

KEB Hana Bank (D) Aktiengesellschaft Frankfurt am Main

Short-Form Audit Report

Annual Financial Statements as of December 31, 2020, Management
Report for Financial Year 2020 and Auditors' Report

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft





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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Engagement Terms, Liability and Conditions of Use

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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B. Reproduction of the auditor's report

1 We issued the following auditor's report on the annual financial statements and the management report:

"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 2021, and the income statement for the fiscal year from 1 January 2021 to 31 December 2021, 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 2021 to 31 December 2021.

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 2021 and of its financial performance for the fiscal year from 1 January 2021 to 31 December 2021 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.



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Pursuant to Sec. 322 (3) Sentence 1 HGB [“Handelsgesetzbuch”: German Commercial Code], 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 2021 to 31 December 2021. 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.



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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 necessity to recognize a risk provision.

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, and increased uncertainty in connection with estimates due to the ongoing corona virus pandemic, we determined the identification of impaired loans and advances to customers in the corporate credit portfolio to be a key audit matter.

Auditor's response

We examined the process for identifying impaired loans and advances to customers in the corporate credit portfolio. We assessed the controls implemented for this process in terms of their operating effectiveness with regard to identifying impaired loans and advances to customers.

In addition, we performed substantive procedures and tested in a credit file review whether impairment was required to be recognized for the loan exposures in our sample. To this end, we assessed the economic situation of the collateral providers, largely on the basis of the financial information published, and examined the recoverability of the collateral furnished by the collateral providers, mainly in the form of guarantees. We selected our sample in particular on the basis of the amount outstanding, the internal rating of the collateral provider and the industries hit especially hard by the coronavirus pandemic.



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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 6. "Outlook, opportunities and risks" under "Counterparty default 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.



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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.



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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 opinions. 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.



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- 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.



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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 June 2021. We were engaged by the Supervisory Board on 22 December 2021. We have been the auditor of KEB Hana Bank (D) Aktiengesellschaft without interruption since fiscal year 2017.

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, 13. Mai 2022

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Hultsch
Wirtschaftsprüfer

Distler
Wirtschaftsprüfer

Translation from the German language

Balance sheet as of 31 December 2021 of KEB Hana Bank (D) Aktiengesellschaft, Frankfurt/Main

Assets					Liabilities and equity					
	EUR	EUR	EUR	EUR	Prior year EUR k		EUR	EUR	EUR	Prior year EUR k
1. Cash reserve						1. Liabilities to banks				
a) Cash on hand			846,35		1	a) Payable on demand		104.061.037,98		51.491
b) Balances at central banks			126.896.710,48		246.139	b) With an agreed term or period of notice		194.432.471,34		298.493.509,32
thereof at Deutsche Bundesbank	126.896.710,48				0	2. Liabilities to customers				
c) Postal giro balances			0,00		246.140	a) Other liabilities				
2. Loans and advances to banks						aa) Payable on demand	185.299.331,70			349.648
a) Payable on demand			9.026.673,29		4.255	ab) With an agreed term or period of notice	258.475.659,75	443.774.991,45	443.774.991,45	271.988
b) Other loans and advances			23.947.459,19		12.584	3. Other liabilities			75.031,10	238
3. Loans and advances to customers					264.317	4. Deferred income			132.731,61	95
4. Debt securities and other fixed-income securities						5. Provisions				
a) Bonds and debt securities						b) Tax provisions		724.184,00		0
aa) issued by the public sector		55.601.555,08			80.946	c) Other provisions		340.035,59	1.064.219,59	293
thereof eligible as collateral with Deutsche Bundesbank	55.601.555,08					6. Equity				
(prior year: EUR 80,946 k)						a) Called capital				
ab) issued by other borrowers		304.544.041,98	360.145.597,06		191.602	Subscribed capital	23.008.135,44	23.008.135,44		23.008
thereof eligible as collateral with Deutsche Bundesbank	12.406.437,89					b) Capital reserves		2.556.459,41		2.557
(prior year: EUR 12,467 k)						c) Revenue reserves				
						ca) Other revenue reserves	59.122.113,34	59.122.113,34		55.101
5. Intangible assets						d) Net retained profit/accumulated loss		2.338.642,99	87.025.351,18	1.683
Purchased franchises, industrial and similar rights and assets			242.800,99		3	Total liabilities and equity			830.565.834,25	800.015
and licenses in such rights and assets										
6. Property and equipment					67					
7. Other assets					101					
Total assets			830.565.834,25		800.015				830.565.834,25	800.015
						Contingent liabilities				
						a) Acceptances and endorsements		0,00		0
						b) Guarantees		50.593.012,00		36.684
						c) Assets pledged as collateral for third-party liabilities		0,00	50.593.012,00	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		3.454.625,86	3.454.625,86	1.744

**Income statement of KEB Hana Bank (D) Aktiengesellschaft, Frankfurt/Main,
for the period from 1 January to 31 December 2021**

	EUR	EUR	EUR	Prior year EUR k
1. Interest income from				
a) Lending and money market business	3.682.013,68			3.089
less negative interest from lending and money market business	-765.012,18			-969
b) Fixed-income securities and government-inscribed debt	2.335.674,57	<u>5.252.676,07</u>		2.699
2. Interest expenses	-286.351,92			-937
Plus negative interest on credit balances from deposit business	772.987,72	<u>486.635,80</u>	5.739.311,87	344
3. Commission income		7.185.465,81		7.130
4. Commission expenses		<u>-239.931,14</u>	6.945.534,67	-200
5. General and administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	<u>-2.581.400,84</u>			-2.415
bb) Social security, pension and other benefit costs	<u>-347.268,75</u>	<u>-2.928.669,59</u>		-316
thereof for old-age pensions: EUR 52,756.71 (prior year: EUR 39 k)				
b) Other administrative expenses		<u>-2.684.584,95</u>	-5.613.254,54	-2.749
6. Amortization, depreciation and impairment of intangible assets and property and equipment			-38.535,10	-22
7. Other operating income			138.324,05	33
8. Write-downs of and allowances on loans and advances and certain securities as well as allocations to provisions for possible loan losses				
9. Income from write-ups of loans and advances and certain securities and from the reversal of provisions for possible loan losses			-83.513,02	-546
10. Income from write-ups of equity investments, shares in affiliates and securities classified as fixed assets			0,00	0
11. Other operating expenses			<u>-35.231,36</u>	-125
12. Result from ordinary activities			<u>7.052.636,57</u>	5.016
13. Income taxes			-2.374.742,60	-1.649
14. Other taxes			<u>-608,00</u>	-1
15. Net income/net loss for the year			<u>4.677.285,97</u>	3.366
16. Allocations to the revenue reserves				
a) to other revenue reserves		<u>2.338.642,99</u>	<u>2.338.642,99</u>	1.683
17. Net retained profit/accumulated loss			<u>2.338.642,99</u>	1.683

Translation from the German language

Notes to
the financial statements for fiscal year 2021
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, having its registered office in Frankfurt am Main, is entered in the commercial register of Frankfurt am Main Local Court under HRB no. 36083.

