BNK FINANCIAL GROUP INC.

Separate Financial Statements
December 31, 2017

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Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholders of
BNK Financial Group Inc.

We have audited the accompanying separate financial statements of BNK Financial Group Inc. (the "Company"), which comprise the separate statement of financial position as at December 31, 2017, and the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies and other explanatory information.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express an opinion on the separate financial statements based on our audit. We conducted our audit in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of BNK Financial Group Inc. as at December 31, 2017, and its separate financial performance and its separate cash flows for the year then ended in accordance with Korean IFRS.

Other Matters

The separate financial statements of BNK Financial Group Inc. for the year ended December 31, 2016, were audited by Deloitte Anjin LLC who expressed an unqualified opinion on those statements on March 15, 2017.

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

Seoul, Korea
March 15, 2018

This report is effective as of March 15, 2018, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

BNK FINANCIAL GROUP INC.

Separate Statements of Financial Position

December 31, 2017 and 2016

(in thousands of Korean won)	Notes		2017		2016
Assets					
Cash and due from banks	5,6,7	₩	161,666,426	₩	101,083,615
Investments in subsidiaries	8		5,649,457,231		5,611,104,716
Loans receivable and receivables	5,6,9		44,800,204		89,941,503
Property and equipment	10		9,086,233		4,268,192
Intangible assets	11		1,717,655		1,678,762
Other assets	12		1,601,077		17,196
Total assets		₩	5,868,328,826	₩	5,808,093,984
Liabilities					
Debentures	5,6,13		1,138,614,038		1,138,411,840
Net defined benefit liabilities	14		2,928,452		1,299,601
Current tax liabilities	16		33,860,437		81,854,362
Other liabilities	15		70,694,549		7,164,679
Total liabilities			1,246,097,476		1,228,730,482
Equity					
Share capital	17		1,629,676,230		1,629,676,230
Hybrid equity securities	17		259,277,011		259,277,011
Other paid-in capital	17		2,276,821,837		2,276,821,837
Other components of equity	17		(3,123,295)		(1,680,077)
Retained earnings	18		459,579,567		415,268,501
Total equity			4,622,231,350		4,579,363,502
Total liabilities and equity		₩	5,868,328,826	₩	5,808,093,984

BNK FINANCIAL GROUP INC.
Separate Statements of Comprehensive Income
Years Ended December 31, 2017 and 2016

(in thousands of Korean won, except per share amounts)	Notes		2017		2016
Net interest income	19				
Interest income		₩	12,719	₩	18,419
Interest expenses			(31,109,286)		(35,558,625)
			(31,096,567)		(35,540,206)
Net fee and commission income	20				
Commission revenues			9,958,500		10,426,550
Commission expenses			(2,291,590)		(989,093)
			7,666,910		9,437,457
Dividend income			175,755,115		120,021,955
General and administrative expenses	21		(18,077,198)		(16,053,188)
Operating profit			134,248,260		77,866,018
Non-operating income (expense)	22				
Non-operating income			72,155		1,153,982
Non-operating expense			(3,117,658)		(3,001,216)
			(3,045,503)		(1,847,234)
Profit before income tax			131,202,757		76,018,784
Income tax expense			-		-
Profit for the year			131,202,757		76,018,784
Other comprehensive income, net of tax			(1,443,218)		(428,437)
Total comprehensive income for the year		₩	129,759,539	₩	75,590,347
Earnings per share *(in Korean won)*	23				
Basic earnings per share		₩	366	₩	199
Diluted earnings per share			366		199

BNK FINANCIAL GROUP INC.
Separate Statements of Changes in Equity
Years Ended December 31, 2017 and 2016

(in thousands of Korean won)	Share capital	Hybrid equity securities	Other paid-in capital	Other components of equity	Retained earnings	Total equity
Balance at January 1, 2016	₩ 1,279,676,230	₩ 259,277,011	₩ 2,158,724,206	₩ (1,251,640)	₩ 389,683,553	₩ 4,086,109,360
Paid-in capital increase	350,000,000	-	118,097,631	-	-	468,097,631
Dividends on hybrid equity securities	-	-	-	-	(12,045,778)	(12,045,778)
Dividends	-	-	-	-	(38,388,059)	(38,388,059)
Total comprehensive income						
Profit for the year	-	-	-	-	76,018,784	76,018,784
Other comprehensive income						
Remeasurements of net defined benefit liabilities	-	-	-	(428,437)	-	(428,437)
Balance at December 31, 2016	₩ 1,629,676,230	₩ 259,277,011	₩ 2,276,821,837	₩ (1,680,077)	₩ 415,268,500	₩ 4,579,363,501
Balance at January 1, 2017	₩ 1,629,676,230	₩ 259,277,011	₩ 2,276,821,837	₩ (1,680,077)	₩ 415,268,501	₩ 4,579,363,502
Paid-in capital increase						
Dividends on hybrid equity securities	-	-	-	-	(11,930,000)	(11,930,000)
Dividends	-	-	-	-	(74,961,690)	(74,961,690)
Total comprehensive income						
Profit for the year	-	-	-	-	131,202,756	131,202,756
Other comprehensive income						
Remeasurements of net defined benefit liabilities	-	-	-	(1,443,218)	-	(1,443,218)
Balance at December 31, 2017	₩ 1,629,676,230	₩ 259,277,011	₩ 2,276,821,837	₩ (3,123,295)	₩ 459,579,567	₩ 4,622,231,350

BNK FINANCIAL GROUP INC.

Separate Statements of Cash Flows
Years Ended December 31, 2017 and 2016

(in thousands of Korean won)		2017		2016
Cash flows from operating activities				
Profit for the year	₩	131,202,756	₩	76,018,784
Adjustments to profit for the year:				
Interest income		(12,719)		(18,418)
Interest expense		31,109,286		35,558,625
Depreciation		683,224		615,660
Amortization		94,747		99,275
Loss on disposal of property and equipment		358		-
Post-employment benefit		1,012,789		934,003
Dividend income		(175,755,115)		(120,021,955)
		(142,867,430)		(82,832,810)
Changes in operating assets and liabilities:				
Increase in receivables		(2,851,796)		(1,015,754)
Decrease in defined benefit obligations		(893,138)		(293,722)
Decresae in plan assets		65,982		143,222
Decrease (increase) in other assets		(1,583,880)		203,882
Increase in other liabilities		63,822,562		875,047
		58,559,730		(87,325)
Interest received		11,888		21,884
Interest paid		(30,529,200)		(35,845,400)
Dividend received		175,755,115		130,049,954
Net cash inflow from operating activities		192,132,859		87,325,087
Cash flows from investing activities				
Payments for investments in subsidiaries		(38,352,515)		(480,000,000)
Payments for property and equipment		(5,605,341)		(3,654,548)
Payments for intangible assets		(30,000)		(44,672)
Proceeds from disposal of property and equipment		78		-
Net cash outflow from investing activities		(43,987,778)		(483,699,220)
Cash flows from financing activities				
Issuance of debentures		249,329,419		309,214,220
Repayment of debentures		(250,000,000)		(280,000,000)
Dividends paid		(74,961,690)		(38,388,059)
Dividends on hybrid equity securities		(11,930,000)		(11,930,000)
Increased paid-in capital		-		468,097,631
Net cash inflow (outflow) from financing activities		(87,562,271)		446,993,792
Net increase in cash and cash equivalents		60,582,810		50,619,659
Cash and cash equivalents at the beginning of the year		101,083,615		50,463,955
Cash and cash equivalents at the end of the year	₩	161,666,425	₩	101,083,614

1. General Information

BNK Financial Group Inc. (the "Company") was established on March 15, 2011, pursuant to a "comprehensive shares transfer" under Financial Holding Companies Act, whereby holders of ordinary shares of Busan Bank; BNK Securities Co., Ltd.; BNK Capital Co., Ltd.; and BNK Credit Information Co., Ltd. transferred shares to the Company and in return received shares of the Company's ordinary shares in order to control, manage and provide financial support to subsidiaries or financial industry-related subsidiaries.

