KEB Hana Bank (D) Aktiengesellschaft Frankfurt am Main

Short-Form Audit Report
Annual Financial Statements as of December 31, 2018, Management Report for Financial Year 2018 and Auditors' Report

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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Translation of the German independent auditor's report concerning the audit of the annual financial statements and management report prepared in German

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General Engagement Terms

Note:

We have issued the auditor's report presented below in compliance with legal and professional requirements subject to the conditions described in the enclosed "Engagement Terms, Liability and Conditions of Use.

If an electronic version of this document is used for disclosure in the elektronischer Bundesanzeiger [Electronic German Federal Gazette], only the files containing the financial reporting and, in the case of a statutory audit, the audit opinion or the report thereon are intended for this purpose.

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Independent auditor's report

To KEB Hana Bank (D) Aktiengesellschaft, Frankfurt am Main

Report on the audit of the annual financial statements and of the management report

Opinions

We have audited the annual financial statements of KEB Hana Bank (D) Aktiengesellschaft, Frankfurt am Main, which comprise the balance sheet as at 31 December 2018, and the income statement for the fiscal year from 1 January 2018 to 31 December 2018, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of KEB Hana Bank (D) Aktiengesellschaft, Frankfurt am Main, for the fiscal year from 1 January 2018 to 31 December 2018.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to institutions and give a true and fair view of the assets, liabilities and financial position of the Institution as at 31 December 2018 and of its financial performance for the fiscal year from 1 January 2018 to 31 December 2018 in compliance with German legally required accounting principles, and

- the accompanying management report as a whole provides an appropriate view of the Institution's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the annual financial statements and of the management report" section of our auditor's report. We are independent of the Institution in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the fiscal year from 1 January 2018 to 31 December 2018. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

Identification of impaired loans and advances to customers in the corporate credit portfolio

Reasons why the matter was determined to be a key audit matter

The identification of impaired loans and advances to customers entails uncertainties and is subject to various assumptions and factors which require the use of judgment or estimates. Expectations as to future cash inflows are developed on the basis of the assessment of the customers' economic situation and the collateral furnished. These judgments can have a significant effect on the amount of risks provisions to be recognized.

In view of the business model of KEB Hana Bank (D) AG, which focuses on the corporate credit portfolio, which in turn comprises a significant portion of the Bank's assets, we identified the identification and measurement of impaired loans and advances to customers in the corporate credit portfolio as a key audit matter.

Auditor's response

We examined the process for the identification of impaired loans and advances to customers. We assessed the design and operating effectiveness of the implemented controls in the process with regard to the identification of impaired loans and advances to customers.

In addition, we performed substantive procedures on a sample basis, testing in a credit file review whether impairment was required to be recognized for the loan exposures in our sample. We performed our audit mainly by analyzing public financial information of the guarantor. We selected our sample primarily on the basis of the amount outstanding.

Our procedures did not give rise to any reservations regarding the identification of impaired loans and advances to customers in the corporate credit portfolio.

Reference to related disclosures in the annual financial statements and the management report

Information on loans and advances to customers is provided in section 2. "Accounting and valuation principles" of the notes to the financial statements. The management report contains information on the identification of impaired loans and advances to customers in section 7. "Outlook, opportunities and risks" under "Counterparty credit risk."

Responsibilities of the executive directors and the Supervisory Board for the annual financial statements and the management report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to institutions, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Institution in compliance with German legally required accounting principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Institution’s ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Institution's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for overseeing the Institution's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's responsibilities for the audit of the annual financial statements and of the management report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Institution's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also: ·

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. ·

- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Institution. ·

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institution's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Institution to cease to be able to continue as a going concern. ·

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Institution in compliance with German legally required accounting principles.

- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Institution's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information. ·

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

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 24 May 2018. We were engaged by the Supervisory Board on 24 May 2018. We have been the auditor of KEB Hana Bank (D) Aktiengesellschaft without interruption since fiscal year 2017.

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We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Mr. Christoph Hultsch.

Eschborn/Frankfurt am Main, 24. May 2019

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Hultsch	Distler
Wirtschaftsprüfer	Wirtschaftsprüfer

Balance sheet as of 31 December 2018 of KEB Hana Bank (D) Aktiengesellschaft, Frankfurt/Main **Exhibit II**

Assets

		EUR	EUR	EUR	EUR	Prior year EUR k
1.	**Cash reserve**					
a)	Cash on hand			897,85		12
b)	Balances at central banks			133.421.149,07		212.905
	thereof: at Deutsche Bundesbank	133.421.149,07				0
c)	Postal giro balances			0,00	133.422.046,92	0
2.	**Loans and advances to banks**					
a)	Payable on demand			6.516.318,85		3.396
b)	Other loans and advances			123.761.798,37	130.278.117,22	220.610
3.	**Loans and advances to customers**				149.005.933,76	131.820
4.	**Debt securities and other fixed-income securities**					
a)	Bonds and debt securities					
	aa) issued by the public sector		26.135.952,57			26.837
	thereof eligible as collateral with Deutsche Bundesbank	26.135.952,57				
	(prior year: EUR 26,837 k)					
	ab) issued by other borrowers		119.335.175,45	145.471.128,02		68.366
	thereof eligible as collateral with Deutsche Bundesbank	10.399.193,15				
	(prior year: EUR 9,942 k)					
					145.471.128,02	
5.	**Intangible assets**					
a)	Purchased franchises, industrial and similar rights and assets and licenses in such rights and assets				3.786,55	4
6.	**Property and equipment**				84.663,90	125
7.	**Other assets**				1.990,51	6
	Total assets				558.267.666,88	664.081

Liabilities and equity

		EUR	EUR	EUR	Prior year EUR k
1.	**Liabilities to banks**				
a)	Payable on demand		46.810.528,00		118.884
b)	With an agreed term or period of notice		222.864.234,76	269.674.762,76	224.445
2.	**Liabilities to customers**				
a)	Other liabilities				
	aa) Payable on demand	139.573.807,40			232.671
	ab) With an agreed term or period of notice	72.795.280,15	212.369.087,55	212.369.087,55	15.873
3.	**Other liabilities**			39.098,82	84
4.	**Deferred income**			41.384,78	36
5.	**Provisions**				
b)	Tax provisions		409.070,12		329
c)	Other provisions		256.799,79	665.869,91	231
6.	**Equity**				
a)	Called capital				
	Subscribed capital	23.008.135,44	23.008.135,44		23.008
b)	Capital reserves		2.556.459,41		2.557
c)	Revenue reserves				
	ca) other revenue reserves	47.938.210,15	47.938.210,15		43.988
d)	Net retained profit/accumulated loss		1.974.658,06	75.477.463,06	1.975
	Total liabilities and equity			558.267.666,88	664.081

	EUR	EUR	EUR
Contingent liabilities			
a) Acceptances and endorsements	0,00		0
b) Guarantees	13.608.394,40		10.547
c) Assets pledged as collateral for third-party liabilities	0,00	13.608.394,40	0
Other obligations			
a) Commitments arising out of sale and repurchase transactions	0,00		0
b) Placement and underwriting commitments	0,00		0
c) Irrevocable loan commitments	0,00	0,00	0

Translation from the German language

Income statement of KEB Hana Bank (D) Aktiengesellschaft, Frankfurt/Main,
for the period from 1 January to 31 December 2018

	EUR	EUR	EUR	Prior year EUR k
1. Interest income from				
a) Lending and money market business	5.769.323,29			5.112
less negative interest from lending and money market business	-1.014.929,71			-748
b) Fixed-income securities and government-inscribed debt	1.583.562,89	6.337.956,47		1.105
2. Interest expenses		-3.068.126,78	3.269.829,69	-2.201
3. Commission income		7.220.246,00		7.098
4. Commission expenses		-172.973,26	7.047.272,74	-185
5. General and administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	-2.305.075,85			-2.131
bb) Social security, pension and other benefit costs	-295.382,50	-2.600.458,35		-355
thereof: for old-age pensions: EUR 38,814.04 (prior year: EUR 31 k)				
b) Other administrative expenses		-2.217.717,09	-4.818.175,44	-2.061
6. Amortization, depreciation and write-downs of intangible assets and property and equipment			-51.238,34	-43
7. Other operating income			32.014,54	42
8. Write-downs of and allowances on loans and advances and certain securities as well as allocations to provisions for possible loan losses			-130.488,35	-
9. Income from write-ups of loans and advances and certain securities and from the reversal of provisions for possible loan losses			-	145
10. Income from write-ups of equity investments, shares in affiliates and securities classified as fixed assets			561.569,79	0
11. Other operating expenses			-20.567,85	-1
12. Result from ordinary activities			5.890.216,78	5.778
13. Income taxes			-1.940.046,66	-1.825
14. Other taxes			-854,00	-2
15. Net income/net loss for the year			3.949.316,12	3.951
16. Allocations to the revenue reserves				
a) to other revenue reserves		1.974.658,06	1.974.658,06	1.975
17. Net retained profit/accumulated loss			1.974.658,06	1.975

Translation from the German language

Notes to

the financial statements for fiscal year 2018

of

KEB Hana Bank (D) AG

1. General

KEB Hana Bank (D) AG (hereinafter also referred to as the “Bank” or the “Institution”) was founded by an agreement dated 29 July 1992 and commenced operations on 22 December 1992. The Institution is entered in the commercial register of Frankfurt am Main Local Court under HRB no. 36083 and has its registered office in Frankfurt am Main.

