	a) Called capital					
<b>Intangible assets</b>						Subscribed capital				23,008,135.44	23,008
a) Self-created industrial property and similar rights and assets					0	less uncalled outstanding capital				0	0
b) Concessions acquired for a consideration, industrial property and similar rights and assets					0	b) Capital reserve				2,556,459.41	2,557
and licenses in such rights and assets					0	c) Contributions of silent shareholders				0,00	0
<b>Tangible assets</b>						d) Retained earnings					
Other assets					5	da) Statutory reserve				0	0
					149	db) Reserve for shares in a controlling or majority-held company				0	0
					662	dc) Reserves under company statutes				40,595,238.77	38,136
						dd) Retained earnings				40,595,238.77	1,042
						ee) Net retained profits/losses				1,417,369.38	0
						(of which profit carried forward € 0.00)					
<b>Total assets</b>					627,601	<b>Total liabilities</b>					
										656,150,064.30	627,601
						<b>Contingent liabilities</b>					
						Liabilities from guarantees				8,794,984.35	11,071
						<b>Other liabilities</b>					
						Irrevocable loan commitments				0,00	0



## Income Statement for the Period from January 1 through December 31, 2016

Income Statement of the KEB Hana Bank (D) Aktiengesellschaft, Frankfurt am Main  
For the Period from January 1 through December 31, 2016

	EUR	EUR	EUR	Vorjahr TEUR
<b>1. Interest income from</b>				
a) Credit and money market transactions	4.484.716,07			4.549
less Negative interest from credit and money market trans	-509.938,63			-128
b) Fixed-income and book entry securities	1.187.523,39	5.162.300,83		1.459
<b>2. Interest expenses</b>		<u>-1.514.514,55</u>	3.647.786,28	<u>-1.340</u>
<b>3. Commission income</b>		5.808.827,08		6.062
<b>4. Commission expenses</b>		<u>-240.501,39</u>		<u>-2.081</u>
<b>5. General administrative expenses</b>			5.568.325,69	
a) Personnel expenses				
aa) Löhne und Gehälter	-2.113.568,22			-2.048
bb) Social security contributions, pension, and other benefits	-271.967,81	-2.385.536,03		-266
of which: for pensions € 28935,84 (2015: T€ 27).				
b) Other administrative expenses		<u>-2.028.067,93</u>	-4.413.603,96	<u>-2.418</u>
<b>6. Amortization and depreciation of fixed intangible and tangible assets</b>			<u>-52.283,74</u>	<u>-60</u>
<b>7. Other Operating Income</b>			0,00	0
<b>8. Write-downs of and allowances on loans and advances and certain securities and additions to provisions for credit risks</b>			-256.473,86	-21
<b>9. Income from write-ups of and allowances on receivables and certain securities, as well as the reversal of provisions for credit risks</b>				
<b>10. Other Operating Expenses</b>			<u>-163.035,72</u>	<u>-358</u>
<b>11. Profit on ordinary activities</b>			4.330.714,69	3.350
<b>12. Taxes on Income and Earnings</b>			<u>-1.495.441,93</u>	<u>-1.265</u>
<b>13. Other taxes</b>			<u>-534,00</u>	<u>-1</u>
<b>14. Net income/loss for the year</b>			<u>2.834.738,76</u>	<u>2.084</u>
<b>15. Additions to retained earnings</b>				
a) to other revenue reserves		1.417.369,38	1.417.369,38	1.042
<b>16. Net retained profits/losses</b>			<u>1.417.369,38</u>	<u>1.042</u>



**Notes  
to the 2016 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 likewise a non-listed company and since 2013 has been owned 100% by Hana Financial Group Inc., Seoul, Korea, which itself is listed on its 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 "including pensions" were changed from EUR 41 thousand to EUR 27 thousand in the profit and loss account.

**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.

The stock of listed securities is allocated to the current assets according to a resolution of the Management Board and is amortized to the nominal value as scheduled. The valuation is carried out according to the strict lowest-value principle.

In accordance with a resolution of the Management Board, the portfolio of non-listed securities is allocated to the investment assets.

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.

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

Liabilities are recognised at their settlement amount plus accrued interest.

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.

The issued capital is recognised at its nominal value.

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.

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 trading (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.

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" (asset item 2) includes non-certificated receivables from affiliated companies in the amount of TEUR 71,443 (previous year TEUR 54,601) and the item "Liabilities to other banks" (liabilities item 1) includes non-certificated liabilities to affiliated companies in the amount of TEUR 169,254 (previous year: TEUR 127,944).

### **Breakdown of Balance Sheet Items According to Residual Terms as of Dec. 31, 2016**

## Receivables from other banks

	12/31/2016 T€	12/31/2015 T€
Up to 3 months (incl. payable on demand)	97,287	101,482
More than three months, up to one year	137,796	151,141
More than one year, up to five years		
More than five years		
Accrued interest	1,486	1,550
General valuation allowances	-1	-1
<b>Total</b>	<b>236,568</b>	<b>252,688</b>

## Receivables from customers

	12/31/2016 T€	12/31/2015 T€
Payable on demand	21,094	25,257
up to 3 months	20,787	48,492
More than three months, up to one year	66,469	55,932
More than one year, up to five years	22,876	22,925
More than five years	-	-
Individual valuation allowances	-237	-237
General valuation allowances	-713	-1,134
Section 340f HGB	-379	-176
Accrued interest	429	462
<b>Total</b>	<b>130,326</b>	<b>151,521</b>

## Liabilities to other banks with agreed maturities or periods of notices

	12/31/2016 T€	12/31/2015 T€
Up to 3 month	156,736	221,393
More than three months, up to one year	47,756	18,360
Accrued interest	1,486	1,550
<b>Total</b>	<b>236,568</b>	<b>252,688</b>