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.

Translation from the German language

Debt securities and other fixed-income securities exclusively comprise securities classified as fixed assets. Securities classified as fixed assets are valued in accordance with the modified lower of cost or market principle.

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.

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.

Translation from the German language

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 policies have changed against the prior year.

Notes to the balance sheet

The item "Loans and advances to banks" (asset item no. 2) contains unsecuritized loans and advances to affiliates of EUR 1,598k (prior year: EUR 1,183k) and the item "Liabilities to banks" (liability item no. 1) contains unsecuritized liabilities to affiliates of EUR 285,129k (prior year: EUR 95,384k), excluding accrued interest in each case.

Translation from the German language

Breakdown of balance sheet items by residual maturity as of 31 Dec 2021

Loans and advances to banks	31 Dec 2021 EUR k	31 Dec 2020 EUR k
Payable on demand	1,878	4,255
Up to three months	11,847	1,525
More than three months and up to one year	74	11,050
More than one year and up to five years	7,058	-
More than five years	12,072	-
Accrued interest	45	9
General bad debt allowance	0	0
	32,974	16,838

Loans and advances to customers	31 Dec 2021 EUR k	31 Dec 2020 EUR k
Payable on demand	14,581	15,116
Up to three months	31,486	46,983
More than three months and up to one year	77,164	81,126
More than one year and up to five years	185,142	114,259
More than five years	2,106	8,249
Specific bad debt allowance	-	-
General bad debt allowance	-2,062	-1,850
Sec. 340f HGB	-50	-42
Accrued interest	535	476
	309,902	264,317

Liabilities to banks	31 Dec 2021 EUR k	31 Dec 2020 EUR k
Payable on demand	67,004	51,491
Up to three months	54,998	645
More than three months and up to one year	176,491	43,268
More than one year and up to five years	0	0
More than five years	0	0
Accrued interest	0	0
	298,493	95,404

Translation from the German language

Other liabilities to customers with an agreed term or period of notice

	31 Dec 2021 EUR k	31 Dec 2020 EUR k
Up to three months	60,619	810
More than three months and up to one year	137,834	211,155
More than one year and up to five years	60,000	60,000
More than five years	22	22
Accrued interest	1	1
	258,476	271,988

Liabilities to customers payable on demand amount to EUR 185,299k (prior year: EUR 349,649k).

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

	31 Dec 2021 EUR k	31 Dec 2020 EUR k
Total amount of assets	270,248	261,696
Total amount of liabilities	264,863	256,316
Total amount of contingent liabilities	8,361	8,425

Holdings of debt securities and other fixed-income securities which are negotiable on an exchange and listed have a nominal value of EUR 67,369k (prior year: EUR 88,260k). The other securities held are non-listed floating rate notes (corporate bonds), which are, however, negotiable on an exchange. The USD-denominated notes have a nominal value of USD 238,000k (prior year: USD 161,000k) while the EUR-denominated notes have a nominal value of EUR 52,000k (prior year: EUR 48,000k). Also included are non-listed fixed rate notes (corporate bonds), which are, however, negotiable on an exchange. They are denominated in USD and have a nominal amount of USD 33,800k (prior year: USD 0k).

The Bank has securities with a book value of EUR 63,526k (prior year: EUR 61,148k) that will mature in 2022.

The item debt securities and other fixed-income securities include debt securities recognized at a book value of EUR 57,048k (prior year: EUR 38,318k), above their fair value of EUR 56,686k (prior year: EUR 38,149k). No impairment loss to reflect the lower net realizable value was recognized since impairment is not expected to be permanent. The Bank intends to hold the securities to maturity.

Translation from the German language

Fixed assets

(in EUR k)

	<u>Acquisition cost 1 Jan 2021</u>	<u>Additions</u>	<u>Reclassifications</u>	<u>Exchange rate fluctuations</u>	<u>Disposals</u>	<u>Amortization, depreciation and impairment</u>		<u>Residual carrying amount</u>	<u>Residual carrying amount</u>
						Accumulated 31 Dec 2021	Fiscal year	<u>31 Dec 2021</u>	<u>31 Dec 2020</u>
Intangible assets software	6	243	0	0	0	6	4	243	3
Office equipment	510	268	0	0	189	289	34	300	67
Securities classified as fixed assets	247,129	141,463	0	7,209	36,642	0	0	359,159	157,446
Total	247,645	141,974	0	7,209	36,831	295	38	359,702	157,516

Translation from the German language

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

(in EUR k)

<u>31 Dec 2021</u>	<u>31 Dec 2020</u>	
3,061	26	from letters of credit for customers
10,932	24,438	from guarantees for customers
36,600	12,221	from guarantees for banks
=====	=====	
50,593	36,685	

As of the reporting date, there were compensating balances for guarantees of EUR 2,070k (prior year: EUR 1,859k) and provisions for contingent liabilities of EUR 10k (prior year: EUR 10k). Security totaling EUR 14,555k (prior year: EUR 7,241k) 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), performance bonds, payment guarantees, warranties and a customs guarantee for reputable companies.

We do not expect any significant claims to be made.

The other obligations relate to irrevocable loan commitments of EUR 3,455k (prior year: EUR 1,744k) which are expected to lead to an outflow of resources.

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

<u>2021</u>	<u>2020</u>	
27	54	Asia
27	-4	Germany
44	50	Europe
2	0	Other

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

Translation from the German language

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

<u>2021</u>	<u>2020</u>	
9	10	Asia
75	76	Germany
14	14	Europe
2	0	Other

The currency result of EUR 38k is presented under other operating income (prior year: other operating expenses of EUR 125k).

We will propose to the annual general meeting a resolution to transfer the net retained profit for 2021 in full to the other revenue reserves, as in the prior year.

Other financial obligations break down as follows:

(in EUR k)

	2021	2022	2023	2024
Rent	197	178	184	184
Service charges	75	57	57	57

The rent increases on 1 January of every second year by 3% of the last rent amount owed, starting on 1 January 2023.

3. Other notes

The Institution employed an average of 27 persons, including the members of the Management Board, in fiscal year 2021 (prior year: 27). Five of these (prior year: five) were seconded by the parent company.