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

2. Notes to the financial statements

The Bank’s balance sheet and income statement were prepared in accordance with the provisions set out in the HGB [“Handelsgesetzbuch”: German Commercial Code] and the RechKredV [“Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute”: German Bank Accounting Directive]. The financial statements also meet the requirements of the AktG [“Aktiengesetz”: German Stock Corporation Act].

Accounting and valuation principles

The cash reserve is recognized at nominal value.

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

General and specific bad debt allowances are recognized to cover potential and acute default risks. In addition, prudential reserves pursuant to Sec. 340f HGB are recognized.

Debt securities and other fixed-income securities comprise securities held as current and fixed assets. In accordance with a resolution of the Management Board, listed securities are generally allocated to current assets, and non-listed securities are held as fixed assets. Securities classified as current assets are valued according to the strict lower of cost or market principle. Securities classified as fixed assets are valued in accordance with the modified lower of cost or market principle. Securities acquired at a premium are amortized to their nominal value over the residual term.

Property and equipment and intangible assets are recognized at acquisition cost and are depreciated or amortized straight-line over their estimated useful lives, which are based on tax regulations. Write-downs are recognized in the event of expected permanent impairment. Assets qualifying as low-value assets under tax law are written off in the year of acquisition.

Other assets are recognized at their nominal value, applying the strict lower of cost or market principle.

Liabilities to banks, customers and other liabilities are recognized at the settlement value plus accrued interest.

Provisions are recognized for uncertain liabilities and for potential default risks from contingent assets at the settlement value deemed necessary according to prudent business judgment.

Subscribed capital is stated at the nominal amount.

Amounts in foreign currencies are translated pursuant to Sec. 340h HGB in conjunction with Sec. 256a HGB. Foreign currency assets and liabilities were translated using the ECB reference rates as of the reporting date. Foreign exchange transactions were translated using the closing rates on the transaction date.

Forward exchange contracts in the non-trading book which are used to hedge interest-bearing positions are generally valued using the split forward rate. The swap amounts are recognized in other assets and liabilities and amortized to interest income or interest expense over their term. The cash amounts are determined on the reporting date and also reported in other assets and liabilities. Amounts affecting profit and loss are shown as other comprehensive income.

Deferred income contains only interest and fees received for future accounting periods.

Expenses and income are accounted for on an accrual basis.

There was no need to recognize a provision for potential losses for the net liability from business involving interest rate-related financial instruments in the banking book.

1. The procedure for determining the net realizable value of the banking book is as follows:
    - The subject of valuation is the banking book, comprising all on-balance sheet and off-balance sheet interest rate-related financial instruments outside of the trading book (including securities). Interest on the interest rate-related financial instruments of the banking book is accrued via the Bank's interest book.
    - We use an income statement approach to determine whether a provision for potential losses pursuant to Sec. 340a in conjunction with Sec. 249 (1) Sentence 1 Alternative 2 HGB has to be recognized.

2. In this context, we made the following decisions on the matters set out in IDW AcP BFA 3:
    - Inclusion of risk costs: No risk costs had to be included as a sufficient general bad debt allowance had already been recognized.
    - Inclusion of administrative expenses: Administrative expenses are accounted for using a flat rate approach, based on the ratio of interest income to total income.
    - Accounting for the refinancing effect of equity: Equity is not included in the calculation.
    - Cash flows were not discounted as residual terms were not longer than 12 months.

The accounting and valuation methods have changed against the prior year.

<u>Notes to the balance sheet</u>

The item “Loans and advances to banks” (asset item no. 2) contains unsecuritized loans and advances to affiliates of EUR 5,410k (prior year: EUR 84,799k) and the item “Liabilities to banks” (liability item no. 1) contains unsecuritized liabilities to affiliates of EUR 233,097k (prior year: EUR 237,774k), excluding accrued interest in each case.

Breakdown of balance sheet items by residual maturity as of 31 Dec 2018

Loans and advances to banks **Other loans and advances**	**31 Dec 2018** **EUR k**	**31 Dec 2017** **EUR k**
Up to three months	52,230	75,387
More than three months and up to one year	76,798	143,890
More than one year and up to five years	-	-
More than five years	-	-
Accrued interest	1,251	1,334
Specific bad debt allowances/prior year	-1	-1
	130,278	**220,610**

Loans and advances to customers	**31 Dec 2018** **EUR k**	**31 Dec 2017** **EUR k**
Payable on demand	15,344	7,038
Up to three months	30,833	23,473
More than three months and up to one year	53,605	70,122
More than one year and up to five years	41,910	21,549
More than five years	8,035	10,426
Specific bad debt allowance	-	-237
General bad debt allowance	-928	-773
Sec. 340f HGB	-77	-101
Accrued interest	284	323
	149,006	**131,820**

Liabilities to banks with an agreed term or period of notice	**31 Dec 2018** **EUR k**	**31 Dec 2017** **EUR k**
Up to three months	224,348	182,053
More than three months and up to one year	45,047	42,252
More than one year and up to five years	0	0
More than five years	0	0
Accrued interest	280	140
	269,675	**224,445**

Other liabilities to customers with agreed term or period of notice

	31 Dec 2018 EUR k	31 Dec 2017 EUR k
Up to three months	10,057	11,111
More than three months and up to one year	2,712	4,735
More than one year and up to five years	60,000	-
More than five years	22	22
Accrued interest	4	5
	72,795	**15,873**

The total amount of all assets and liabilities denominated in foreign currency and all contingent liabilities breaks down as follows:

	31 Dec 2018 EUR k	31 Dec 2017 EUR k
Total amount of assets	207,437	231,651
Total amount of liabilities	202,126	225,040
Total amount of contingent liabilities	2,361	189

As of the balance sheet date, there was one forward exchange contract that had not yet been settled. It was a closed position due on 17 January 2019 in a nominal amount of EUR 5,357k (prior year: EUR 5,373k), with an underlying loan or advance to a customer and which merely entailed a settlement risk.

As in the prior year, the net market value of derivatives as of the balance sheet date was EUR 107k.

Holdings of debt securities and other fixed-income securities which are negotiable on a stock market and listed have a nominal value of EUR 34,000k (prior year: EUR 34,000k). The other securities held are non-listed floating rate notes (corporate bonds), which are, however, negotiable on a stock market. The USD-denominated notes have a nominal value of USD 90,000k (prior year: USD 34,000k) while the EUR-denominated notes have a nominal value of EUR 30,000k (prior year: EUR 30,000k).

In the reporting year, a corporate bond with a nominal value of EUR 10m was reallocated from the liquidity reserve and thereby from current assets to fixed assets. After the reallocation, a write-up of EUR 0.6m was made to acquisition cost, since the reason for the original write-down no longer applied. As of 31 December 2018, the book value of the bond was EUR 10.4m and the fair value EUR 9.8m. There were no other financial assets recognized at values above their fair value.

Securities that will mature in 2019 amount to EUR 22,699k (prior year: EUR 0k).

Fixed assets

(in EUR k)

	Acquisition cost 1 Jan 2018	Additions	Reclassifications	Exchange rate fluctuations	Disposals	Amortization, depreciation and write-downs		Residual carrying amount	Residual carrying amount
						Accumulated 31 Dec 2018	Fiscal year	31 Dec 2018	31 Dec 2017
Intangible assets software	6	0	0	0	0	2	1	4	4
Office equipment	554	10	0	0	57	422	51	85	125
Securities classified as fixed assets	58,350	48,891	10,399	1,334	0	0	0	118,974	58,350
Total	58,910	48,901	10,399	1,334	57	424	52	119,063	58,479

Contingent liabilities and other obligations before deduction of compensating balances and provisions for indemnification claims:

(in EUR k)

31 Dec 2018	31 Dec 2017	
-	-	From letters of credit for customers
5,329	3,931	From guarantees for customers
8,280	6,616	From guarantees for banks
=====	=====	
13,609	10,547	

As of the balance sheet date, there were compensating balances for guarantees of EUR 3,200k (prior year: EUR 2,662k) and general bad debt allowances on indemnification claims of EUR 7k (prior year: EUR 7k). Security totaling EUR 8,510k (prior year: EUR 6,153k) had also been granted for overdraft facilities.