Meanwhile, the Company established BNK System Co., Ltd. and BNK Savings Bank Co., Ltd. as its subsidiaries with 100% share in 2011 and obtained 56.97% share in Kyongnam Bank in October 2014, after which the Company proceeded to take over the rest of Kyongnam Bank's shares through general exchange of shares on June 4, 2015. In July 2015, the Company obtained 51.01% shares of BNK Asset Management Co., Ltd. through acquisition and issue of shares and incorporated it as its subsidiary. In December 2017, the Company took over the rest of BNK Asset Management Co., Ltd.'s shares, accordingly, it became a wholly-owned subsidiary.

The Company's headquarter is located at Busan Nam-gu Munhyeongeumyung-ro, 30.

Meanwhile, the Company's share capital as at December 31, 2017 amounts to ₩1,629,676 million with 325,935,246 outstanding shares.

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS). The accompanying separate financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position, financial performance or cash flows, is not presented in the accompanying separate financial statements.

The separate financial statements of the Company have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board (IASB) that have been adopted by the Republic of Korea.

2.2 Changes in Accounting Policies and Disclosures

(a) New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2017. The adoption of these amendments did not have any material impact on the financial statements.

- Amendments to Korean IFRS 1007 *Statement of Cash Flows*

Amendments to Korean IFRS 1007 *Statement of Cash flows* require to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows.

- Amendments to Korean IFRS 1012 *Income Tax*

Amendments to Korean IFRS 1012 clarify how to account for deferred tax assets related to debt instruments measured at fair value. Korean IFRS 1012 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendments issued clarify the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice.

- Amendments to Korean IFRS 1112 *Disclosures of Interests in Other Entities*

Amendments to Korean IFRS 1112 clarify when an entity's interest in a subsidiary, a joint venture or an associate is classified as held for sales in accordance with Korean IFRS 1105, the entity is required to disclose other information except for summarized financial information in accordance with Korean IFRS 1112.

(b) New standards and interpretations not yet adopted by the Company

Certain new accounting standards and interpretations that have been published that are not mandatory for annual reporting period commencing January 1, 2017 and have not been early adopted by the Company are set out below.

- Amendments to Korean IFRS 1028 *Investments in Associates and Joint Ventures*

When an investment in an associate or a joint venture is held by, or it held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with Korean IFRS 1109. The amendments clarify that an entity shall make this election separately for each associate of joint venture, at initial recognition of the associate or joint venture. The amendments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect the amendments to have a significant impact on the financial statements because the Company is not a venture capital organization.

- Amendment to Korean IFRS 1040 *Transfers of Investment Property*

Paragraph 57 of Korean IFRS 1040 clarifies that a transfer to, or from, investment property, including property under construction, can only be made if there has been a change in use that is supported by evidence, and provides a list of circumstances as examples. The amendment will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect the amendment to have a significant impact on the financial statements.

- Amendments to Korean IFRS 1102 *Share-based Payment*

Amendments to Korean IFRS 1102 clarify accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Amendments also clarify that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award. The amendments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect the amendments to have a significant impact on the financial statements.

- Enactments to Interpretation 2122 *Foreign Currency Transaction and Advance Consideration*

According to these enactments, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. These enactments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect the enactments to have a significant impact on the financial statements.

- Enactment of Korean IFRS 1109 *Financial Instruments*

The new standard for financial instruments issued on September 25, 2015 is effective for annual periods beginning on or after January 1, 2018 with early application permitted. This standard will replace Korean IFRS 1039 *Financial Instruments: Recognition and Measurement*. The Company will apply the standards for annual periods beginning on or after January 1, 2018.

The standard requires retrospective application with some exceptions. For example, an entity is not required to restate prior period in relation to classification and measurement (including impairment) of financial instruments. The standard requires prospective application of its hedge accounting requirements for all hedging relationships except the accounting for time value of options and other exceptions.

Korean IFRS 1109 *Financial Instruments* requires three main areas including: (a) classification and measurement of financial assets on the basis of the entity’s business model for managing financial assets and the contractual cash flow characteristics of the financial assets, (b) a new impairment model of financial instruments based on the expected credit losses, and (c) hedge accounting including expansion of the range of eligible hedging instruments and hedged items that qualify for hedge accounting or change of a method of hedge effectiveness assessment.

An effective implementation of Korean IFRS 1109 requires preparation processes including financial impact assessment, accounting policy establishment, accounting system development and the system stabilization. The impact on the Company's financial statements due to the application of the standard is dependent on judgements made in applying the standard, financial instruments held by the Company and macroeconomic variables.

(a) Classification and Measurement of Financial Assets

When implementing Korean IFRS 1109, the classification of financial assets will be driven by the Company's business model for managing the financial assets and contractual terms of cash flow. The following table shows the classification of financial assets measured subsequently at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. If a hybrid contract contains a host that is a financial asset, the classification of the hybrid contract shall be determined for the entire contract without separating the embedded derivative.

Business model for the contractual cash flows characteristics	**Solely represent payments of principal and interest**	**All other**
Hold the financial asset for the collection of the contractual cash flows	Measured at amortized cost[1]	Recognized at fair value through profit or loss[2]
Hold the financial asset for the collection of the contractual cash flows and sale	Recognized at fair value through other comprehensive income [1]	
Hold for sale	Recognized at fair value through profit or loss	

[1] A designation at fair value through profit or loss is allowed only if such designation mitigates an accounting mismatch (irrevocable).

[2] Equity investments not held for trading can be recorded in other comprehensive income (irrevocable).

With the implementation of Korean IFRS 1109, the criteria to classify the financial assets at amortized cost or at fair value through other comprehensive income are more strictly applied than the criteria applied with Korean IFRS 1039. Accordingly, the financial assets at fair value through profit or loss may increase by implementing Korean IFRS 1109 and may result an extended fluctuation in profit or loss.

According to Korean IFRS 1109, a debt instruments is measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest.