The total fee charged by the auditor for fiscal year 2021 was EUR 123k plus VAT (prior year: EUR 135k) and comprised audit services (EUR 123k; prior year: EUR 118k) and tax services (EUR 0k; prior year: EUR 17k). As in the prior year, no audit-related services were provided. The audit services in fiscal year 2021 related exclusively to the audit of the statutory financial statements. The tax services related to the preparation and submission of tax returns.

Translation from the German language

Management Board

The Management Board comprised the following members in the fiscal year:

Seagull Kim (Chairman), banker

Dr. Franz Siener-Kirsch, banker

Remuneration of the Management Board is not disclosed pursuant to Sec. 286 (4) HGB.

Supervisory Board

The Supervisory Board members in the fiscal year were:

Ki Jin Lee, Seoul, banker (Chairman), KEB Hana Bank, Seoul (since 17 February 2021)

Youngchan Seo, Seoul, banker (Chairman), KEB Hana Bank, Seoul (until 17 February 2021)

Hong Bae Moon, 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 reporting 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).

Translation from the German language

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

The Russian invasion of Ukraine is expected to result in global economic upheaval. The Bank has no loans and advances to customers or banks that are affected by sanctions against Russia. Whether and what second and third-order effects will arise remains to be seen. The Bank will therefore keep a close eye on the situation.

Frankfurt am Main, 30 March 2022

KEB Hana Bank (D) AG

The Management Board

Seagull Kim

Dr. Franz Siener-Kirsch

KEB Hana Bank (D) AG

Frankfurt am Main

Financial statements as of 31 December 2021

Management report for fiscal year 2021

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

1.1 Organizational structure of the Institution

The Bank is a small bank in Germany with a total of 29 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 a representative 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. Its products and services are divided into three areas:

1) Commercial Banking: corporate loans, mortgage loans and payments have been expanded to include promissory note loans and commercial real estate loans (mostly in the form of syndicated loans) also to local non-Korean borrowers. The transactions have a Korean background since they are initiated by Hana Financial Investment Co. Ltd., Seoul. 2) Trade Finance: documentary collection, documentary credits and non-recourse financing. 3) Financial Institutions (FI) business: banker's acceptances, interbank lending and foreign exchange business. As in the past, private customer business is only conducted to a very 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 initial stages of entering into large exposures. The Management Board is informed of all changes in the Bank which are relevant to risk and is personally involved in the decision-making processes.

1.5 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 economic development in Germany as well as in Korea is a crucial factor for the Bank's business success.

1.6 Changes to the business model

As in the prior year, the Bank's business model was largely unchanged.

1.7 Macroeconomic and industry-specific conditions

1.7.1 Overall economic environment

The global economic recovery from the slump precipitated by the coronavirus pandemic has meanwhile become erratic, with a mottled performance. While global output continued to rise noticeably in the course of 2021, the overall pace of expansion was modest (see Kiel Institute Economic Outlook; World Economy Winter 2021). Global output calculated on a purchasing power parity basis saw a strong overall rise in the third quarter as economic activities in India rebounded from the effects of a massive lockdown imposed in the spring to combat the dramatic wave of COVID-19 infections. However, a noticeable downturn was observed in the rest of the world after the middle of the year. The effect of the COVID-19 pandemic on economic activity is still making itself felt. The economic consequences also vary: higher incidences are now tolerated in countries that have a high vaccination rate especially, before measures that put a heavy damper on the economy are taken to limit contagion. In the summer, a resurgence of infections particularly in many Asian countries noticeably dampened economic activity, while production in the US and Europe was largely unscathed. In addition to the strain caused by the pandemic, with new risks arising from the recently identified new virus variant Omicron, economic prospects were further dimmed by ongoing supply constraints, which impaired merchandise production, as well as surging inflation. Recent performance in the advanced economies has slackened noticeably. The increase in aggregate output among the advanced economies declined significantly to 0.9% in the third quarter of 2021 from 1.7% in the preceding quarter. Overall, global GDP was up by 5.7% in 2021 after seeing a 3.1% decline in 2020. For 2022, the Kiel Institute for the World Economy anticipates a 4.5% increase.

Translation from the German language

Inflation in the advanced economies has ballooned strongly. Inflation rates increased sharply in the course of 2021, reaching multi-decade highs in many countries in the fall. In the G7 countries, the rate was at 4.5% in October and climbed to 5.0% in November. To date, the major central banks in the advanced economies have not yet responded with measures to curb the strong increase in inflation. However, the US Federal Reserve and the Bank of England have warned markets that they might tighten their policies earlier than planned. Initial interest rates hikes are anticipated for the first half of 2022 provided the course of the pandemic does not result in renewed economic destabilization. The volume of bond purchases will be reduced in the US and the Bank of England announced its intention to discontinue reinvestment of funds from maturing government bonds should the key interest rate reach 0.5% (currently 0.1%). In the eurozone, there are no indications of an increase in the key interest rate as yet. Liquidity provision will be reduced once the pandemic emergency purchase program ends in March 2022.

The Russian invasion of Ukraine is expected to result in global economic upheaval. The Bank has no loans and advances to customers or banks that are affected by sanctions against Russia. Whether and what second and third-order effects will arise remains to be seen. The Bank will therefore keep a close eye on the situation.

1.7.2 Economic development in South Korea

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 1,638b (2020), it ranks 10th out of the world's economies. At the end of 2021, GDP came to USD 1,824b, which was USD 35,196 per capita at the end of 2021 after USD 31,638 per capita at the end of 2020.

Growth in the South Korean economy in 2021 was the steepest in 11 years, thanks to a rise in exports and construction activities which compensated for the decreases in capital investments and the slow recovery of the services sector from the impact of the coronavirus pandemic. Information released by the Bank of Korea (BOK) in January 2022 shows that GDP was up by 4% in 2021 on the back of a strong rise in exports. The South Korean economy rebounded to varying degrees from the slump caused by the coronavirus pandemic in 2020. Exports grew at the highest rate in 11 years, while consumption saw an uneven recovery due to social distancing restrictions. Data published in January 2022 indicate that exports were the key growth driver with a 4.3% increase compared to the prior quarter. Growth was also bolstered by private consumption as well as construction investment, which saw a rise of 1.7% and 2.9%, respectively. In the fourth quarter, the services sector grew at a rate of 1.3%, stronger than in the third quarter, but slower than in the second quarter. Fixed investment was down by 0.6% on the prior quarter after seeing a 2.4% drop in the preceding three months.

Translation from the German language

The Bank of Korea raised the key interest rate in two stages in 2021, from 0.50% to 0.75% in August 2021 and to 1.00% in November 2021. In January 2022, the key interest rate was increased by another 25 basis points to 1.25%. The Bank of Korea reaffirmed that it would continue to govern monetary policy with a view to safeguarding financial stability while keeping the economy on course for growth and stabilizing the inflation rate at the target level of 2.0% (2021: 2.0% after 0.5% in 2020).