The contingent liabilities were primarily performance guarantees for import and export business (on behalf of and for the account of foreign banks), six performance bonds, five payment guarantees, five warranties and one customs guarantee for reputable companies.

We do not expect any significant claims to be made.

Interest income breaks down by percentage to the following geographical regions:

2018	2017	
84	79	Asia
-12	-11	Germany
28	31	Europe
0	1	Other

The percentage stated for Germany relates to negative interest charged on the balances held at Deutsche Bundesbank in excess of the minimum reserves.

Commission income breaks down by percentage to the following geographical regions:

2018	2017	
15	12	Asia
76	70	Germany
8	17	Europe
1	1	Other

The currency result of EUR 21k is presented under other operating expenses (prior year: other operating income of EUR 8k).

We will propose to the annual general meeting a resolution to transfer the net retained profit for 2018 in full to the other revenue reserves, as in the prior year.

Other financial obligations break down as follows:

(in EUR k)

	2019	**2020**	**2021**	**2022**
Rent	149	149	176	176
Service charges	49	49	49	49

The current lease runs until 31 December 2020. In view of rising demand in the wake of Brexit, we have forecast a potential rent increase for 2021.

3. Other notes

The Institution employed an average of 26 members of staff, including the members of the Management Board, in fiscal year 2018 (prior year: 26). Five of these were seconded by the parent company.

The total fee charged by the auditor in fiscal year 2018 was EUR 123k plus VAT (prior year: EUR 102k) and comprised audit services (EUR 105k; prior year: EUR 85k) and tax services (EUR 18k; prior year: EUR 17k). As in the prior year, no audit-related services were provided. The audit services in fiscal year 2018 related exclusively to the audit of the statutory financial statements. The tax services related to the preparation and submission of tax returns.

Management Board

The members of the Management Board are:

Hyuk-Jun Kim, (Chairman), banker

Dr. Franz Siener-Kirsch, banker

Management remuneration is not disclosed pursuant to Sec. 286 (4) HGB.

Supervisory Board

The members of the Supervisory Board are:

Ki Jung Sung, Seoul, banker (Chairman), KEB Hana Bank, Seoul

Jin Kwon Namkoong, Seoul, banker (Deputy Chairman), KEB Hana Bank, Seoul

Kum Hoe Huh, bank officer (employee representative)

As in the prior years, the members of the Supervisory Board do not receive any remuneration for their activities.

Loans to managers, etc.

As in the prior year, there were no credit lines or loans granted to the members of the Management Board or the Supervisory Board as of the balance sheet date.

Capital stock

Since 1 January 2015, there have been 45,000 registered shares with a notional value of EUR 511.29 each (20,000 of which originally had a value of DM 1,000.00).

Parent company

The Bank's financial statements are included in the consolidated financial statements of Hana Financial Group, Seoul, the largest group of consolidated companies, and can be requested from Hana Financial Group – Financial Planning Division – Seoul, Korea. The consolidated financial statements may also be downloaded from www.hanafn.com. In addition to these consolidated financial statements, subgroup consolidated financial statements are also prepared, especially for KEB Hana Bank, Seoul, Korea. These subgroup consolidated financial statements can likewise be downloaded from the aforementioned website.

Subsequent events

There were no special events after the reporting date which affected assets, liabilities and financial performance.

Frankfurt am Main, 29 March 2019

KEB Hana Bank (D) AG

The Management Board

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Translation from the German language

KEB Hana Bank (D) AG

Frankfurt am Main

Financial statements as of 31 December 2018

Management report for fiscal year 2018

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

1.1 Organizational structure of the Institution

The Bank is one of the smallest banks in Germany with a total of 26 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 one other 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 wholly owned by KEB Hana Bank located in Seoul, Korea. KEB Hana Bank, Seoul, Korea, is also a non-listed institution and since 2013 has been wholly owned 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 prior 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 by two people.

1.3 Products and services

The Bank is authorized to perform all banking transactions within the meaning of the German Banking Act [“Kreditwesengesetz”: KWG]. The Bank is particularly active in the area of import and export financing and supporting Korean subsidiaries in Germany as well as in central and eastern Europe. There were no changes in this regard compared to the prior year. Private customer business is only conducted to a limited extent.

1.4 Business processes

The Bank’s business processes are described in the detailed organization manuals. Given the size of the Institution, the Management Board is already directly involved in the early initial stages of entering into large exposures. The Management Board is promptly informed of all changes in the Bank which are relevant to risk and is significantly and personally involved in the decision-making processes.

1.5 Sales markets

As in the prior years, the Bank concentrates on services for the subsidiaries of Korean companies in Germany and in 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 business success. This influential factor is moderated by the tendency of Korean industrial customers to relocate their 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 prior year.

1.8 Macroeconomic and industry-specific conditions

1.8.1 Overall economic environment

The global economy lost momentum in the course of 2018. Following a weak start to the year, global production picked up strongly in the second quarter only to deteriorate significantly in the third quarter. The IfW indicator for global economic activity, which is calculated on the basis of sentiment indicators from 42 countries, signaled a further slowdown in the economy for the fourth quarter. While the IfW indicator in the advanced economies has risen again substantially in recent times and still shows an above-average level of confidence, in the emerging market economies it has fallen to a striking low. Economic sentiment in China has contributed to this deterioration, as has the shift in capital flows, which has put significant pressure on the currencies in many emerging economies and led to turbulence on the financial markets. As in the prior year, global output on the basis of purchasing power parities increased by 3.7% in 2018.

1.8.2 Economic development in South Korea

Current economic situation

The Republic of Korea is a G-20 country and has been a member of the OECD since 1996. With a gross domestic product of USD 1,693b (2018), it ranks 12th out of the world's economies. The gross domestic product per capita was USD 32,046 in 2018. In terms of currency reserves, South Korea was ranked 8th worldwide at the beginning of 2018, at USD 396.8b.

The inflation rate of consumer prices in November 2018 was 1.5% (2017: 1.9%). Since 30 November 2018, the key interest rate has been 1.75%. Total public debt stood at about 40.4% of GDP at the end of 2018, remaining at a comparatively low level. In 2018, the unemployment rate was 3.7%. Korea achieved economic growth of 2.7% in 2018 and the forecast for 2019 is likewise 2.7%.

In addition to a general commitment to the multilateral world trade talks, the Korean government has systematically pursued the conclusion of bilateral free trade agreements in recent years. Free trade agreements with Singapore, the EFTA, Chile, the ASEAN countries, India, Peru, the EU, the US 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 on 1 January 2015 and the free trade agreement with Colombia 15 July 2016. The free trade agreement with Central America (Panama, Costa Rica, Guatemala, Honduras, El Salvador, Nicaragua) was signed on 21 February 2018. Negotiations with Israel, Ecuador and the MERCOSUR are still underway. A trilateral agreement between South Korea, Japan and China is also under negotiation.

Foreign trade turnover (imports and exports) totaled USD 562b in the first half of 2018, a year-on-year increase of 9.5%. China (excluding Hong Kong), the US, the EU and Japan are among the most important trading partners.

Exports rose by 6.5% in the first half of 2018 compared with the prior year. The main export goods were semiconductors, machinery, chemical products, cars, steel products, communications equipment, ships and oil products. The export of semiconductors increased significantly by 42.0% and exports of steel products rose by 4.1%. Imports also increased by 13.2% over the same period. The main import goods were petroleum (up 32.3%), machinery/precision equipment (up 6.6%), chemical products (up 14.2%), semiconductors (up 9.6%), communication equipment (up 2.8%), steel products (down 9.9%) and natural gas (up 37.6%).

Compared with the prior year, actual foreign direct investment in the first half of 2018 rose sharply by 76.4% to USD 9.5b. The total number of foreign companies operating in South Korea is around 7,500. The most important investors in the period were the US (USD 1.7b), China (USD 0.72b), Japan (USD 0.65b), France (USD 0.58b), Hong Kong (USD 0.37b) and Singapore (USD 0.32b).

Among the EU countries, Germany ranks fifth at EUR 0.06b, after France (USD 0.58b), Ireland (USD 0.24b), the UK (USD 0.16b) and the Netherlands (USD 0.1b).

1.8.3 Economic activity in Germany

In 2018, price-adjusted GDP saw a 1.5% increase on the prior year. The German economy thus grew for the ninth consecutive year, despite losing some momentum. Price-adjusted GDP had risen by 2.2% in each of the two previous years. Over a longer time horizon, German economic growth in 2018 was above the average rate for the last 10 years (1.2%).

In 2018, domestic developments in particular helped boost growth: private consumer spending (up 1.0%) as well as government spending (up 1.1%) were higher than in the prior year. Nonetheless, growth was noticeably lower than in the preceding three years.