According to Korean IFRS 1109, debt instruments are measured at fair value through other comprehensive income if the objective of the business model is achieved both by collecting contractual cash flows and selling financial assets; and the contractual cash flows represents solely payments of principal and interest on a specific date under contract terms.

According to Korean IFRS 1109, equity instruments that are not held for trading, the Company can make an irrevocable election at initial recognition to classify the instruments as assets measured at fair value through other comprehensive income, which all subsequent changes in fair value being recognized in other comprehensive income and not recycled to profit or loss.

According to Korean IFRS 1109, debt instruments those contractual cash flows do not represent solely payments of principal and interest and held for trading, and equity instruments that are not designated as instruments measured at fair value through other comprehensive income are measured at fair value through profit or loss.

(b) Classification and Measurement of Financial Liabilities

Korean IFRS 1109 requires the amount of the change in the liability's fair value attributable to changes in the credit risk to be recognized in other comprehensive income, unless this treatment of the credit risk component creates or enlarges a measurement mismatch. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss.

Under Korean IFRS 1039, all financial liabilities designated at fair value through profit or loss recognized their fair value movements in profit or loss. However, under Korean IFRS 1109, certain fair value movements will be recognized in other comprehensive income and as a result profit or loss from fair value movements may decrease.

(c) Impairment: Financial Assets and Contract Assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under Korean IFRS 1039. It applies to financial assets classified at amortized cost, debt instruments measured at fair value through other comprehensive income, lease receivables, contract assets, loan commitments and certain financial guarantee contracts.

Under Korean IFRS 1109 'expected loss' model, a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognized. The Company will always recognize (at a minimum) 12-month expected credit losses in profit or loss. Lifetime expected losses will be recognized on assets for which there is a significant increase in credit risk after initial recognition.

Stage[1]		Loss allowance
1	No significant increase in credit risk after initial recognition[2]	12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date)
2	Significant increase in credit risk after initial recognition	Lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument)
3	Credit-impaired	

[1] A loss allowance for lifetime expected credit losses is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. It is also required for contract assets or trade receivables that are not, according to Korean IFRS 1115 *Revenue from Contracts with Customers*, considered to contain a significant financing component. Additionally, the Company can elect an accounting policy of recognizing lifetime expected credit losses for all contract assets and/or all trade receivables, including those that contain a significant financing component.

[2] If the financial instrument has low credit risk at the end of the reporting period, the Company may assume that the credit risk has not increased significantly since initial recognition.

Under Korean IFRS 1109, the asset that is credit-impaired at initial recognition would recognize all changes in lifetime expected credit losses since the initial recognition as a loss allowance with any changes recognized in profit or loss.

(d) Hedge Accounting

Hedge accounting mechanics (fair value hedges, cash flow hedges and hedge of net investments in a foreign operations) required by Korean IFRS 1039 remains unchanged in Korean IFRS 1109, however, the new hedge accounting rules will align the accounting for hedging instruments more closely with the Company's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. Korean IFRS 1109 allows more hedging instruments and hedged items to qualify for hedge accounting, and relaxes the hedge accounting requirement by removing two hedge effectiveness tests that are a prospective test to ensure that the hedging relationship is expected to be highly effective and a quantitative retrospective test (within range of 80-125%) to ensure that the hedging relationship has been highly effective throughout the reporting period.

With implementation of Korean IFRS 1109, volatility in profit or loss may be reduced as some items that were not eligible as hedged items or hedging instruments under Korean IFRS 1039 are now eligible under Korean IFRS 1109.

Furthermore, when the Company first applies Korean IFRS 1109, it may choose as its accounting policy choice to continue to apply all of the hedge accounting requirements of Korean IFRS 1039 instead of the requirements of Korean IFRS 1109.

- Korean IFRS 1115 *Revenue from Contracts with Customers*

Korean IFRS 1115 *Revenue from Contracts with Customers* issued on November 6, 2015 will be effective for annual reporting periods beginning on or after January 1, 2018 with early adoption permitted. This standard replaces Korean IFRS 1018 *Revenue*, Korean IFRS 1011 *Construction Contracts*, Interpretation 2031 *Revenue-Barter Transactions Involving Advertising Services*, Interpretation 2113 *Customer Loyalty Programs*, Interpretation 2115 *Agreements for the Construction of Real Estate* and Interpretation 2118 *Transfers of assets from customers.*

The Company must apply Korean IFRS 1115 *Revenue from Contracts with Customers* within annual reporting periods beginning on or after January 1, 2018, and will apply the standard retrospectively to prior reporting period presented in accordance with Korean IFRS 1008 *Accounting Policies, Changes in Accounting Estimates and Errors* and apply simplified transition method with no restatement for completed contracts and other as at January 1, 2017.

Korean IFRS 1018 and other current revenue standard identify revenue as income that arises in the course of ordinary activities of an entity and provides guidance on a variety of different types of revenue, such as, sale of goods, rendering of services, interest, dividends, royalties and construction contracts. However, the new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue from contract with customers can be recognized:

· Identify contracts with customers

· Identify the separate performance obligation

· Determine the transaction price of the contract

· Allocate the transaction price to each of the separate performance obligations, and

· Recognize the revenue as each performance obligation is satisfied.

- Enactment of Korean IFRS 1116 *Leases*

Korean IFRS 1116 *Leases* issued on May 22, 2017 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. This standard will replace Korean IFRS 1017 *Leases*, Interpretation 2104 *Determining whether an Arrangement contains a Lease*, Interpretation 2015 *Operating Leases-Incentives*, and Interpretation 2027 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

At inception of a contract, the entity shall assess whether the contract is, or contains, a lease. Also, at the date of initial application, the entity shall assess whether the contract is, or contains, a lease in accordance with the standard. However, the entity will not need to reassess all contracts with applying the practical expedient because the entity elected to apply the practical expedient only to contracts entered before the date of initial application.

For a contract that is, or contains, a lease, the entity shall account for each lease component within the contract as a lease separately from non-lease components of the contract. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The lessee may elect not to apply the requirements to short-term lease (a lease term of 12 months or less at the commencement date) and low value assets. In addition, as a practical expedient, the lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

Lessee accounting

A lessee shall apply this standard to its leases either:

- retrospectively to each prior reporting period presented applying Korean IFRS 1008 *Accounting Policies, Changes in Accounting Estimates and Errors* (Full retrospective application); or

- retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

The Company has not yet elected the application method.

Lessor accounting

The Company expects the effect on the financial statements applying the new standard will not be significant as accounting for the Company, as a lessor, will not significantly change.

2.3 Subsidiaries

The financial statements of the Company are the separate financial statements prepared in accordance with Korean IFRS 1027, *Separate Financial Statements*. Investments in subsidiaries are recognized at cost under the direct equity method. Management applied the carrying amounts under the previous K-GAAP at the time of transition to Korean IFRS as deemed cost of investments. The Company recognizes dividend income from subsidiaries in profit or loss when its right to receive the dividend is established.

2.4 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the “functional currency"). The separate financial statements are presented in Korean won, which is the Company’s functional and presentation currency.