1.7.3 Economic activity in Germany

In 2021, a renewed damper was put on economic recovery in Germany. As with previous waves of infections, developments the winter months hamstrung activities especially in the contact-intensive services sector. In press release no. 020 by the Federal Statistical Office (Destatis) dated 14 January 2022, an initial calculation put price-adjusted GDP for 2021 at 2.7% higher than in 2020 (also adjusted for calendar effects). Economic development in 2021 was also heavily dependent on the rate of coronavirus infections and the corresponding protective measures. Compared to 2019, the year prior to the outbreak of the pandemic, GDP was still 2.0% lower in 2021. Compared to the preceding crisis year of 2020, in which there were in some cases massive disruptions to production due to the coronavirus pandemic, economic output increased in nearly all economic sectors in 2021.

In the manufacturing sector, price-adjusted gross value added was up significantly by 4.4% year on year. Compared to 2020, most services sectors reported noticeable growth. Economic output in the business services sector, which includes research and development, legal and tax consultancy as well as engineering activities, was up by 5.4%. In the combined economic sector wholesale and retail trade, transportation and accommodation and food services activities, economic growth was somewhat more moderate at 3.0% due to the prolonged restrictions as a result of the pandemic. Merely the construction sector, on which the coronavirus pandemic did not leave a noticeable mark in 2020, saw economic output decline slightly by 0.4% in 2021 compared to 2020.

Despite the growth observed in 2021, most business sectors did not see their economic output return to pre-crisis levels. Economic output in the manufacturing sector, for instance, was still down by 6.0% on the 2019 level in 2021. Other service activities including sports, culture, entertainment and the creative arts industry, were particularly hard hit by the coronavirus pandemic. In 2021, price-adjusted gross value added in this sector was 9.9% down on the pre-crisis level. In the sector public services, education and health, the decline in economic output in crisis year 2020 was more or less compensated for in 2021. The construction and the information and communication sectors were able to hold their own during the pandemic, noticeably boosting economic output compared to 2019.

Translation from the German language

Adjusted for inflation, private spending stabilized in 2021 at the low level of the prior year and is thus significantly lower than the pre-crisis level. Government consumption expenditure was again a mainstay of growth for the German economy in 2021. In the second year of the coronavirus pandemic, it increased by another 3.4% despite the high level in the prior year. In particular, the government spent more money on the procurement of the free rapid antigen tests, which were broadly introduced in the spring of 2021, and coronavirus vaccines as well as on the operation of test and vaccination centers.

Construction investments were up by a mere 0.5% in 2021 due to labor and material shortages, having previously achieved stronger growth for five consecutive years. Adjusted for inflation, investments in machines, equipment and vehicles were up by an inflation-adjusted 3.2% year on year in 2021, albeit after a strong decline in the crisis year of 2020.

Foreign trade recovered in 2021 from the heavy declines experienced in the prior year. Adjusted for inflation, Germany exported 9.4% more goods and services than in 2020. At the same time, imports increased by 8.6% adjusted for inflation. Thus, Germany's foreign trade in 2021 was only slightly below the 2019 level.

1.7.4 Financial markets

Initially, an existing vaccine raised hopes of being able to combat the pandemic. As vaccinations commenced at the beginning of the year, the stock markets also picked up strongly. The crisis looked like it was under control and both companies and investors breathed easy. However, this strong growth flagged somewhat over the course of 2021. Moreover, in light of the high inflation rates, the financial markets were under much higher pressure in the second half of the year than at the beginning. Inflation rates continued to rise worldwide as a result of the supply chain issues and high raw materials prices. In numerous countries, including Germany, the US and the Baltic states, inflation rates reached historic highs. Once a horror scenario for the European Central Bank, average price increases in the eurozone of more than 4% are now the order of the day. Whether the inflationary pressure is a temporary phenomenon or has become a permanent feature is still the subject of debate. However, the Fed announced in November that it would gradually pare back bond purchases, which had already run into the billions. If, contrary to the central banks' assumptions, the high inflation rates do prove to be here to stay, the banks will have to put on the breaks even harder. However, the financing conditions for companies on the European bond market still remain very favorable all in all. A large number of companies regard the low interest rate environment as an opportunity to step up corporate investments and production capacities, which could significantly boost economic growth. The stock markets reflected the confidence in the positive outlook for companies, reporting price increases worldwide until the third quarter. These markets also proved comparatively resistant to the inflation trend as well as the debate surrounding the tightening of monetary policy. The favorable reporting season and higher earnings expectations for companies buttressed prices. Concerns over the further course of the pandemic abated among market participants, especially in the summer and early fall, and only in November did fear and consternation return to the stock markets when the Omicron coronavirus variant emerged. The record results recorded by stock indices were quickly eroded, as fears of another lockdown loomed. Over the year as a whole, however, the stock markets rose, with the MSCI World recently up 20% on the pre-crisis level and the MSCI World Emerging Markets seeing a 9% increase. Based on the Euro Stoxx, European stocks have risen by 18% since the outbreak of the

Translation from the German language

pandemic. The financial markets' performance in 2022 primarily hinges on two factors. The return to a stable market environment will heavily depend on the pace at which vaccinations can curb the pandemic. Moreover, the central banks as well as companies and investors will be keeping a close eye on inflation. It goes without saying that price increases for a range of products, especially mineral oil, will have implications. The related need to increase pay could in turn have a negative impact on the profit margins of many companies. Above all, in high-inflation periods, investors ask themselves how monetary devaluation can be counteracted in the long term.

2. Assets, liabilities, financial position and financial performance

The Bank's total assets were up by EUR 30.6m on the prior year to EUR 830.6m. With regard to the use of working capital, there was a EUR 119.2m decrease in the cash reserve to EUR 126.9m. By contrast, loans and advances to banks increased by EUR 20.4m to EUR 33.0m. Loans and advances to customers were up by EUR 45.6m to EUR 309.9m. Debt securities and other fixed-income securities increased by EUR 87.6m to EUR 360.1m and other assets rose from EUR 171k to EUR 647k.

The equity and liabilities side showed a EUR 171.8m decrease in customer deposits to EUR 443.8m compared to EUR 621.6m in the prior year. Liabilities to banks were up by EUR 254.6m year on year to EUR 298.5m. As of the reporting date, subscribed capital amounted to EUR 23.0m (prior year: EUR 23.0m). The capital reserves remained unchanged on the prior year at EUR 2.6m. Other revenue reserves rose to EUR 59.1m (prior year: EUR 55.1m), particularly due to the reinvestment of the prior-year net income. 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 87.0m (prior year: EUR 82.3m).