Price-adjusted gross capital formation was 4.8% higher than in the prior year. Investment in machinery and equipment was up by 4.5% on the prior year. There was a 3.0% increase in construction investment; substantially more funds were invested in public civil engineering projects than in the prior year. Other investments, which also include expenditure on research and development, were 0.4% higher year on year. Furthermore, in 2018, inventories in the economy increased, which also contributed to growth.

The economic output in Germany in 2018 was achieved by an average of 44.8 million people in work in Germany. According to initial calculations, the number of people in gainful employment increased by around 562,000 year on year. This 1.3% increase mainly resulted from a rise in the number of people in insurable employment. As in the prior years, higher labor force participation and the influx of workers from abroad offset age-related demographic effects.

The government achieved a record surplus of EUR 59.2b in 2018 (2017: EUR 34.0b). Initial calculations indicate that the federal government, state governments, municipalities and social security funds closed the year with a surplus for the fifth consecutive year. The government achieved a surplus ratio of 1.7% of GDP at current prices in 2018.

1.8.4 Financial markets

Normally, full employment, economic growth and positive Purchasing Managers' Indexes are reliable stimuli for positive stock market performance. Not so in 2018, a year in which German shares suffered a severe plunge. The DAX lost 18.3% of its value in the reporting year, trailing all the other major European stock market indexes. European securities were down by 14.3% overall with reference to EuroStoxx50. While automotive securities, which are sensitive to economic developments, were the first to react to the global trade conflict and flagging demand from China, the slump permeated all sectors by the end of the year. Investor anxiety advanced unimpeded. Even the basic consumer and health securities, which have always been regarded as stable, went into a tailspin, with some reaching two-year lows. High-quality securities, such as Fresenius, fell by as much as 19% in one day after a profit warning was issued. It was the biggest single-day loss in the company's history, while Bayer closed 2018 with a 41% loss.

At the end of 2018, the biggest losers were European banking securities (EURO STOXX Bank Index), down 33.3%, automotive stocks (EURO STOXX Automobile), down 28.8%, and industrial goods stocks, down 12.2% (e.g., Siemens, closing 16.2% lower). Europe's homegrown problems, such as Brexit and high levels of sovereign debt in Italy, overshadowed positive developments, such as the sustained positive trend on the European labor market.

Against the backdrop of the customs dispute with the US, China's securities, based on the Shanghai Composite Index, slumped by around 25% (EUR), the biggest setback of any Asian developing country.

US securities, particularly tech shares, reported a positive development until the fall thanks to the overall stable US economy. However, in the last few weeks of the year, US shares gave way to the downtrend and the value of the Dow Jones Industrial Index, which mirrors the performance of the 30 largest US companies, dropped 10% in December alone. Overall, this meant a loss for the year of 5.6% (USD). The US technology stock exchange, NASDAQ, recorded a loss of 3.9% (USD) due to sudden concerns about flagging economic growth in 2019, increases in the key interest rate by the US Federal Reserve (FED) and the expanding trade conflict.

The global economy and in particular, the US economy are robust, which also justifies the monetary policy of the FED, which has recently eased its interest rate policy. In light of gradually rising inflation, the European Central Bank (ECB) is also currently scaling down its expansionary monetary policy (QE = quantitative easing) with deference to the uneven economic momentum in the eurozone. As in 2018, the central banks will play a key role in 2019. However, this means that ultimately, euro-currency investors will not benefit from attractive (real) interest rates in 2019 either.

2. Assets, liabilities, financial position and financial performance

The Bank's total assets were down by EUR 105.8m on the prior year to EUR 558.3m. In terms of the use of working capital, the decrease largely relates to a EUR 93.7m drop in loans and advances to banks to EUR 130.3m and a EUR 79.5m decrease in cash reserves to EUR 133.4m which was only partly offset by a EUR 50.3m increase in securities to EUR 145.5m. Debt securities and other fixed-income securities include corporate bonds with a nominal value of USD 90.0m as well as securities of EUR 30.0m which are allocated to the non-trading book and are eligible for listing but not listed. The Bank also has listed securities with a nominal value of EUR 34.0m in the form of two government bonds and one corporate bond. The government bonds of EUR 24k have been allocated to the liquidity reserve. In the reporting year, a corporate bond (ABN AMRO) of EUR 10m was reallocated from the liquidity reserve and thereby from current assets to fixed assets As in the prior year, all other securities held are floating rate notes (FRN), issued by first-class companies with a Korean background. The investment in these papers serves as an alternative to participation in syndicated loans. 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 a EUR 36.1m decrease in customer deposits to EUR 212.4m compared to EUR 248.5m in the prior year. Liabilities to banks were down by EUR 73.6m year on year to EUR 269.7m. As of the balance sheet date, subscribed capital amounted to EUR 23.0m (prior year: EUR 23.0m). As in the prior year, the capital reserves amounted to EUR 2.6m. The number of issued shares has been 45,000 since 1 January 2015. As in prior years, the Management Board will propose to the annual general meeting that the entire net retained profit be transferred to revenue reserves. If the annual general meeting follows this proposal, the Bank's own funds will amount to EUR 75.5m (prior year: EUR 71.5m).

Net interest income remained virtually unchanged, increasing by EUR 2k on the prior year to EUR 3,270k. The EUR 867k increase in interest expenses was contrasted by a EUR 869k increase in interest income. As in the prior year, the development of net interest income in 2018 was shaped by the persistently low interest rate level. Interest expenses were up due to a slight increase in average interest rates, especially on liabilities, while average volumes were lower. On the assets side, interest income increased due to investments in types of investments bearing slightly higher interest compared to the prior year despite a lower average volume of receivables.

Net commission income increased slightly by EUR 134k from EUR 6,913k to EUR 7,047k year on year, particularly as a result of the EUR 721k rise in commission income from the foreign exchange business and the EUR 201k rise in non-recourse receivables sales, which more than offset the EUR 879k decrease in commission income from payment transactions and documentary collections, as well as the EUR 41k rise in guarantees to EUR 139k (prior year: EUR 98k) and the EUR 38k increase in the letter of credit business to EUR 669k (prior year: EUR 631k). Overall, commission expenses fell slightly by EUR 12k on the prior year.

Compared with the prior year, personnel expenses increased by EUR 114k to EUR 2,600k (prior year: EUR 2,486k), largely as a result of a EUR 42k backpayment to DRV Bund (German pension insurance) and salary adjustments.

Risk provisioning was down by EUR 668k in the reporting period. The change was due to the derecognition of specific bad debt allowances of EUR 237k with no effect on income after the completion of insolvency proceedings for a provisioned loan in the fiscal year, write-ups of securities of EUR 562k after the reallocation of a corporate bond to the non-trading book associated with the intention of holding the security to maturity as a result of which the reason for impairment no longer applied and reversals of prudential reserves of EUR 24k in accordance with Sec. 340f HGB [“Handelsgesetzbuch”: German Commercial Code]. These items contrasted with allocations of EUR 155k to general bad debt allowances on customer loans. As in the prior year, general bad debt allowances of 0.75% of unsecured loans and advances to customers were recognized. The amount of 0.75% was calculated by risk management and is based on the PDs and LGDs of the respective borrowers. Net income from risk provisions therefore amounted to EUR 431k in the reporting period compared to EUR 145k in the prior year.

Risk provisions (in EUR k):	2018	2017
Specific bad debt allowance	0	237
Allowance on securities	0	562
General bad debt allowance on customer loans	928	773
Provisions for guarantees	7	7
Prudential reserve pursuant to Sec. 340f HGB	77	101
Total:	1,012	1,680

Due to the small size, the low level of complexity of the operations and the manageable business volume, internal management using financial performance indicators, as is common in major companies, is only feasible to a limited degree in the Bank. A comparison with prior-year figures and quantitative guidelines from the parent company is performed on a monthly, quarterly and annual basis. The Bank’s return on equity in relation to the subscribed capital was 17.2% as of 31 December 2018 (prior year: 17.2 %).

The return on assets to be reported in accordance with Sec. 26a (1) KWG, calculated as the net income divided by total assets, was 0.007 on the balance sheet date (prior year: 0.006).

A meaningful presentation of non-financial performance indicators is likewise not possible for a niche bank such as KEB Hana Bank (D) AG. Because of the limited number of customers, there is always direct contact between customers and management.

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

3. Comparison of the forecast made in the prior period and the actual business development

In summary, in the management report for fiscal year 2017, the Management Board of the Bank already assumed that its development would be positive in the medium term, even though the persistently high regulatory and margin pressure would continue to impact earnings in the short term.

Despite the predicted continuation of regulatory and margin pressure in the past fiscal year and decreasing total assets, the Bank's net income for the year was more or less on a par with the prior year and the Bank's business model, which has been in place for many years, thus provided a stable commercial basis in 2018 as well.