(b) Transactions and balances

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise, except for:

- exchange differences on foreign currency borrowings related to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore, forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting separate financial statements, the assets and liabilities of the Company's foreign operations are expressed in Korean won using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

2.5 Financial Assets

(a) Classification and measurement

① Initial recognition

Financial instruments (financial assets and financial liabilities) are recognized when, and only when, the Company becomes a party to the contractual provisions of an instrument; subject to that, the regular purchase or sale (where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the time frame established by the market concerned) of financial assets is recognized or derecognized using either trade-date or settlement-date accounting.

Financial assets and financial liabilities are initially measured at fair value, plus transaction costs that are directly attributable to the acquisition of financial assets, except for financial assets classified as at FVTPL, which are initially measured at fair value. Fair value is an estimate of the market value based on what reasonable, willing and independent transaction parties would probably exchange assets or pay liabilities in the market. Fair values of financial instruments are generally estimated through the market price (fair values provided or received).

② Subsequent measurement

Subsequently, financial assets and liabilities (including derivatives) should be measured at fair value or amortized cost according to the category of the classification at initial recognition.

(i) Amortized cost

Amortized cost is calculated by adjusting the following items in the amount at which the financial asset or financial liability is measured at initial recognition:

- Deduction of principal repayment
- Cumulative amortization of difference between the initial amount and the maturity amount using the effective interest rate method
- Deduction of impairment loss or write-off

(ii) Fair value

If a financial instrument is traded in an active market, the best possible estimate of fair value is a quoted price in such a market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group or pricing service and those prices represent market prices in the active market on an arm’s-length basis.

If there is no active market for a financial instrument, the Company uses valuation technique to estimate the fair value of the financial instrument. Valuation techniques include using recent arm’s-length market transactions between knowledgeable and willing parties, if available; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis; and option-pricing models.

(b) Impairment

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that more events occurred after the initial recognition of the financial assets and the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment includes:

- significant financial difficulty of the issuer or counterparty,
- default or delinquency in interest or principal payments,
- probability that the borrower will enter into bankruptcy or financial reorganization or
- disappearance of an active market for the financial assets because of financial difficulties.

For certain categories of financial assets such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments and an increase in the number of delayed payments in the portfolio past the average credit period of days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets, with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

(c) Derecognition

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, it recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognize the financial asset and also recognize a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g., when the Company retains an option to repurchase part of a transferred asset or retains a residual interest and such a retained interest indicates that the transferor has neither transferred nor retained substantially all the risks and rewards of ownership and has retained control of the transferred asset), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement and the part it no longer recognizes on the basis of the relative fair value of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part that is no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair value of those parts.

(d) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the separate statements of financial position where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.6 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Company is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Company will retain a non-controlling interest in its former subsidiary after the sale.

When the Company is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Company discontinues the use of the equity method in relation to the portion that is classified a held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Company discontinues the use of the equity method at the time of disposal when the disposal results in the Company losing significant influence over the associate or joint venture.

After the disposal takes place, the Company accounts for any retained interest in the associate or joint venture in accordance with Korean IFRS 1039 *Financial Instruments: Recognition and Measurement*, unless the retained interest continues to be an associate or a joint venture, in which case the Company uses the equity method.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

A non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale is not depreciated (or amortized).

The Company recognizes a gain for any subsequent increase in fair value, less costs to sell an asset, but not in excess of the cumulative impairment loss that has been recognized in accordance with Korean IFRS 1036, *Impairment of Assets*.

2.7 Property and Equipment

Property and equipment are stated at cost, less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of property and equipment directly attributable to their purchase or construction includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are recognized in the carrying amount of an asset or as an asset if it is probable that future economic benefits associated with the assets will flow into the Company and the cost of the asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

Depreciation expense is computed using the straight-line method based on the estimated useful lives of the assets as follows:

	Useful life (Years)	Depreciation method
Leasehold estates	5	Straight line
Business movable assets	5	Straight line

If each part of an item of property and equipment has a cost that is significant in relation to the total cost of the item, it is depreciated separately.

The Company reviews the depreciation method, the estimated useful lives and residual values of property and equipment at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized

2.8 Intangible Assets

(a) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost, less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost, less accumulated impairment losses.

	Depreciation method	Useful life
Software	Straight line	5 years

(b) Internally generated intangible assets — research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

Expenditure arising from development (or from the development phase of an internal project) is recognized as an intangible asset if, only if, the development project is designed to produce new or substantially improved products, and the Company can demonstrate the technical and economical feasibility and measure reliably the resources attributable to the intangible asset during its development.

The amount initially recognized for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost, less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

(c) Intangible assets acquired in a business combination

Intangible assets that are acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost, less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

(d) Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from its use. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

2.9 Impairment of Non-financial Assets

At the end of each reporting period, the Company reviews the carrying amounts of its property and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value, less costs to sell and value in use. If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount and the reduced amount is recognized in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or the CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

The Company estimates the recoverable amount of an individual asset. If it is impossible to measure the individual recoverable amount of an asset, then the Company estimates the recoverable amount of cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater one of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

2.10 Financial Liabilities

(a) Classification and measurement

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments. Financial liabilities are initially measured at fair value. Transaction cost that is directly attributable to the issue of financial liabilities is deducted from the fair value of the financial liabilities on initial recognition. Transaction costs directly attributable to acquisition of financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial liabilities are classified as either financial liabilities at FVTPL or other liabilities.

i) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is contingent consideration that may be paid by an acquirer as part of a business combination to which Korean IFRS 1103 applies, or held for trading, or is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term
- on initial recognition, it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit taking
- it is a derivative that is not designated and effective as a hedging instrument

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the Companying is provided internally on that basis
- it forms part of a contract containing one or more embedded derivatives, and Korean IFRS 1039 – *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other non-operating income and expenses' line item in the separate statements of comprehensive income.

ii) Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective-yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments, including all fees and points paid or received (that form an integral part of the effective interest rate) and transaction costs and other premiums or discounts through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

(c) Derecognition

The Company derecognizes financial liabilities when the Company's obligations are discharged, canceled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

2.11 Financial Guarantee Contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instruments.

Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with Korean IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*
- the amount initially recognized, less cumulative amortization recognized in accordance with the Korean IFRS 1018 *Revenue*

2.12 Compound Instruments

The component parts of compound instruments (convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to share premium. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the lives of the convertible notes using the effective interest method.

2.13 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). The discount rate used is a pretax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage is recognized in profit or loss as borrowing cost.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

At the end of each reporting period, the remaining provision balance is reviewed and assessed to determine if the current best estimate is being recognized. If the existence of an obligation to transfer economic benefit is no longer probable, the related provision is reversed during the period.

(a) Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

(b) Restructurings

A restructuring provision is recognized when the Company has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

(c) Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of the subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognized in accordance with Korean IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*, and the amount initially recognized less cumulative amortization recognized in accordance with Korean IFRS 1018 *Revenue*.