Net interest income increased by EUR 1,513k on the prior year to EUR 5,739k. A EUR 1,080k decrease in interest expenses lead to a positive amount of EUR 486k, while interest income rose by EUR 434k.

Net commission income increased by a slight EUR 16k from EUR 6,930k to EUR 6,946k year on year.

Compared with the prior year, personnel expenses increased by EUR 198k to EUR 2,929k (prior year: EUR 2,731k). The rise stems in particular from salary increases and a slight increase in the average number of employees.

Non-staff operating expenses decreased by EUR 64k year on year to EUR 2,685k.

Loss allowances were up by EUR 84k in the reporting period. The change is primarily the result of an increase of EUR 76k rise in general bad debt allowances on loans and advances to customers. We tested the calculation of the general bad debt allowances using a model calculation based on regulatory requirements which takes into account ratings, median probabilities of default by product group (median PDs) and loss given default (LGD). As in the prior year, the Management Board of the Bank adopted a resolution to maintain general bad debt allowances at 0.75% of unsecured loans and advances to customers.

Translation from the German language

Loss allowances (in EUR k):	2021	2020
Specific bad debt allowance	0	0
General bad debt allowance	2,062	1,986
Provisions for guarantees	10	10
Prudential reserve pursuant to Sec. 340f HGB	50	42
Total:	2,122	2,038

The small size, the low level of complexity of the operations and the manageable business volume allow internal management using only a few financial performance indicators. 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 20.3% as of 31 December 2021 (prior year: 14.6%).

The return on assets to be reported in accordance with Sec. 26a (1) KWG, calculated as the net income divided by total assets, was 0.006 on the reporting date (prior year: 0.004).

A meaningful presentation of non-financial performance indicators is not possible for a niche bank such as KEB Hana Bank (D) AG due to the small base size. 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 2020, the Management Board of the Bank already assumed that its development would be positive in the medium term, despite the persistently high regulatory and margin pressure.

The forecast of a slight rise in earnings was exceeded. A significant increase in net interest income and a slight improvement in net commission income contrasted with a moderate increase in administrative expenses, which on balance led to substantially improved earnings for the fiscal year overall.

The Bank succeeded in increasing its balance sheet volume in the fiscal year despite forecasts of persistent regulatory and margin pressure. This was primarily attributable to the growth forecast through the expansion of business relationships with Korean corporate customers in Eastern Europe and the business with local borrowers with or without ties to Korea.

Compared to the prior year, the Bank's net income for the year was up by nearly 39% thanks to noticeably improved net interest income. The Bank's long established business model thus provided a stable commercial basis again in 2021.

Translation from the German language

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 reporting date, since the capital reserves amount to more than 10% of the capital stock.

As in the prior year, the basis for refinancing was customer deposits of EUR 443.8m (prior year: EUR 621.6m) and liabilities to banks of EUR 298.5m (prior year: EUR 95.4m). As of the reporting date, EUR 285.1m (prior year: EUR 95.4m) related to liabilities to the parent company.

The Bank's off-balance sheet liabilities of EUR 10.2k (prior year: EUR 10.2k) 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 to EUR 5.3m (prior year: EUR 4.8m). Europe accounted for the largest share of interest income at 44%, compared to 50% in the prior year. Asia's share decreased to 27% in 2021 compared to 54% in the prior year and Germany's share fell by 4% to 27% against the prior-year figure. The percentage stated for Germany includes negative interest charged on the balances held at Deutsche Bundesbank in excess of the minimum reserves.

Total commission income was up slightly on the prior year at EUR 7.2m (prior year: EUR 7.1m). As in the prior year, the largest items here were payment transactions and documentary collections of EUR 5.1m (prior year: EUR 4.5m), followed by non-recourse receivables sales of EUR 1.0m (prior year: EUR 0.8m), letter of credit business of EUR 0.5m (prior year: EUR 0.4m) and foreign exchange business of EUR 0.4m (prior year: EUR 1.2m). As in the prior year, Germany accounted for the largest share of commission income at 75% (prior year: 76%), followed by Europe at 14% (prior year: 14%) and Asia at 9% (prior year: 10%).

5. Liquidity, unutilized irrevocable credit lines

The Bank was solvent at all times. The provisions concerning the liquidity coverage ratio (LCR) were 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. Liquidity management is performed separately for each currency.

Translation from the German language

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 LCRs in % for the reporting year are as follows:

2021	LCR		
	Mean	Median	Month end
January	169.23	184.17	128.1
February	136.77	130.39	125.85
March	139.51	135.57	209.35
April	151.08	148.71	149.09
May	142.46	141.68	144.42
June	175.64	168.56	199.39
July	176.52	171.66	144.28
August	157.42	163.38	169.17
September	168.79	167.96	149.44
October	122.23	119.36	133.21
November	129.21	126.77	127.27
December	123.04	119.52	108.29

As of the reporting date, the LCR was 108.29%.

The regulatory requirements governing the net stable funding ratio (NSFR) have been consistently observed since 30 June 2021. IT systems which are used to calculate the ratio are available for NSFR monitoring. The functional department determines the NSFR on a quarterly basis and informs the Management Board in the context of risk reporting.

NSFR management is based on the regulatory requirements. The NSFR must exceed 100% at all times.

The NSFRs % for the reporting year are as follows:

2021	NSFR month end
January	-
February	-
March	-
April	-
May	-
June	214
July	174
August	232
September	200
October	194
November	190
December	223

As of the reporting date, the NSFR was 223%.

As of 31 December 2021, the Bank had unused irrevocable credit facilities of EUR 3,455k.

Translation from the German language

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.

6. Outlook, opportunities and risks

Economic development in 2022

For 2022, the Institute for the World Economy (IfW) in Kiel expects worldwide production (measured on the basis of purchasing power parities) to increase by 4.5% after rising by 5.7% in 2021. The IfW expects growth of 4.0% for 2023. Based on market exchange rates, the rates of change in global production are expected to be 5.6% in the coming year and 4.4% and 3.7%, respectively, in the subsequent two years. We expect more than 9% growth in in global trade of goods despite the weak growth in the course of the current year. In the coming year, growth of merely 2.2% is expected, while 2023 is likely to see an increase of 3.5%.

The IfW expects the German economy to grow its GDP by 4.0% in 2022 and 3.3% in 2023. If the hardships brought on by the pandemic ease in the spring of 2022, a solid recovery similar to 2021 is likely. The pace of economic activity is also expected to pick up substantially because of an anticipated reduction in the supply constraints which are currently a heavy burden on industrial output. Inflation will remain high for the time being, as supply bottlenecks will continue to lead to higher production costs and a shortage of consumer goods. At the same time, private households have amassed additional savings of around EUR 200b since the beginning of the pandemic and are in a spending mood as a result. Consumer price inflation is expected to remain at 3% in the current and subsequent year before dropping off again in 2023.