Explanation of the capital structure

As in the prior year, the Bank's subscribed capital of EUR 23.0m comprised 45,000 no-par registered shares.

A statutory reserve pursuant to Sec. 150 (2) AktG ["Aktiengesetz": German Stock Corporation Act] did not have to be recognized as of the balance sheet date, since the capital reserves amount to more than 10% of the capital stock.

As in the prior year, the basis for the refinancing was customer deposits of EUR 316.1 million (prior year: EUR 267.3 million) and the liabilities to banks of an average of EUR 295.3 million (prior year: EUR 279.4 million), whereas an average of EUR 222.7 million (prior year: EUR 237.8 million) represented liabilities to the Bank's parent company.

The Bank's off-balance sheet liabilities of EUR 9.6k (prior year: EUR 7.9k) did not change significantly in terms of their structure, volume and risk compared to the prior year after deduction of the compensating balance and provisions for indemnification 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 rose slightly by EUR 6.3m (prior year: EUR 5.5m). As in the prior year, Asia accounted for the largest share of interest income, up to 84% against 79% in the prior year. Europe's share sank to 28% compared to 31% in 2017 and Germany's share fell slightly to -12% compared to -11% in the prior year. The percentage stated for Germany relates to negative interest charged on the balances held at Deutsche Bundesbank in excess of the minimum reserves.

Total commission income increased slightly against the prior year from EUR 7.1m to EUR 7.2m. As in the prior year, the largest items here were payment transactions and documentary collections of EUR 4.2m (prior year: EUR 5.0m), followed by foreign exchange business of EUR 1.2m (prior year: EUR 0.6m), non-recourse receivables sales of EUR 0.8m (prior year: EUR 0.3m) and letter of credit business of EUR 0.7m (prior year: EUR 0.6m). As in the prior year, Germany accounted for the largest share of commission income at 76% (prior year: 70%), followed by Asia at 15% (prior year: 12%) and Europe at 8% (prior year: 17%).

5. Liquidity, unutilized irrevocable credit lines

The Bank was solvent at all times. The liquidity coverage ratio (LCR) specified in the provisions of BaFin ["Bundesanstalt für Finanzdienstleistungsaufsicht": German Federal Financial Supervisory Authority] was complied with at all times.

IT systems which are used to prepare forecast calculations are available for ongoing LCR monitoring. The functional department determines the LCR on a daily basis and informs the Management Board in the context of risk reporting. All contractually agreed and possible cash and cash equivalents and payment obligations are taken into account. In the case of cash and cash equivalents and payment obligations with an indefinite term, certain assumptions are made and factored into liquidity management. Liquidity management is performed separately for each currency.

The LCR is managed in such a way that it always exceeds the 110% minimum threshold specified by the Bank. If the LCR falls short of the minimum threshold specified by the Bank, the Management Board is notified immediately. The LCR ratios for the reporting year are as follows:

Mean	Median	Mode	Average difference	100 < LCR < 110
123.5%	119.6	116.5	15%	11 times or 4.5%

As of the balance sheet date, the LCR was 113.81%.

As of 31 December 2018, there were no unutilized irrevocable credit lines, as was the case at the same reporting date of the prior year.

6. Analysis of relationships with related parties

In the reporting period, there were no loans granted to members of the Bank's governing bodies. There are 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 the GroMiKV ["Grosskredit- und Millionenkreditverordnung": German Regulation Governing Large Exposures and Loans of EUR 1.0m or More]. The terms of the loans were always in line with market conditions.

Overall the Bank's assets, liabilities, financial position and financial performance continued to be in order.

7. Outlook, opportunities and risks

Economic development in 2019

According to the Kiel Institute for the World Economy (IfW), the rise in global output, calculated on the basis of purchasing power parities, will decrease from 3.7% in 2018 to 3.4% in 2019. The IfW also expects growth of 3.4% in 2020. An expansion rate of this proportion cannot be regarded as a pronounced economic slump since, compared to the 2000s, the rate of potential global production growth has noticeably decreased (IMF 2015). However, capacity utilization in the advanced economies is not likely to rise much further and in many emerging economies, production will only expand at a moderate rate in light of the frequently unfavorable economic policies and a difficult financial environment. The forecast is based on the assumption that the trade conflicts will be settled by degrees, resulting in an easing of their restrictive effects over time and enabling global trade expansion to pick up again in 2020 despite a concurrent increase in global production.

Given the gradual tightening of expansive monetary policy, decreasing fiscal policy stimuli and the mere moderate rise in demand in the developing and emerging economies, the Kiel Institute expects the increase in output in the advanced economies to lose momentum in 2019 and 2020. After a 2.4% increase in 2018, the Kiel Institute expects an overall increase in production in this group of countries of 2.1% in 2019 and 1.8% in 2020.

The German federal government expects economic growth of only 1.0% in 2019, the lowest rate since 2013. In its fall forecast, the government expected GDP growth of 1.8%. The weaker forecast is due to the postponed Brexit, the ongoing trade conflicts and the international tax environment. In the reporting year, the German economy saw 1.5% growth.

The Korean economy saw the wind taken out of its sails in the fourth quarter of 2018 and suffered a significant drop in economic growth from 3.0% in the prior years to 2.7% in 2018. A similar range is forecast or 2019, with a tendency toward the lower end. Various risk factors threaten to put a further damper on growth. Local experts fear that a widening trade conflict between the US and China could have a negative impact on South Korean companies since they deliver a large number of primary products for Chinese export goods. South Korean exports had already started to lose momentum and this trend is likely to continue in the coming months. In the industrial sector, growth was recently strongly focused on a small number of segments, such as semiconductors. However, the boom is likely to have peaked, which is why capital expenditures stagnated in 2018. Construction investment is even expected to decrease in 2019.

In addition, the government headed by President Moon Jae-In was not able to implement its central election promise of tackling unemployment. Rather, the situation worsened, particularly for those aged under 30, thereby putting private consumption under pressure.

Nonetheless, the government is sticking to its course of aligning its underlying economic polices with demand-oriented growth. Looking forward, South Korea's economy could benefit from impetus gained through its political rapprochement with North Korea since the beginning of 2018. Discussions are currently underway on numerous projects, especially in the area of infrastructure, as well as on the establishment of a common economic zone in the north.

The forecast for the Bank's economic performance in 2019 was 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 in relation to the People's Republic of China will remain orderly.
- Stable to positive development of economic conditions in the eurozone.

Assuming that interest margins stabilize as expected and lending expands slowly, we expect that the earnings trend will be at least stable. With further increases in expenses due to the strong regulatory pressure, slightly higher earnings before taxes of approximately 1.0 % (2018 forecast: 2.3%) are expected. The Bank has chosen the current fiscal year 2019 as a forecast period. In 2018, earnings before taxes increased by 1.0% compared to 2017, which is significantly lower than the growth forecast of 2.3%. This is mainly attributable to the EUR 105.8m drop in total assets compared with the prior year to EUR 558.3m. Despite a lower average volume, net interest income remained stable due to slightly higher interest margins compared to the prior year and net commission income increased slightly.

Due to the continuation of tight interest rates, the still high equity ratio and fierce competition in commission business, it can be assumed that, as in the prior year, only very slight growth in earnings will be generated by the core customer segment. To counter this, the Bank will continue to endeavor to build new business relationships with Korean companies, especially in the eastern EU countries. This possibility of expanding the customer base is considered realistic by the Bank, as Korean subsidiaries are likely to still be established in eastern Europe. This region offers an environment that makes this shift interesting in economic terms 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 have demand for other currencies alongside the euro and the US dollar. In this area, there is still the opportunity in the medium term to generate interesting contributions to margin and commission income. In addition, there are additional income opportunities through the brokerage of banking transactions in this geographical region directly to the parent company or other entities 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, even though the persistently high regulatory and margin pressure will continue to impact earnings.

Risk-relevant framework conditions

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

In order to limit unavoidable risks specific to banking, the Bank captures, manages and limits these risks. To this end, the Management Board has 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 both ensure that the supervisory requirements are met and 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 organizing and monitoring business transactions subject to risk.

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

The risks are quantified when calculating internal capital adequacy. 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 what risks could arise in this context.

There is a risk management committee in the Bank in which all risk-relevant business divisions and the Management Board are represented. The committee analyzes the current risk situation each quarter 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 its information and explained in a meeting.

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

No own risk models are used in the determination of capital requirements pursuant to the CRR.