2.14 Income Tax Expense

Income tax expense represents the sum of the tax currently payable and deferred tax.

In accordance with the Korean Corporate Tax Act, the Company and its 100%-owned domestic subsidiaries have filed a separate tax return.

Accordingly, the Company recognizes total corporate income tax due as a current tax liability and the amounts due from subsidiaries as loans and receivables. The Company applies the separate taxation system, the way that the Company reports and pays income tax based on the total amount of income from the Company and all domestic subsidiaries over which the Company has complete control as a single taxation unit. Deferred taxes are measured based on the future tax benefits expected to be realized in consideration of the expected combined profits or losses of eligible companies in accordance with the separate corporate tax system. The Company recognizes total amount of tax payables in accordance with the separate corporate tax system as a parent company and recognizes receivables that will be received from subsidiaries.

(a) Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit or loss before tax expenses as reported in the separate statements of comprehensive income because of items of income or expense that are taxable or deductible in other periods. The Company’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(b) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the separate financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred income tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred income tax assets and liabilities are not recognized if the taxable or deductible temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit (taxable deficit) nor the accounting profit.

Deferred income tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The Company shall offset deferred tax assets and deferred tax liabilities if, and only if, the Company has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities that intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

If a deferred tax liability or asset arises from investment property that is measured using the fair value model in Korean IFRS 1040, *Investment Property*, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale. Accordingly, unless the presumption is rebutted, the measurement of the deferred tax liability or deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

(c) Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity; in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

2.15 Employee Benefits

(a) Retirement benefit

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the separate statements of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are composed of service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), net interest expense (income) and remeasurement.

The Company presents the service cost and net interest expense (income) components in profit or loss, and the remeasurement component in other comprehensive income. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the separate statements of financial position represents the actual deficit or surplus in the Company's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

(b) Termination benefits

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan. When the formal terms of the plans specify that there will be contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

If the contributions are not linked to services (e.g., contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they are reflected in the remeasurement of the net defined benefit liability (asset).

If contributions are linked to services, they reduce service costs. For the amount of contribution that is dependent on the number of years of service, the entity reduces service cost by attributing the contributions to periods of service using the attribution method required by Korean IFRS 1019 paragraph 70 for the gross benefits.

2.16 Revenue Recognition

The Company recognizes revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities.

(a) Interest income and expense

Using the effective interest rate method, the Company recognizes interest income and expense in separate statements of comprehensive income. Effective interest rate method calculates the amortized cost of financial assets or liabilities and allocates interest income or expense over the relevant period.

The effective interest rate discounts the expected future cash in and out through the expected life of financial instruments, or, if appropriate, through shorter period, to net carrying amount of financial assets or liabilities. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual financial instruments, except loss on future credit risk. Also, effective interest rate calculation includes redemption costs, points (part of the effective interest rate) that are paid or earned between contracting parties, transaction costs and other premiums and discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(b) Commission revenue

Generally, commission revenue from rendering of services is recognized as the services are provided. The commission, which is part of the effective interest rate of loans, is accounted for as deferred origination fees and is amortized on the effective interest method and included in interest income on loans.

(c) Dividend income

Dividend income is recognized as shareholders are entitled to receive dividends.

2.17 Approval of Issuance of the Financial Statements

The separate financial statements 2017 were approved for issue by the Board of Directors on February 8, 2018 and are subject to change with the approval of shareholders at their Annual General Meeting.

3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Company to make estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(a) Fair value of financial instruments

In order to determine fair values of financial assets and liabilities without observable market values, valuation methods are necessary. For the valuation of the financial instruments for which transactions do not occur frequently and prices that are not transparent, an extensive judgment is required with regard to liquidity, concentrativeness, uncertainty of market factors, assumptions related to price determination and other risks because fair values lack objectivity.

(b) Defined Benefit Plan

The Company's defined benefit obligation is determined based on the actuarial valuation carried out at the end of each annual reporting period. Actuarial assumptions are the Company's best estimates of the variables in determining the cost of providing postretirement benefits, such as discount rates, rates of expected future salary increases and mortality rates. Significant estimation uncertainty is likely to persist in making such assumptions due to the long-term nature of postretirement benefit plan. The Company's defined benefit obligation is detailed in Note 14.

4. Financial Risk Management

This outline indicates the level of exposure to risks and objectives, policies, risk assessment and management procedures of the Company. Additional quantitative information is disclosed in the separate financial statements.

The Company operates the procedures for recognizing, measuring and evaluating, regulating, monitoring and reporting the risk in order that the risk management system is focused on increasing the transparency of risk and supporting the long-term strategy and management decision-making to deal with rapid changes in the financial environment.

The risk management is the decision-making system to evade and reduce the risk and understand the source and scale of risk. This system aims to increase the asset's soundness and is operated by organization of risk management.

Organization of risk management is composed of Risk Management Committee, Risk Management Council and Risk Management Division. The Risk Management Committee establishes risk management strategy, determining the possible level of risk and the allocation of risk-weighted capital as a top decision-making organization. The Company's Risk Management Division performs detailed policies, procedures and business process of risk management.

4.1 Credit Risk

The credit risk is the risk of financial loss to the Company, if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Company’s deposits, securities, loans, off-balance accounts and trust accounts.

The purpose of credit risk management is to avoid excessive risks that damage the Company’s soundness by improving the assets’ soundness through setup of credit ratings and credit screening and quantifying and regularly managing credit risks.

The Company does not calculate the credit risk-weighted assets in regulatory capital for managing the credit risk, but manages and sets up allowance for credit loss by checking the asset’s soundness about loans and receivables accompanying credit risk on a monthly basis.

The Company’s maximum exposure to credit risk as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)	**2017**	**2016**
Due from banks	₩ 161,666,426	₩ 101,083,615
Loans and receivables	44,800,204	89,941,503
	₩ 206,466,630	₩ 191,025,118

The Company realizes profits and losses for current term after estimating impairment losses if there is an objective evidence of what book value of loans is impaired at the end of the reporting period. As impairment losses signify incurred losses in Korean IFRS, the Company does not realize losses for future impairment event, although impairment is likely to occur. The Company estimates the incurred losses that are inherent in financial assets and indicates them in the separate financial statements by deducting book value of current assets as a title of allowance for credit loss.

Credit risk by impairment of loans receivable and receivables as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)	**2017**	**2016**
Assets neither past due nor impaired	₩ 44,800,204	₩ 89,941,503
Assets past due but not impaired	-	-
Impaired assets	-	-
	44,800,204	89,941,503
Allowance for credit loss	-	-
Book amount	₩ 44,800,204	₩ 89,941,503

[1] All of loans receivable and receivables has fine credit quality.

4.2 Liquidity Risk

Liquidity risk is the risk of insolvency or loss due to a disparity between the inflow and outflow of funds resulting from, for example, maturity mismatches; obtaining funds at a high price; or disposing of securities at an unfavorable price due to lack of available funds.

The Company's liquidity management goal is to secure stable sources of revenue and to contribute optimal allocation of assets by managing appropriate levels of the disparity between the inflow and outflow of funds and preventing from the risk of insolvency due to liquidity crunch.