The Bank of Korea expects GDP to grow by 3% in the current year, as Asia's fourth largest economy benefited from strong computer chip exports and the increase in public spending. Global demand for Korean chips is robust and strong exports are likely to underscore South Korea's growth dynamic.

The worldwide government interventions in the economy as a result of the coronavirus crisis have not had any significant negative effects on our customers and on the Bank's earnings to date. Programs launched by the Korean government to fund investments in digital infrastructure and electromobility are having a positive effect on the business activities of our customers. For example, our Bank is involved in financing new plants for battery manufacturers in eastern Europe. For 2022, the Management Board expects positive earnings at a level similar to 2021.

Translation from the German language

Risk-relevant framework conditions

The objective of the Bank's business strategy is generating earnings by consciously taking controlled risks to the greatest extent possible, 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 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 to the greatest extent possible.

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 default risk, market risk, liquidity risk, operational risk and business risk). Compliance with these defined 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.

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.

Risk management system

All material risks have been recorded in an inventory, determined to be complete by the risk management committee and included in the risk manual. The risk inventory is subject to an annual or ad hoc review and to confirmation by the risk management committee in the event of significant changes.

The Bank uses a risk control and management system comprising risk capture, risk measurement, risk analysis, risk assessment and ongoing risk monitoring. This system is the basis for risk management. All these processes are designed in pursuit of the objective of ensuring compliance with supervisory regulations, especially the MaRisk ["Mindestanforderungen an das Risikomanagement": Minimum Requirements for Risk Management].

The Management Board, the Supervisory Board and the parent company of the Bank are informed continually of the Bank's risk situation.

There is a written multi-year internal audit plan in place including 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

Translation from the German language

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 current and 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 risk
 - Default risk
 - Country risk
 - Concentration risk
 - CVA risk (part of default risk)
- Market risk
 - Interest rate risk in the banking book
 - Credit spread risk
 - Currency risk
- Liquidity risk
 - Funding risk
- Operational risk
- Business risk

In order to limit the risks, the Bank has defined limits for the significant 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 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

Translation from the German language

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. 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 applies a normative and economic perspective in managing its internal capital adequacy.

Normative perspective

The normative perspective takes the regulatory ratios and their underlying calculation method as its point of departure. It also involves plausibly updating the regulatory SREP capital determination for the respective significant risk, the target capital ratio and the countercyclical capital buffer. Other significant inputs in the normative perspective are the forecast results for future periods as part of the capital planning process.

The risk coverage potential in the normative perspective comprises regulatory own funds and other elements of capital.

A one-year risk measurement horizon is included in the normative perspective in order to comply with the risk measurement procedures required by the regulatory authorities.

The normative perspective's baseline scenario uses the budgets and forecasts for at least the next three years. From 2022 onwards, the global economy is expected to rebound after the severe impact of the coronavirus pandemic in the last two years. One assumption is that GDP in Germany, Europe and South Korea will steadily increase. Due to the economic upswing, the unemployment rate in the relevant countries will be low. The supply chain problems and supply constraints affecting semiconductors will ease off and imports and exports will recover. Due to the considerable improvement in the economic situation, companies will be willing to make capital expenditures, allowing the Bank to boost its new business volume. No defaults are expected.

Internal capital is adequate under the normative perspective in the baseline scenario for future periods and is as follows:

Translation from the German language

(HGB EUR k)			
Regulatory ratios	2022	2023	2024
Risk-weighted assets (a)	440,030	482,092	528,424
Credit risk	416,662	458,248	504,007
Market risk	0	0	0
Operational risk	23,368	23,844	24,417
Own funds (b)	136,956	141,795	146,626
Tier I capital	86,907	91,746	96,577
Tier II capital)	50,049	50,049	50,049
Regulatory capital requirements (b/a)	31.12%	29.41%	27.75%
Internal limit according to recovery plan	20.00%	20.00%	20.00%
Regulatory capital requirements	19.15%	19.35%	19.35%
Minimum capital requirements	8.00%	8.00%	8.00%
SREP add-on	7.50%	7.50%	7.50%
Capital conservation buffer	2.50%	2.50%	2.50%
Institution-specific countercyclical buffer	0.25%	0.45%	0.45%
Net target capital ratio	0.90%	0.90%	0.90%
Large exposure limit for a customer or a group of connected clients (25% of tier I capital)	21,727	22,937	24,144
Leverage ratio	10.00%	10.00%	10.00%

In the adverse scenario, the Bank assumes that both the national and global economy will decline, with a deterioration in economic expectations. GDP will decline and the unemployment rate will rise both in the countries relevant for the Bank and globally. Economic output is expected to weaken significantly,

with a slump in exports, interruptions to supply chains and a decrease in global trade. The creditworthiness of borrowers will suffer, credit quality in the portfolio will deteriorate and probability of default will rise. Companies are not expected to invest and the number of insolvencies will rise, also in the automotive industry. As a result, unemployment will rise.

The expected economic slump will impair the Bank's lending business especially, since investments will decrease and the creditworthiness of customers will deteriorate. Due to the limited willingness to invest, it can only generate a very small volume of new business in the forecast years. Only maturing transactions can be replaced by new business or the extension of existing business. Growth in the credit volume will not be realizable.

In the adverse scenario, the Bank also assumes that one customer will default in 2022 and in 2023 and that risk-weighted assets will increase due to the deterioration in customer credit ratings.

Translation from the German language

Internal capital is also adequate under the normative perspective in the adverse scenario and is as follows:

(HGB EUR k)			
Regulatory ratios	2022	2023	2024
Risk-weighted assets (a)	366,476	369,048	376,322
Credit risk	348,685	355,011	364,803
Market risk	0	0	0
Operational risk	17,791	14,038	11,519
Own funds (b)	136,956	137,633	136,735
Tier I capital	86,907	87,584	86,686
Tier II capital	50,049	50,049	50,049
Regulatory own funds (b/a)	37.37%	37.29%	36.33%
Internal limit according to recovery plan	20.00%	20.00%	20.00%
Regulatory capital requirements	19.04%	19.04%	19.04%
Minimum capital requirements	8.00%	8.00%	8.00%
SREP add-on	7.50%	7.50%	7.50%
Capital conservation buffer	2.50%	2.50%	2.50%
Institution-specific countercyclical buffer	0.14%	0.14%	0.14%
Net target capital ratio	0.90%	0.90%	0.90%
Large exposure limit for a customer or a group of connected clients (25% of tier I capital)	21,727	21,896	21,672
Leverage ratio	10.00%	10.00%	10.00%

The result of the normative perspective on internal capital adequacy is submitted to the risk management committee and the Management Board once a year and subsequently to the Supervisory Board for its information and forms part of the overall risk report.