Risk management system

All risks which may arise at the Bank have been recorded in an inventory, 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 comprising risk capture, risk measurement, risk analysis, risk assessment and ongoing risk monitoring, which is continuously enhanced. This system is the basis for risk management. All these processes are designed in such a way that all supervisory regulations, especially the MaRisk ["Mindestanforderungen an das Risikomanagement": Minimum Requirements for Risk Management], 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 audit plan of the internal audit department encompasses all business divisions. The plan includes all operational and business divisions, taking the volume of business activities and inherent risk into account. Aside from the business processes, the design and operating effectiveness of risk capture, risk measurement, risk analysis, risk assessment and risk monitoring are tested. The audit cycle for each area is defined based on risk aspects and is generally three years. Particularly risk-relevant fields are subject to an annual audit cycle. The audit plan is coordinated annually and approved by the Management Board.

Risk strategies

The risk strategy is aligned with the business strategy, and with the requirements of the KEB Hana Bank Group. In addition, the objective of risk management is compliance with all future supervisory requirements (particularly capital requirements). The risk strategy takes into account the objectives and plans of the Institution's significant business activities as set forth in the business strategy and the risks of material outsourcing arrangements as well as the limitation of risk concentrations. The level of detail contained in the strategies depends on the scope and complexity as well as the inherent risk of the planned business activities. The risk strategy is broken down into the risk types set out in the risk inventory.

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

- Counterparty credit risk (essentially credit risk and country risk)
- Liquidity risk
- Income risk
- Operational risk
- Market risk (including interest rate risk)

In order to limit the risks, the Bank has defined limits for the significant and some of the insignificant risks as part of the internal capital adequacy calculation.

The Bank consistently considers risks on a gross basis, i.e., before countermeasures, recognized provisions or payments which have already been made.

Concentration risk is monitored and managed group-wide in consultation with KEB Hana Bank, Seoul.

The risk strategy is reviewed at least once a year by the Management Board to ensure that it is up to date and adapted if necessary. It is submitted to the responsible department heads and the Supervisory Board for their information.

Organization of 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 organizational manual 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 about the Bank's current situation by various lists and analyses included in regular reporting. The Management Board is notified immediately of any unplanned and risk-relevant events in the form of ad hoc reports from the respective department head.

Internal capital adequacy calculation

The Bank's internal capital adequacy calculation is based on profit and loss and the balance sheet. The Bank applies a going concern approach in managing its internal capital adequacy. The Bank determines risk coverage potential both for a normal scenario and a stress scenario at least quarterly and additionally as required.

In the normal scenario, the impact of the risks from ordinary business activities on financial performance is calculated. The impact on crisis situations is simulated in a stress scenario, also applying a going concern approach and assuming a deterioration of creditworthiness in relation to counterparty credit risk. For market risk, a parallel shift in the yield curve of 200 basis points in both directions is simulated for interest rates. In addition, other scenarios such as twists in the yield curve are simulated. In the case of liquidity, a decrease in loan repayment rates is assumed.

In addition, the Bank established, analyzed and documented reverse stress test scenarios in the reporting period. In the Bank's opinion, the material stress scenario would be a military strike by North Korea against the Republic of Korea, which would severely impair the economic fundamentals of the country, among other aspects. In addition, the dependency on Chinese economic growth is also a factor that can be used as a stress scenario simulating a strong economic downturn in China.

Internal capital adequacy is determined by comparing the risk coverage potential and the calculated risk potential. Offsetting diversification effects between the separate types of risk are not considered. The Bank distinguishes between available risk capital in the narrower sense and available risk capital in the broader sense.

Available risk capital in the narrower sense comprises the adjusted average profit of the last three years, but no more than the budget figure for the current year, which is adjusted to reflect current developments throughout the year.

For available risk capital in the broader sense, the Bank includes both own funds and the accumulated profit for the year, less the respective regulatory capital requirements pursuant to the CRR.

The risk potential is calculated quarterly as part of the internal capital adequacy calculation (see above). Counterparty credit risks are calculated based on the respective ratings of the borrowers, the collateral and the corresponding probability of default. Market risk comprises interest rate risk and exchange rate risk. The changes in interest rates are measured using a term-based weighting and a parallel shift in the yield curve. For exchange rate risk, an approach involving the net open position of the currency balances with the regulatory factor from the CRR is used. For liquidity risk, scenario-based assumptions are made for payment flows and repayment rates in order to determine the current financing requirements using currently valid market data. Operational risk is calculated on the basis of the standardized approach. In addition, income risk is determined using a factor-based approach on the basis of the main risk arising from market and credit risk.

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

Risk type	Risk measurement method
Counterparty credit risk	Credit value-at-risk based on the Gordy model with parameters PD and LGD
Market risk	Interest rate risk: Alternative procedure Exchange rate risk: Net open position*8%
Liquidity risk	Scenario-based approach
Operational risk	Standardized approach
Income risk	Factor-based approach

The Bank has set limits for the significant risk categories (market risk, counterparty credit risk, country risk, liquidity risk and operational risk). 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 insignificant risks are therefore directly factored into the calculation of internal capital adequacy by being deducted from the risk coverage potential. As in the prior year, EUR 1.50m was deducted for insignificant risks as of 31 December 2018.

Limit setting was aligned with the risk coverage potential and led to the retention of the limits. The new limit allocation process was applied, which in the first step allocates the aggregate limit to the respective utilization and subsequently, in the second step, defines a fixed amount which is approved by the Management Board.

For the risk scenario, the risk limit is allocated to the following risk categories:

Risk category	Reporting date		Prior year	
	Limit	Maximum risk scenario	Limit	Maximum risk scenario
	EUR k	EUR k	EUR k	EUR k
Market risk	5,000	1,839	5,000	2,245
Counterparty credit risk	20,000	2,007	20,000	2,364
Operational risk	2,500	2,329	2,500	2,070
Liquidity risk	1,500	115	1,500	137
Income risk	1,000	256	1,000	320
Total	30,000	6,546	30,000	7,136

The total risk coverage potential in the normal scenario amounted to EUR 47.8m as of 31 December 2018 (prior year: EUR 44.6m), with a total utilization of 22%. In the very conservative stress scenario, the total utilization is significantly higher at EUR 37.2m, which corresponds to an aggregate limit excess of EUR 7.2m, but the risk is fully covered by the available risk coverage potential of EUR 43.6m.

The result of the internal capital adequacy calculation is submitted on a quarterly basis to the risk management committee and subsequently to the Supervisory Board for its information.

Throughout the entire year, the calculated risks were in line with the risk coverage potential, apart from the exception described above.

Counterparty credit risk

The Bank considers counterparty credit risk to be the potential default of a business partner (borrower, counterparty, issuer or other contractual partner) or the potential decline in the value of a transaction involving primary or derivative instruments which would result from the failure of the corresponding business partner to render the performance specified in the contract. The Bank includes credit risk, country risk and concentration risk in counterparty credit risk.

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

At customer level, the Bank’s credit risk is mitigated by setting limits. The basis for the limits is the relevant risk assessment by the front and back offices. 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. All securities purchases are approved individually by the Management Board.

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

The ongoing monitoring of counterparty credit risk 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 limits cannot be exceeded without authorization, not even during the day.

If, during the monitoring process, anything comes to the Bank's attention which points to an elevated risk, the loan is transferred to intensified loan management.

Risk provisions in the form of appropriate bad debt allowances are recognized if an acute default risk is identified for a loan exposure and the realistic value of the collateral no longer covers the exposure.

General bad debt allowances and reserves under Sec. 340f HGB are recognized for general counterparty credit risks, taking the probability of default into account.

Consistent implementation of the MaRisk ensures that the counterparty credit risks are permanently monitored.

Country risk is also countered by appropriate limits.

Concentration risks related to certain countries, industries, loan types and certain borrower risk groups to which the Bank is inevitably exposed because of its position within the group structure are covered and managed at group level. The CRR liquidity ratios including the observation ratios pursuant to the LiqV and the tier 1 capital ratios pursuant to the CRR are used for management in the Bank on a daily basis. The Bank uses the registered office and industry of the parent company as an allocation criterion for counterparty credit risk.

In the absence of any defaults of our own, the probabilities of default to which KEB Hana Bank, Seoul, is exposed are used for the purpose of calculating internal capital adequacy for counterparty credit risks, since the Bank uses the same internal rating system for loan exposures as KEB Hana Bank, Seoul, and the majority of counterparty credit risks relate to the subsidiaries of Korean companies. In the stress scenarios we apply a reasonable premium to the probability of default used.

Liquidity risk

Liquidity risk is the risk that the Bank cannot meet its current and future payment obligations fully or in a timely manner. 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 functional 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 cash equivalents and payment obligations are taken into account. In the case of cash and cash equivalents and payment obligations with an indefinite term, certain assumptions are made and factored into liquidity management. Liquidity management is performed separately for each currency.