## Other liabilities to customers with agreed maturities or periods of notices

	12/31/2016 T€	12/31/2015 T€
Up to 3 month	16,125	16,428
More than three months, up to one year	4,265	4,780
More than one year	25	5
Accrued interest	15	15
<b>Total</b>	<b>20,421</b>	<b>21,228</b>

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

	12/31/2016 T€	12/31/2015 T€
Total assests	291,865	336,698
Total liabilities	287,519	310,918
Total contingent liabilities	741	
<b>Total</b>	<b>20,421</b>	<b>21,228</b>

As of the balance sheet date, there were still 1 unutilized foreign exchange transactions. This is a closed position with maturity as of January 13, 2017 in the amount of TEUR 2,585 (previous year EUR 10,751), which was based on a customer order and contains only a risk of performance. In addition, as a derivative item 1, interest rate swaps in the amount of TUSD 15,000 as micro hedge, which is due on 12.12.2017.

The net market value of the derivatives as of the balance sheet date was TEUR 26 in terms of forward exchange business and interest rate swaps.

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

The portfolio of listed and exchangeable bonds and debentures amounts to a nominal value of TEUR 38,046. The remaining securities in the portfolio are non-listed but floating-rate variable-rate corporate bonds, so-called floating rate notes in USD of the nominal value of TUSD 41,000. On a corporate bond (Covered Bond of ABN AMRO Bank N.V.), a write-down of TEUR 485 had to be carried out in accordance with the strict principle of the lowest value as of December 31,

In 2017, 1 corporate bond with a nominal value of TEUR 14,230 will be due.

The listed securities are depreciated over their term to the nominal value.



**Fixed assets (stated in T€)**

	<u>Acquisition costs</u>	<u>Additions</u>	<u>Exchange rate change</u>	<u>Disposals</u>	<u>Amortisation and depreciation</u>		<u>Residual carrying amount</u>	<u>Residual carrying amount</u>
					Cumulated	Financial Year	<u>12/31/2015</u>	<u>12/31/2014</u>
Intangible assets (software)	6	0	0	0	1	0	5	5
Office and operating equipment	646	06	0	162	387	52	97	149
Securities of the fixed assets	104,104	24,691	502	90,352	0	0	38,945	103,884
<b>Total</b>	<b>104,756</b>	<b>24,691</b>	<b>502</b>	<b>90,514</b>	<b>388</b>	<b>52</b>	<b>39,047</b>	<b>104,038</b>

The two government bonds held since 2015 were purchased exclusively for the purpose of the liquidity reserve and were reclassified from fixed assets to current assets as of January 1, 2016.

The other assets comprise corporate income tax credit for the years 1993 to 1999 of TEUR 138,730, other liabilities include.

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

<u>12/31/2016</u> <b>T€</b>	<u>12/31/2015</u> <b>T€</b>	
-	-	from letters of credit for customers
4,874	7,320	from guarantess for customers
5,830	5,830	from guarantees for banks
<b>10,704</b>	<b>13,150</b>	

There was a compensating balance for guarantees of TEUR 1,893 as of the balance sheet were general valuation allowances for recourse claims totally TEUR 16. Moreover, security was rendered for overdraft facilities in the amount of TEUR 485.

The contingent liabilities relate mainly to performance guarantees from import and export (on the instructions and for the account of foreign banks), 9 performance guarantees, 10 payment guarantees, 2 litigation guarantees and 1 customs guarantee 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:

<b>2016</b>	<b>2015</b>
66	53 Asia
2	14 Germany
30	19 Europe
2	14 Other

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

<b>2016</b>	<b>2015</b>
11	9 Asia
74	74 Germany
15	16 Europe
0	1 Other

The currency result in the amount of TEUR163 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 2016 net profit in full to other retained earnings as in the previous year.

Other financial commitments are as follows (stated in T€):

	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Rents</b>	161	148	148	148
<b>Service</b>	45	41	41	41

### **3. Other Disclosures**

The company had an average of 24 employees during the 2016 financial year (including the Management Board). Thereof 5 employees were on assignment from the parent company.

The auditor's fee for auditing the financial statements for the financial year under review totalled TEUR 165 plus VAT in 2016 and was made up as follows: audit services TEUR 107, thereof TEUR 6 for 2015, tax consulting services TEUR 40, thereof TEUR 22 for 2015. A total fee of TEUR 3 was paid to the auditor for other confirmation services in the 2015 financial year and TEUR 15 for other services in 2015.

#### **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 (until October 31, 2016)

Dr. Franz Siener-Kirsch, banker (beginning November 1, 2016)

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

**Supervisory Board**

The Supervisory Board has the following members:

Soon Chul Kwon, Seoul, banker (Chairman)

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**

There were no credit facilities to members of the Management Board and Supervisory Board as of the balance sheet date.

**Share capital**

As of January 1, 2015, the inventory comprised 45,000 registered shares with the nominal 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](http://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, May 4, 2017

KEB Hana Bank (D) AG

The Management Board

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Hyuk-Jun Kim

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Dr. Franz Siener-Kirsch



**Auditor's 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 the KEB Hana Bank (D) Aktiengesellschaft, Frankfurt am Main, for the business year from 1 January 2016 to 31 December 2016. 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 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 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, complies with legal requirements, 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, 5 May 2017

PricewaterhouseCoopers GmbH  
Wirtschaftsprüfungsgesellschaft

sgd. Eva Handrick  
Wirtschaftsprüfer  
(German Public Auditor)

sgd. Kay Böhm  
Wirtschaftsprüfer  
(German Public Auditor)