Economic perspective

The Bank determines risk coverage potential both for a baseline scenario and for stress scenarios at least quarterly and additionally as required.

The risks in the baseline scenario were calculated using a confidence level of 99.0 until 30 June 2021 and thereafter using a confidence level of 99.9%. In the stress analysis, three different scenarios (historical, hypothetical and severe economic downturn) are simulated in the entire fiscal year using a confidence level of 99.9%.

For default risk, a deterioration of creditworthiness is mainly assumed, with the rating of the debtor downgraded in steps.

Country risk is calculated based on spreads in accordance with the country risk premium. In the stress scenarios, the country ratings are downgraded. Furthermore, internal limits are set for various countries and compliance with these limits is monitored on a continuous basis.

Concentration risk is determined by reference to the Herfindahl-Hirschman Index (HHI). The HHI is the sum of all of squared market shares of the competing firms in the industry sectors in the Bank's portfolio. Concentration risk is calculated as the product of the HHI and the default risk. Furthermore, internal limits are set for defined industries and compliance with these limits is monitored on a continuous basis.

Translation from the German language

CVA risk is calculated using the standardized approach and is part of default risk. The Bank does not state this separately in its calculation of internal capital adequacy.

For interest rate risk in the banking book, the baseline scenario includes the six scenarios determined by the regulator and the worst value. This is generally a parallel shift in the yield curve of 200 bp. In the stress scenarios, these are weighted by significant foreign currency position and upscaled with a confidence level of 99.9%.

For credit spread risk, the risk is calculated using a simulation and upscaled to a confidence level of 99.9%. The Bank uses Bloomberg data to calculate credit spread risk. In all scenarios, credit spread risk is kept constant.

For currency risk, only currencies above the 5% materiality threshold (USD) are taken into account. However, for historical reasons the pound sterling is included in both the hypothetical and severe economic downturn scenarios even if it is below the materiality threshold. The stress test calculations are performed using a confidence level of 99.9%. In the hypothetical and severe economic downturn scenarios, the internal limits for open positions are utilized to the fullest extent and, depending on the scenario, the historically worst exchange rate value or a reciprocal negative effect of USD or GBP is assumed for the Bank.

Operational risk is calculated on the basis of the standardized approach and is maintained at a constant value in all scenarios.

In measuring liquidity risk (funding cost risk), different assumptions are made for each scenario (normal scenario, internally triggered scenario, scenario triggered by the market and a combined scenario triggered both internally and by the market). For each scenario, the following assumptions are made with scenario-dependent values.

- A) Deterioration in assets
- B) Decrease in the interest margin and poor exchange rates
- C) Delay or reduction in cash inflows
- D) Decrease in or outflow of demand deposits and savings deposits
- E) Increase in contingent liabilities

Business risk is an analysis of the historical actual-actual gap of the business months with a confidence level of 99.9% over a historical period of 10 years.

In addition, the Bank performs a reverse stress test and the results are subject critical review. In the reverse stress test, different parameters are stressed until the Bank's risk coverage potential has been exhausted. The reverse stress scenario assumes a tense economic situation and simulates the default of top borrowers in the loan portfolio.

The Bank uses the Pillar 1 plus approach in its calculation of economic internal capital adequacy. Internal capital adequacy is determined by comparing the risk coverage potential and the calculated risk potential. The basis of economic risk coverage potential is regulatory capital adjusted for hidden losses and reserves. Offsetting diversification effects between the separate types of risk are not considered.

Translation from the German language

The following calculation methods are used to calculate the individual risk types:

Risk type	Risk measurement method
Credit risk	
Counterparty default risk	Credit value-at-risk based on the Gordy model with parameters PD and LGD
Concentration risk	Herfindahl-Hirschman index
Country risk	Country risk premium
Market risk	
Interest rate risk	Interest rate shock scenarios based on regulatory requirements
Credit spread risk	Value-at-risk based on a simulation method
Currency risk	Net open position*8%
Liquidity risk	
Funding risk	Scenario-based approach
Operational risk	Standardized approach
Business risk	Value-at-risk

The Bank has set limits based on its risk coverage potential for the significant risk categories credit risk, market risk, liquidity risk, operational risk and business risk.

Internal capital is adequate under the economic perspective as of 31 December 2021 and is as follows. In addition to the baseline scenario, the results of the stress scenarios are also shown.

Risk coverage potential in EUR K		Baseline scenario		Stress: historical (mild)		Stress: hypothetical (severe)		Stress: severe economic downturn (worst)	
Regulatory capital		82,149		82,149		82,149		82,149	
P&L losses									
+ hidden reserves		383		383		383		383	
- hidden losses		-232		-232		-232		-232	
Risk coverage potential		82,300		82,300		82,300		82,300	
type of risk	Limit EUR K	Actual EUR k	Utilization %	Actual EUR K	Utilization %	Actual EUR K	Utilization %	Actual EUR K	Utilization %
Counterparty risk	30,000	23,696	79%	29,410	98%	35,629	119%	42,402	141%
Default risk		17,600	59%	21,676	72%	26,252	88%	31,098	104%
Concentration risk		1,810	6%	2,230	7%	2,701	9%	3,200	11%
Country risk		4,286	14%	5,504	18%	6,676	22%	8,103	27%
Market risk	8,000	6,846	86%	8,386	105%	8,605	108%	8,611	108%
Spread risk		1,576	20%	1,576	20%	1,576	20%	1,576	20%
IR risk (max)		5,239	65%	6,747	84%	6,747	84%	6,747	84%
FX risk		32	0%	63	1%	282	4%	288	4%
Operational risk	2,000	1,819	91%	1,819	91%	1,819	91%	1,819	91%
Liquidity risk	1,000	195	20%	1,371	137%	2,400	240%	3,440	344%
Other risk	400	250	62%	250	62%	250	62%	250	62%
Business risk		250		250		250		250	
Risk buffers		40,900		40,900		33,597		25,778	
Total utilization RCP	41,400	32,806	79%	41,236	100%	48,704	118%	56,522	137%

The total risk coverage potential amounted to EUR 82,300k as of 31 December 2021. The sum of the limits for the significant risk types totals EUR 41,400k. The total limit utilization in the baseline scenario is 79%. The risk buffer is available to cover elevated risks in stress situations.

In the historical stress scenario, total utilization comes to 100%. The limit utilization for market risk and liquidity risk exceeds 100%. The limit utilization for the remaining risks is under 10%.