Funding matrices prepared for short-term, medium-term and long-term liquidity to illustrate the forward liquidity exposure facilitate the monitoring and management of liquidity. The liquidity ratio LCR of > 100% was complied with daily in 2018. The liquidity reserves in the assets are always maintained so as to secure the Bank against unexpected liquidity outflows or bottlenecks. The Bank does not enter into transactions on “tight” markets. In managing liquidity, attention is also paid to ensuring that various market players are utilized for this purpose. Until further notice, the Bank has determined an internal threshold of 110%. If the liquidity ratio falls below this limit, the Management Board must be notified immediately. This occurred 11 times in the reporting year. The LCR did not fall below 100% at any time in the current year.

For the internal capital adequacy calculation, a certain percentage of the deposits is deducted, which would then have to be covered at short notice at a certain premium on the money market. For this purpose, money market lines with customers and a USD 300m line from our parent company are available. In the calculation of the stress scenarios, the Bank applies higher percentages and higher premiums.

Market risk positions

For the Bank, market risk means potential losses due to unfavorable 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 three 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 loans and advances and liabilities daily for interest rate risk. The Management Board is notified of existing interest rate risks daily.

The imposition of tight limits on net foreign exchange positions reduces currency risks to a minimum. In particular, currency swaps in the sense of EMIR are used for this purpose. The net foreign exchange 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 foreign exchange position was EUR 222k (2017: EUR 263k).

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

To calculate internal capital adequacy, a certain change in the exchange rate is used for currency risk and an assumed change in the interest rate based on a fixed-interest schedule is used for interest rate risk. 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 under the alternative procedure was EUR 3.7m (prior year: EUR 4.5m). The decrease is largely attributable to shorter terms of refinancing arrangements and improved matching of maturities on the assets and liabilities side of the balance sheet.

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

Operational risk (including operating and legal risk)

For the Bank, operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. For the Bank, this mainly includes transaction risk, control risk, system risk, method-based risk, business risk, legal risk as well as risk arising from the loss of reputation.

In order to limit operational risk, an extensive set of written rules has been prepared and extensive controls implemented at various levels. Control risk is mitigated, among other procedures, by stipulating the application of the principle of dual control 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 functions to qualified external service providers.

General risks are covered by back-up systems, contingency plans, disaster plans and insurance contracts which provide coverage at a level that is normal for the banking industry.

The Bank also addresses possible operational risks and defines necessary responses in the risk analysis which is prepared annually. When preparing the risk analysis, the effectiveness of existing responses is also reviewed.

A loss database is available for recording all loss cases at the group level of KEB Hana Bank, Seoul. Responses based on the loss cases recorded in the database are then implemented group-wide.

With respect to legal risks, the Bank distinguishes between

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

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

To avoid legal risks with respect to contracts, the Bank generally uses standardized 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 organizational guidelines.

There are currently no litigation risks.

There are no other material risks.

Summary

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

Risks are covered by the available equity. Risk provisions are reflected in the balance sheet. The total capital ratio pursuant to the CRR was 33.67% on the balance sheet date (prior year: 36.40%). EUR 71.4m in equity was available to comply with the total capital ratio. We anticipate a slight reduction in the total capital ratio in 2019 because we are planning to expand the lending volume.

Bank supervisory regulations for risk mitigation are adhered largely to both in terms of quantity and quality and supplemented by additional internal 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 risks compared to the prior year. For 2019, we expect earnings before taxes to be approximately 1.0% higher than in the past year.

8. Proposal for the appropriation of profit

We propose to the annual general meeting that the net retained profit of EUR 1,975k be transferred to revenue reserves.

9. Our employees

At the end of 2018, the Bank had 26 employees, including management. As in the prior years, we promoted the continuing education of our employees through internal and external training activities, the latter being 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. Relationships with affiliates

In accordance with Sec. 312 AktG, the Bank has compiled a report on relationships with affiliates as of 31 December 2018 in which the Bank discloses all its legal transactions with affiliates and actions or omissions at the behest of or in the interest of affiliates.

The Management Board's report on relationships with affiliates in accordance with Sec. 312 AktG concludes with the following statement:

The Institution received appropriate consideration for each of the legal transactions disclosed in the report on relationships with affiliates of which the Institution was aware at the time the transactions occurred. There were no actions or omissions in the reporting period.

Frankfurt am Main, 29 March 2019

KEB HANA BANK (D) AG

The Management Board

Hyuk-Jun Kim *Dr. Franz Siener-Kirsch*

Translation from the German language

Engagement Terms, Liability and Conditions of Use

We, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, conducted our audit of this financial reporting on behalf of the Company. Besides satisfying the legal disclosure requirement (Sec. 325 HGB ["Handelsgesetzbuch": German Commercial Code]) for statutory audits, the auditor's report is addressed exclusively to the Company and was issued for internal purposes only. It is not intended for any other purpose or to serve as a decision-making basis for third parties. The result of voluntary audits summarized in the auditor's report is thus not intended to serve as a decision-making basis for third parties and must not be used for purposes other than those intended.

Our work is based on our engagement letter for the audit of this financial reporting and the "General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften" [German Public Auditors and Public Audit Firms] as issued by the Institute of Public Auditors in Germany ["Institut der Wirtschaftsprüfer": IDW] on 1 January 2017.

To clarify, we point out that we assume no responsibility, liability or other obligations towards third parties unless we have concluded a written agreement to the contrary with the respective third party or liability cannot effectively be precluded.

We make express reference to the fact that we will not update the auditor's report to reflect events or circumstances arising after it was issued, unless required to do so by law.

It is the sole responsibility of anyone taking note of the summarized result of our work contained in this auditor's report to decide whether and in what way this information is useful or suitable for their purposes and to supplement, verify or update it by means of their own review procedures.

[Translator's notes are in square brackets]

General Engagement Terms
for
Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften
[German Public Auditors and Public Audit Firms]
as of January 1, 2017

1. Scope of application

(1) These engagement terms apply to contracts between German Public Auditors (*Wirtschaftsprüfer*) or German Public Audit Firms (*Wirtschaftsprüfungsgesellschaften*) – hereinafter collectively referred to as "German Public Auditors" – and their engaging parties for assurance services, tax advisory services, advice on business matters and other engagements except as otherwise agreed in writing or prescribed by a mandatory rule.

(2) Third parties may derive claims from contracts between German Public Auditors and engaging parties only when this is expressly agreed or results from mandatory rules prescribed by law. In relation to such claims, these engagement terms also apply to these third parties.

2. Scope and execution of the engagement

(1) Object of the engagement is the agreed service – not a particular economic result. The engagement will be performed in accordance with the German Principles of Proper Professional Conduct (*Grundsätze ordnungsmäßiger Berufsausübung*). The German Public Auditor does not assume any management functions in connection with his services. The German Public Auditor is not responsible for the use or implementation of the results of his services. The German Public Auditor is entitled to make use of competent persons to conduct the engagement.

(2) Except for assurance engagements (*betriebswirtschaftliche Prüfungen*), the consideration of foreign law requires an express written agreement.

(3) If circumstances or the legal situation change subsequent to the release of the final professional statement, the German Public Auditor is not obligated to refer the engaging party to changes or any consequences resulting therefrom.

3. The obligations of the engaging party to cooperate

(1) The engaging party shall ensure that all documents and further information necessary for the performance of the engagement are provided to the German Public Auditor on a timely basis, and that he is informed of all events and circumstances that may be of significance to the performance of the engagement. This also applies to those documents and further information, events and circumstances that first become known during the German Public Auditor's work. The engaging party will also designate suitable persons to provide information.

(2) Upon the request of the German Public Auditor, the engaging party shall confirm the completeness of the documents and further information provided as well as the explanations and statements, in a written statement drafted by the German Public Auditor.

4. Ensuring independence

(1) The engaging party shall refrain from anything that endangers the independence of the German Public Auditor's staff. This applies throughout the term of the engagement, and in particular to offers of employment or to assume an executive or non-executive role, and to offers to accept engagements on their own behalf.

(2) Were the performance of the engagement to impair the independence of the German Public Auditor, of related firms, firms within his network, or such firms associated with him, to which the independence requirements apply in the same way as to the German Public Auditor in other engagement relationships, the German Public Auditor is entitled to terminate the engagement for good cause.

5. Reporting and oral information

To the extent that the German Public Auditor is required to present results in writing as part of the work in executing the engagement, only that written work is authoritative. Drafts are non-binding. Except as otherwise agreed, oral statements and explanations by the German Public Auditor are binding only when they are confirmed in writing. Statements and information of the German Public Auditor outside of the engagement are always non-binding.

6. Distribution of a German Public Auditor's professional statement

(1) The distribution to a third party of professional statements of the German Public Auditor (results of work or extracts of the results of work whether in draft or in a final version) or information about the German Public Auditor acting for the engaging party requires the German Public Auditor's written consent, unless the engaging party is obligated to distribute or inform due to law or a regulatory requirement.