All transactions that affect inflows and outflows of Korean/foreign currency funds across the Company are subject to liquidity risk management. The Company calculates the table of liquidity gap, which means a disparity between the maturity of assets and the maturity of liabilities, and sets up and manages the liquidity ratio; that is, Korean won-denominated liquid assets (including marketable securities) due within one month divided by Korean won-denominated liabilities due within one month.

Liabilities by term structures as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)	2017				
	Less than 1 month	**1 month– 3 months**	**3–12 months**	**More than 1 year**	**Total**
Debentures	₩ 1,900,575	₩ 5,336,050	₩ 310,152,975	₩ 889,793,650	₩ 1,207,183,250

(in thousands of Korean won)	2016				
	Less than 1 month	**1 month– 3 months**	**3–12 months**	**More than 1 year**	**Total**
Debentures	₩ 2,253,075	₩ 5,493,275	₩ 270,243,800	₩ 937,711,550	₩ 1,215,701,700

The cash flows disclosed in the maturity analysis are undiscounted contractual amount, including principal and future interest payments, which results in disagreement with the discounted cash flows included in the separate statements of financial position.

5. Fair Value of Financial Instruments

5.1 Fair Value of Financial Instruments by Category

Carrying amount and fair value of financial instruments by category as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)	2017		2016	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Cash and due from banks	₩ 161,666,426	₩ 161,666,426	₩ 101,083,615	₩ 101,083,615
Loans and receivables	44,800,204	44,800,204	89,941,503	89,941,503
	₩ 206,466,630	₩ 206,466,630	₩ 191,025,118	₩ 191,025,118
Financial liabilities				
Debentures	₩ 1,138,614,038	₩ 1,148,419,330	₩ 1,138,411,840	₩ 1,162,813,590
Other financial liabilities[1]	7,713,843	7,713,843	6,703,930	6,703,930
	₩ 1,146,327,881	₩ 1,156,133,173	₩ 1,145,115,770	₩ 1,169,517,520

[1]Other financial liabilities consist of non-trade payables and accrued expenses.

5.2 Fair Value Assessment Method and Assumptions

Fair value assessment method and assumptions are as follows:

Classification	Fair value measurement technique
Cash and due from banks	The carrying amount of cash is regarded as fair value. Carrying amount of demand deposit is regarded as fair value as it does not have maturity and the amount approximates the fair value. DCF Model is used to determine the fair value of general deposits. For those general deposits with the residual maturities of less than three months as at the closing date and the ones with a reset period of less than three months, the carrying amount is regarded as fair value.
Loans and receivables	DCF is used to determine the fair value of loans and receivables. Fair value is determined by using appropriate discount rate to calculate the expected cash flows by contractual cash flows with prepayment rate taken into account. For those loans and receivables with the residual maturities of less than three months as of the closing date and the ones with reset period of less than three months, the carrying amount is regarded as fair value.
Debentures	Fair value is determined by using the valuation of independent third-party pricing services in accordance with the market prices that are quoted in active markets.
Other financial liabilities	For financial liabilities with the residual maturities of less than three months as of the closing date and the ones with a reset period of less than three months, the carrying amount is regarded as fair value.

5.3 Fair Value of the Accounts

The book amount and the fair value of financial instruments subsequently not measured at fair value as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)	2017	
	Book amount	**Fair value**
Financial liabilities		
Debentures	₩ 1,138,614,038	₩ 1,148,419,330

(in thousands of Korean won)	2016	
	Book amount	**Fair value**
Financial liabilities		
Debentures	₩ 1,138,411,840	₩ 1,162,813,590

5.4 Fair Value Hierarchy

Items that are measured at fair value or for which the fair value is disclosed are categorized by the fair value hierarchy levels, and the defined levels are as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- All inputs other than quoted prices included in level 1 that are observable (either directly that is, prices, or indirectly that is, derived from prices) for the asset or liability (Level 2).
- Unobservable inputs for the asset or liability (Level 3).

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

Fair value hierarchy classifications of the financial instruments that are measured at fair value or its fair value is disclosed as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial liabilities				
Debentures	₩ -	₩ 1,148,419,330	₩ -	₩ 1,148,419,330

	₩ -	₩ 1,148,419,330	₩ -	₩ 1,148,419,330

(in thousands of Korean won)	2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial liabilities				
Debentures	₩ -	₩ 1,162,813,590	₩ -	₩ 1,162,813,590
	₩ -	₩ 1,162,813,590	₩ -	₩ 1,162,813,590

5.5 Valuation Technique and Inputs used in fair value measurement

Fair value hierarchy, valuation technique and inputs of items whose carrying amount is a reasonable approximation of fair value are not disclosed.

Valuation techniques and inputs of financial assets and liabilities whose fair values are disclosed and classified as Level 2 as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)	**Fair value**		**Valuation techniques**	**Input**
	2017	**2016**		
Financial liabilities				
Debentures	₩ 1,148,419,330	₩ 1,162,813,590	DCF Model	Discount rate

6. Financial Instruments by Category

(a) The carrying amount of financial instruments by category

All financial instruments (financial assets and financial liabilities) are measured at fair value or at amortized cost. The carrying amounts of financial assets and financial liabilities by each category as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)	**2017**			**2016**		
	Loans and receivables	**Financial liabilities at amortized cost**	**Total**	**Loans and receivables**	**Financial liabilities at amortized cost**	**Total**
Financial assets:						
Due from banks	₩ 161,666,426	₩ -	₩ 161,666,426	₩ 101,083,615	₩ -	₩ 101,083,615
Loans and receivables	44,800,204	-	44,800,204	89,941,503	-	89,941,503
	₩ 206,466,630	₩ -	₩ 206,466,630	₩ 191,025,118	₩ -	₩ 191,025,118
Financial liabilities:						
Debentures	₩ -	₩ 1,138,614,038	₩ 1,138,614,038	₩ -	₩ 1,138,411,840	₩ 1,138,411,840
Other financial liabilities[1]	-	7,713,843	7,713,843	-	6,703,930	6,703,930
	₩ -	₩ 1,146,327,881	₩ 1,146,327,881	₩ -	₩ 1,145,115,770	₩ 1,145,115,770

[1]Other financial liabilities consist of Securities related payables and accrued expenses.

(b) Net Gains or Losses by Category of Financial Instruments

Net gains or losses on each category of financial instruments for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)		2017		2016
Loans and receivables				
Interest income	₩	12,719	₩	18,419
Financial liabilities at amortized cost				
Interest expenses		(31,109,286)		(35,558,625)

(c) Credit Quality of Financial Assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings.