In the hypothetical stress scenario, total utilization is 118% and in the severe economic downturn stress scenario it is 137%. In these two stress scenarios, the limit utilization for the individual risks

Translation from the German language

exceeds 100%. Internal capital is also adequate in stress situations since there is still sufficient risk coverage potential in the form of the positive risk buffer. In the hypothetical stress scenario, the risk buffer is EUR 33,597k and in the severe economic downturn stress scenario it is EUR 25,778k.

The most significant utilization of risk coverage potential was triggered by counterparty default risk, interest rate risk and liquidity risk.

The result of the economic perspective on internal capital adequacy is submitted to the risk management committee and the Management Board once a quarter and subsequently to the Supervisory Board for its information and forms part of the overall risk report.

Counterparty default risk

The Bank considers counterparty default 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 default risk, country risk and concentration risk in counterparty default risk.

The Bank's counterparty default risks arise primarily from the customer and bank loan business.

At customer level, the Bank's default 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.

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

The ongoing monitoring of counterparty default 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.

Loss allowances 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 default risks, taking the probability of default into account.

Translation from the German language

Concentration 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 within the group in consultation with the head office. In the Bank, the CCR capital ratios are calculated for management purposes on a daily basis and submitted to the Management Board and the risk management department. The Bank uses the registered office and industry of the customer's parent company as an allocation criterion for counterparty default 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 default risks, since the Bank uses the same internal rating system for loan exposures as KEB Hana Bank, Seoul, and the majority of counterparty default risks relate to the subsidiaries of Korean companies. In the stress scenarios we apply a premium to the probability of default used.

The table below shows the top five economic sectors in the risk-relevant customer loan portfolio (all exposures greater than EUR 500k) as of the reporting date 31 December 2021:

Economic sectors	Volume	
	in EUR k	Share
Manufacturing/vehicles	121,353	25.4%
Financial services/investments	104,211	21.8%
Chemical industry	44,116	9.2%
Wholesale and retail trade	33,262	7.0%
Textiles/clothing	23,529	4.9%
TOP 5 economic sectors in the risk-relevant loan portfolio	326,471	68.4%
Other economic sectors	150,902	31.6%
Total	477,373	100%

The table below shows the allocation by rating category in the risk-relevant customer loan portfolio as of the reporting date 31 December 2021:

Ratingklassen	Volumen	
	in TEUR	Anteil
1 bzw. A1		
2 bzw. A2/3	25.058	5,2%
3 bzw. A4	3.529	0,7%
4 bzw. A5	52.762	11,1%
5 (+) bzw. A6/7	127.057	26,6%
5 (0) bzw. B1	63.941	13,4%
5 (-) bzw. B2	35.147	7,4%
6 (+) bzw. B3/4	48.571	10,2%
6 (0) bzw. B5/6	73.204	15,3%
6 (-) bzw. C1		
7 bzw. C2/3		
8 bzw. D		
9 bzw. D		
10 bzw. D		
kein Rating vorhanden	48.104	10,1%
Gesamt	477.373	100%

Translation from the German language

The table below shows the allocation by collateral in the risk-related customer loan portfolio as of the reporting date 31 December 2021:

Collateral category	Volume	
	EUR k	Share
Pledges	879	0.2%
Assignments	62,382	13.1%
Real property liens	38,300	8.0%
Third-party guarantees, etc.	249,742	52.3%
Stand-by letter of credit	47,225	9.9%
Secured volume	398,528	83.5%
Letters of comfort	10,000	2.1%
Unsecured	68,845	14.4%
Total	477,373	100%

Market risk

For the Bank, market risk means potential losses due to unfavorable changes in interest rates, credit spreads and exchange rates.

In its interest rate book, the Bank holds variable-interest and fixed-interest items as well as items subject to a benchmark interest rate where the interest rate agreements concluded mature in three months or less and are tied to LIBOR or EURIBOR; some of them include the option of an interest rate floor of 0%.

The Bank's IT systems examine the interest-bearing receivables and liabilities for interest rate risk on a monthly basis.

The imposition of limits on net foreign exchange positions reduces currency risks. 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 reporting date, the net foreign exchange position was EUR 152k (2020: EUR 202k).

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. In the stress scenarios for interest rate risk, the regulatory interest rate shocks are calculated and upscaled using a stress factor. A significant increase in exchange rates is assumed for currency risk. As of the reporting date, the present value of the interest rate risk was EUR 5,239k (2020: EUR 4,899k).

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

Liquidity risk

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

Translation from the German language

The treasury department is responsible for operational liquidity management. 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. 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 reserves in the assets are always maintained so as to secure the Bank against unexpected liquidity outflows or bottlenecks. 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% for the LCR as a key performance indicator. If the LCR falls below this level, the Management Board must be notified immediately. The LCR is calculated on a daily basis and monitored. The threshold was exceeded four times in the reporting 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 330m line from our parent company are available. In the calculation of the stress scenarios, the Bank applies higher percentages and higher premiums.

Operational 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, a set of written rules has been prepared and controls have been implemented. 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 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.

A loss database is available for recording all significant loss cases at the group level of KEB Hana Bank, Seoul.

No significant consultancy risks are incurred because the Bank does not operate any consulting-based private client or securities business.

Translation from the German language

The Bank uses standard agreements customary on the banking market (Bank-Verlag) in order to prevent legal risks from arising from contracts. 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.

There are currently no significant litigation 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 regulations for risk classification, early risk detection and risk limitation.

Risks are covered by the available equity. The total capital ratio pursuant to the CRR was 21.92% on the reporting date (2020: 24.48%). EUR 82,149k in own funds was available to comply with the total capital ratio. In 2022, we expect our parent group to increase our capital and we consequently anticipate an increase in the total capital ratio. The Bank will use the capital increase to expand its lending volume.

The worldwide government interventions in the economy in 2021 as a result of the coronavirus crisis did not have any negative effects on our customers and on the Bank's earnings. On the contrary, the business model in place with Korean corporate customers coupled with the increased involvement in transactions of our sister company Hana Financial Investment Co. are proving to be a stable basis for growth, allowing the Bank to chalk up one of the best results in its history in 2021 despite operating in a difficult environment. For 2022, the Management Board expects positive earnings at the prior-year level.

7. Proposal for the appropriation of profit

We propose to the annual general meeting that the net retained profit of EUR 2,339k be transferred to the other revenue reserves.

8. Our employees

At the end of 2021, the Bank had 29 employees, including the Management Board. As in the prior years, we promoted the continuing education of our employees, in particular through our membership with 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.

9. Relationships with affiliates

In accordance with Sec. 312 AktG, the Bank has compiled a report on relationships with affiliates as of 31 December 2021 in which the Bank discloses all its legal transactions with affiliates and actions or omissions at the instigation 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, 30 March 2022

KEB HANA BANK (D) AG

The Management Board

Seagull 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.

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.