(2) The use by the engaging party for promotional purposes of the German Public Auditor's professional statements and of information about the German Public Auditor acting for the engaging party is prohibited.

7. Deficiency rectification

(1) In case there are any deficiencies, the engaging party is entitled to specific subsequent performance by the German Public Auditor. The engaging party may reduce the fees or cancel the contract for failure of such subsequent performance, for subsequent non-performance or unjustified refusal to perform subsequently, or for unconscionability or impossibility of subsequent performance. If the engagement was not commissioned by a consumer, the engaging party may only cancel the contract due to a deficiency if the service rendered is not relevant to him due to failure of subsequent performance, to subsequent non-performance, to unconscionability or impossibility of subsequent performance. No. 9 applies to the extent that further claims for damages exist.

(2) The engaging party must assert a claim for the rectification of deficiencies in writing (*Textform*) [*Translators Note: The German term "Textform" means in written form, but without requiring a signature*] without delay. Claims pursuant to paragraph 1 not arising from an intentional act expire after one year subsequent to the commencement of the time limit under the statute of limitations.

(3) Apparent deficiencies, such as clerical errors, arithmetical errors and deficiencies associated with technicalities contained in a German Public Auditor's professional statement (long-form reports, expert opinions etc.) may be corrected – also versus third parties – by the German Public Auditor at any time. Misstatements which may call into question the results contained in a German Public Auditor's professional statement entitle the German Public Auditor to withdraw such statement – also versus third parties. In such cases the German Public Auditor should first hear the engaging party, if practicable.

8. Confidentiality towards third parties, and data protection

(1) Pursuant to the law (§ [Article] 323 Abs 1 [paragraph 1] HGB [German Commercial Code: *Handelsgesetzbuch*], § 43 WPO [German Law regulating the Profession of Wirtschaftsprüfer: *Wirtschaftsprüferordnung*], § 203 StGB [German Criminal Code: *Strafgesetzbuch*]) the German Public Auditor is obligated to maintain confidentiality regarding facts and circumstances confided to him or of which he becomes aware in the course of his professional work, unless the engaging party releases him from this confidentiality obligation.

(2) When processing personal data, the German Public Auditor will observe national and European legal provisions on data protection.

9. Liability

(1) For legally required services by German Public Auditors, in particular audits, the respective legal limitations of liability, in particular the limitation of liability pursuant to § 323 Abs. 2 HGB, apply.

(2) Insofar neither a statutory limitation of liability is applicable, nor an individual contractual limitation of liability exists, the liability of the German Public Auditor for claims for damages of any other kind, except for damages resulting from injury to life, body or health as well as for damages that constitute a duty of replacement by a producer pursuant to § 1 ProdHaftG [German Product Liability Act: *Produkthaftungsgesetz*], for an individual case of damages caused by negligence is limited to € 4 million pursuant to § 54 a Abs. 1 Nr. 2 WPO.

(3) The German Public Auditor is entitled to invoke demurs and defenses based on the contractual relationship with the engaging party also towards third parties.

(4) When multiple claimants assert a claim for damages arising from an existing contractual relationship with the German Public Auditor due to the German Public Auditor's negligent breach of duty, the maximum amount stipulated in paragraph 2 applies to the respective claims of all claimants collectively.

(5) An individual case of damages within the meaning of paragraph 2 also exists in relation to a uniform damage arising from a number of breaches of duty. The individual case of damages encompasses all consequences from a breach of duty regardless of whether the damages occurred in one year or in a number of successive years. In this case, multiple acts or omissions based on the same source of error or on a source of error of an equivalent nature are deemed to be a single breach of duty if the matters in question are legally or economically connected to one another. In this event the claim against the German Public Auditor is limited to € 5 million. The limitation to the fivefold of the minimum amount insured does not apply to compulsory audits required by law.

(6) A claim for damages expires if a suit is not filed within six months subsequent to the written refusal of acceptance of the indemnity and the engaging party has been informed of this consequence. This does not apply to claims for damages resulting from scienter, a culpable injury to life, body or health as well as for damages that constitute a liability for replacement by a producer pursuant to § 1 ProdHaftG. The right to invoke a plea of the statute of limitations remains unaffected.

10. Supplementary provisions for audit engagements

(1) If the engaging party subsequently amends the financial statements or management report audited by a German Public Auditor and accompanied by an auditor's report, he may no longer use this auditor's report.

If the German Public Auditor has not issued an auditor's report, a reference to the audit conducted by the German Public Auditor in the management report or any other public reference is permitted only with the German Public Auditor's written consent and with a wording authorized by him.

(2) If the German Public Auditor revokes the auditor's report, it may no longer be used. If the engaging party has already made use of the auditor's report, then upon the request of the German Public Auditor he must give notification of the revocation.

(3) The engaging party has a right to five official copies of the report. Additional official copies will be charged separately.

11. Supplementary provisions for assistance in tax matters

(1) When advising on an individual tax issue as well as when providing ongoing tax advice, the German Public Auditor is entitled to use as a correct and complete basis the facts provided by the engaging party – especially numerical disclosures; this also applies to bookkeeping engagements. Nevertheless, he is obligated to indicate to the engaging party any errors he has identified.

(2) The tax advisory engagement does not encompass procedures required to observe deadlines, unless the German Public Auditor has explicitly accepted a corresponding engagement. In this case the engaging party must provide the German Public Auditor with all documents required to observe deadlines – in particular tax assessments – on such a timely basis that the German Public Auditor has an appropriate lead time.

(3) Except as agreed otherwise in writing, ongoing tax advice encompasses the following work during the contract period:

a) preparation of annual tax returns for income tax, corporate tax and business tax, as well as wealth tax returns, namely on the basis of the annual financial statements, and on other schedules and evidence documents required for the taxation, to be provided by the engaging party

b) examination of tax assessments in relation to the taxes referred to in (a)

c) negotiations with tax authorities in connection with the returns and assessments mentioned in (a) and (b)

d) support in tax audits and evaluation of the results of tax audits with respect to the taxes referred to in (a)

e) participation in petition or protest and appeal procedures with respect to the taxes mentioned in (a).

In the aforementioned tasks the German Public Auditor takes into account material published legal decisions and administrative interpretations.

(4) If the German Public auditor receives a fixed fee for ongoing tax advice, the work mentioned under paragraph 3 (d) and (e) is to be remunerated separately, except as agreed otherwise in writing.

(5) Insofar the German Public Auditor is also a German Tax Advisor and the German Tax Advice Remuneration Regulation (*Steuerberatungsvergütungsverordnung*) is to be applied to calculate the remuneration, a greater or lesser remuneration than the legal default remuneration can be agreed in writing (*Textform*).

(6) Work relating to special individual issues for income tax, corporate tax, business tax, valuation assessments for property units, wealth tax, as well as all issues in relation to sales tax, payroll tax, other taxes and dues requires a separate engagement. This also applies to:

a) work on non-recurring tax matters, e.g. in the field of estate tax, capital transactions tax, and real estate sales tax**;**

b) support and representation in proceedings before tax and administrative courts and in criminal tax matters;

c) advisory work and work related to expert opinions in connection with changes in legal form and other re-organizations, capital increases and reductions, insolvency related business reorganizations, admission and retirement of owners, sale of a business, liquidations and the like, and

d) support in complying with disclosure and documentation obligations.

(7) To the extent that the preparation of the annual sales tax return is undertaken as additional work, this includes neither the review of any special accounting prerequisites nor the issue as to whether all potential sales tax allowances have been identified. No guarantee is given for the complete compilation of documents to claim the input tax credit.

12. Electronic communication

Communication between the German Public Auditor and the engaging party may be via e-mail. In the event that the engaging party does not wish to communicate via e-mail or sets special security requirements, such as the encryption of e-mails, the engaging party will inform the German Public Auditor in writing (*Textform*) accordingly.

13. Remuneration

(1) In addition to his claims for fees, the German Public Auditor is entitled to claim reimbursement of his expenses; sales tax will be billed additionally. He may claim appropriate advances on remuneration and reimbursement of expenses and may make the delivery of his services dependent upon the complete satisfaction of his claims. Multiple engaging parties are jointly and severally liable.

(2) If the engaging party is not a consumer, then a set-off against the German Public Auditor's claims for remuneration and reimbursement of expenses is admissible only for undisputed claims or claims determined to be legally binding.

14. Dispute Settlement

The German Public Auditor is not prepared to participate in dispute settlement procedures before a consumer arbitration board (*Verbraucherschlichtungsstelle*) within the meaning of § 2 of the German Act on Consumer Dispute Settlements (*Verbraucherstreitbeilegungsgesetz*).

15. Applicable law

The contract, the performance of the services and all claims resulting therefrom are exclusively governed by German law.