(in thousands of Korean won)		2017		2016
Counterparties with external credit rating				
AAA	₩	175,324,560	₩	156,426,860
AA+		22,288,246		16,258,866
		197,612,806		172,685,726
Counterparties without external credit rating		8,853,825		18,339,392
		8,853,825		18,339,392
	₩	206,466,631	₩	191,025,118

7. Cash and Due from banks

Cash and due from banks as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)	Financial institution	Interest rate (%)		2017		2016
Checking deposits	Busan Bank	-	₩	159,287,936	₩	100,006,888
Corporate savings deposits	Busan Bank	-		2,378,490		1,076,727
			₩	161,666,426	₩	101,083,615

The maturity structures of due from banks as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)	2017				
	Less than 1 month	**1-3 months**	**3-12 months**	**Over 1 year**	**Total**
Due from banks	₩ 161,666,426	₩ -	₩ -	₩ -	₩ 161,666,426

(in thousands of Korean won)	2016				
	Less than 1 month	**1-3 months**	**3-12 months**	**Over 1 year**	**Total**
Due from banks	₩ 101,083,615	₩ -	₩ -	₩ -	₩ 101,083,615

There is no restricted due from banks as at December 31, 2017 and 2016.

8. Investments in Subsidiaries

Details of investments in subsidiaries as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)	2017		
Name of subsidiaries	**Location**	**Percentage of ownership**	**Book amount**
Busan Bank	Korea	100.00%	₩ 2,968,140,154
Kyongnam Bank	Korea	100.00%	1,949,160,438
BNK Securities Co., Ltd.	Korea	100.00%	184,166,758
BNK Capital Co., Ltd.	Korea	100.00%	378,488,236
BNK Savings Bank Co., Ltd.	Korea	100.00%	115,000,600
BNK Asset Management Co., Ltd.	Korea	100.00%	47,050,000
BNK Credit Information Co., Ltd.	Korea	100.00%	4,451,045
BNK System Co., Ltd.	Korea	100.00%	3,000,000
			₩ 5,649,457,231

(in thousands of Korean won)	2016			
Name of subsidiaries	**Location**	**Percentage of ownership**		**Book amount**
Busan Bank	Korea	100.00%	₩	2,968,140,154
Kyongnam Bank	Korea	100.00%		1,949,160,438
BNK Securities Co., Ltd.	Korea	100.00%		184,166,758
BNK Capital Co., Ltd.	Korea	100.00%		378,488,236
BNK Savings Bank Co., Ltd.	Korea	100.00%		115,000,600
BNK Asset Management Co., Ltd.	Korea	51.01%		8,697,485
BNK Credit Information Co., Ltd.	Korea	100.00%		4,451,045
BNK System Co., Ltd.	Korea	100.00%		3,000,000
			₩	5,611,104,716

Changes in investments in subsidiaries for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)		2017		2016
Beginning balance	₩	5,611,104,716	₩	5,131,104,716
Acquisition		38,352,515		480,000,000
Ending balance	₩	5,649,457,231	₩	5,611,104,716

9. Loans and Receivables

Loans and receivables as at December 31, 2017 and 2016, consist of the following:

(in thousands of Korean won)		2017		2016
Non-trade receivables	₩	33,880,246	₩	81,854,376
Guarantee deposits provided		10,918,000		8,086,000
Accrued income		1,958		1,127
	₩	44,800,204	₩	89,941,503

10. Property and Equipment

Property and equipment as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)	2017			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book amount
Leasehold improvements	₩ 424,658	₩ (137,719)	₩ -	₩ 286,939
Equipment and vehicles	4,152,710	(2,388,127)	-	1,764,583
Construction in progress	7,034,711	-	-	7,034,711
	₩ 11,612,079	₩ (2,525,846)	₩ -	₩ 9,086,233

(in thousands of Korean won)	2016			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book amount
Leasehold improvements	₩ 186,018	₩ (94,412)	₩ -	₩ 91,606
Equipment and vehicles	3,658,382	(1,808,810)	-	1,849,572
Construction in progress	2,327,014	-	-	2,327,014
	₩ 6,171,414	₩ (1,903,222)	₩ -	₩ 4,268,192

Changes in property and equipment for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)	2017					
	Beginning balance	Acquisition	Disposal	Depreciation	Reclassification	Ending Balance
Leasehold improvements	₩ 91,606	₩ 238,640	₩ -	₩ (43,307)	₩ -	₩ 286,939
Equipment and vehicles	1,849,572	555,364	(436)	(639,917)	-	1,764,583
Construction in progress	2,327,014	4,811,337	-	-	(103,640)	7,034,711
	₩ 4,268,192	₩ 5,605,341	₩ (436)	₩ (683,224)	₩ (103,640)	₩ 9,086,233

(in thousands of Korean won)	2016					
	Beginning balance	Acquisition	Disposal	Depreciation	Reclassification	Ending Balance
Leasehold improvements	₩ 128,809	₩ -	₩ -	₩ (37,203)	₩ -	₩ 91,606
Equipment and vehicles	1,065,481	1,362,548	-	(578,457)	-	1,849,572
Construction in progress	35,014	2,292,000	-	-	-	2,327,014
	₩ 1,229,304	₩ 3,654,548	₩ -	₩ (615,660)	₩ -	₩ 4,268,192

Depreciation expense of ₩ 683 million (2016: ₩ 616 million) was charged to 'administrative expenses for the year ended December 31, 2017.

11. Intangible Assets

Intangible assets as of December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)	**2017**			
	Acquisition cost	**Accumulated amortization**	**Accumulated impairment loss**	**Book amount**
Software	₩ 521,038	₩ (341,150)	₩ -	₩ 179,888
Right of membership	1,434,127	-	-	1,434,127
Trademark	103,640	-	-	103,640
	₩ 2,058,805	₩ (341,150)	₩ -	₩ 1,717,655

(in thousands of Korean won)	**2016**			
	Acquisition cost	**Accumulated amortization**	**Accumulated impairment loss**	**Book amount**
Software	₩ 521,038	₩ (246,403)	₩ -	₩ 274,635
Right of membership	1,404,127	-	-	1,404,127
	₩ 1,925,165	₩ (246,403)	₩ -	₩ 1,678,762

Changes in intangible assets for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)	**2017**					
	Beginning balance	**Acquisition**	**Amortization**	**Disposal**	**Reclassification**	**Ending Balance**
Software	₩ 274,635	₩ -	₩ (94,747)	₩ -	₩ -	₩ 179,888
Right of membership	1,404,127	30,000	-	-	-	1,434,127
Trademark	-	-	-	-	103,640	103,640
	₩ 1,678,762	₩ 30,000	₩ (94,747)	₩ -	₩ 103,640	₩ 1,717,655

(in thousands of Korean won)	**2016**					
	Beginning balance	**Acquisition**	**Disposal**	**Depreciation**	**Reclassification**	**Ending Balance**
Software	₩ 373,910	₩ -	₩ (99,275)	₩ -	₩ -	₩ 274,635
Right of membership	1,359,456	44,671	-	-	-	1,404,127
	₩ 1,733,366	₩ 44,671	₩ (99,275)	₩ -	₩ -	₩ 1,678,762

Amortization of ₩ 95 million (2016: ₩ 99 million) is included in ‘administrative expenses for the year ended December 31, 2017.

12. Other Assets

Other assets as at December 31, 2017 and 2016, consist of the following:

(in thousands of Korean won)		2017		2016
Advance payments and others	₩	1,601,077	₩	17,197

13. Debentures

Debentures as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)	Issuance date	Maturity date	Interest rate as at December 31, 2017		2017		2016
4th non-guaranteed subordinated bonds	2012-06-18	2017-06-18	3.70	₩	-	₩	100,000,000
5th non-guaranteed subordinated bonds	2013-08-29	2020-08-29	4.05		150,000,000		150,000,000
6th non-guaranteed subordinated bonds	2013-11-07	2020-11-07	4.09		30,000,000		30,000,000
7th non-guaranteed subordinated bonds	2013-11-19	2020-11-19	4.18		20,000,000		20,000,000
8th non-guaranteed coupon bonds	2014-05-22	2017-05-22	3.05		-		50,000,000
9th non-guaranteed coupon bonds	2014-07-16	2019-07-16	3.02		100,000,000		100,000,000
10th non-guaranteed coupon bonds	2014-09-24	2019-09-24	2.80		150,000,000		150,000,000
11th non-guaranteed coupon bonds	2014-10-29	2017-10-29	2.35		-		100,000,000
13th non-guaranteed coupon bonds	2015-03-25	2020-03-25	2.02		50,000,000		50,000,000
14th non-guaranteed coupon bonds	2015-07-15	2020-07-15	2.40		50,000,000		50,000,000
15th non-guaranteed coupon bonds	2015-09-24	2018-09-24	1.90		30,000,000		30,000,000
16th non-guaranteed coupon bonds	2016-01-15	2021-01-15	2.07		50,000,000		50,000,000
17th non-guaranteed coupon bonds	2016-05-25	2018-05-25	1.67		80,000,000		80,000,000
18th non-guaranteed coupon bonds	2016-06-28	2018-06-28	1.50		100,000,000		100,000,000
19th non-guaranteed coupon bonds	2016-10-26	2018-10-26	1.76		80,000,000		80,000,000
20th non-guaranteed coupon bonds	2017-04-21	2019-04-21	1.88		50,000,000		-
21-1st non-guaranteed coupon bonds	2017-05-30	2019-05-30	1.90		20,000,000		-
21-2nd non-guaranteed	2017-05-30	2020-05-30	2.11		50,000,000		-

coupon bonds					
21-3rd non-guaranteed coupon bonds	2017-05-30	2022-05-30	2.37	30,000,000	-
22th non-guaranteed coupon bonds	2017-09-26	2022-09-26	2.46	100,000,000	-
				1,140,000,000	1,140,000,000
Less: present value discounts				(1,385,962)	(1,588,160)
				₩ 1,138,614,038	₩ 1,138,411,840

The above non-guaranteed coupon bonds are fully repaid at maturity.

Details of issuance and repayment of debentures for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)	2017			
	Beginning balance	**Issuance**	**Repayment**	**Ending balance**
Debentures in Korean won	₩ 1,140,000,000	₩ 250,000,000	₩ (250,000,000)	₩ 1,140,000,000
	₩ 1,140,000,000	₩ 250,000,000	₩ (250,000,000)	₩ 1,140,000,000

(in thousands of Korean won)	2016			
	Beginning balance	**Issuance**	**Repayment**	**Ending balance**
Debentures in Korean won	₩ 1,060,000,000	₩ 310,000,000	₩ (230,000,000)	₩ 1,140,000,000
	₩ 1,060,000,000	₩ 310,000,000	₩ (230,000,000)	₩ 1,140,000,000

14. Post-employment Benefits

Details of net defined benefit liabilities recognized in the statements of financial position as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)	**2017**	**2016**
Present value of funded defined benefit obligations	₩ 10,076,768	₩ 6,434,510
Fair value of plan assets	(7,148,316)	(5,134,909)
Net defined benefit liabilities	₩ 2,928,452	₩ 1,299,601

Income and expenses related to net defined benefit liabilities for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)	2017		
	Present value of defined benefit obligation	**Plan assets**	**Total**
Beginning balance	₩ 6,434,510	₩ (5,134,909)	₩ 1,299,601
Current service cost	967,613	-	967,613
Interest expenses (interest revenues)	199,807	(154,631)	45,176
	1,167,420	(154,631)	1,012,789
Remeasurements:			
Expected return on plan assets	-	101,988	101,988
Actuarial loss arising from changes in financial assumptions	98,763	-	98,763
Actuarial loss from experience adjustments	1,251,462	-	1,251,462
Actuarial gain from changes in assumptions for retirement date	(8,995)	-	(8,995)
	1,341,230	101,988	1,443,218
Benefits paid	(893,138)	65,982	(827,156)
Transfer of employees between the Company and the related companies	2,026,746	(2,026,746)	-
Ending balance	₩ 10,076,768	₩ (7,148,316)	₩ 2,928,452

(in thousands of Korean won)	2016		
	Present value of defined benefit obligation	**Plan assets**	**Total**
Beginning balance	₩ 5,241,727	₩ (5,154,066)	₩ 87,661
Current service cost	922,642	-	922,642
Interest expenses (interest revenues)	179,394	(168,033)	11,361
	1,102,036	(168,033)	934,003
Remeasurements:			
Expected return on plan assets	-	97,182	97,182
Actuarial gain arising from changes in financial assumptions	(64,965)	-	(64,965)
Actuarial loss from experience adjustments	396,220	-	396,220
	331,255	97,182	428,437
Benefits paid	(293,722)	143,222	(150,500)
Transfer of employees between the Company and the related companies	53,214	(53,214)	-
Ending balance	₩ 6,434,510	₩ (5,134,909)	₩ 1,299,601

Details of fair values of plan assets as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)		**2017**		**2016**
Time deposits	₩	7,148,316	₩	5,134,909

The significant actuarial assumptions as at December 31, 2017 and 2016, are as follows:

(in percentage)	**2017**	**2016**
Discount rate	3.40	3.30
Weighted-average rate of salary increase	2.10	1.90
Mortality ratio	Standardized mortality ratio by Korea Insurance Development Institute	
Retirement ratio	Retirement ratio per age group	

Assuming that all other assumptions remain as they are at the end of the reporting period, the effect of any changes in significant actuarial assumptions, which were made within the reasonable limit on defined benefit obligations, is as follows:

(in thousands of Korean won)		**1% increase**		**1% decrease**
Change in discount rate	₩	(924,606)	₩	1,075,148
Change in salary growth rate		1,079,155		(944,495)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. The sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations recognized on the statement of financial position.

The weighted average duration of the defined benefit obligation is 9.92 years.

15. Other Liabilities

Other liabilities as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)		2017		2016
Non-trade payables	₩	957,627	₩	796,981
Accrued expenses		6,756,216		5,906,950
Others[1]		62,980,706		460,748
	₩	70,694,549	₩	7,164,679

[1] Others consist of suspense payables in Korean won, value added tax withheld and miscellaneous liabilities.

16. Tax Expense and Deferred Tax

Income tax expense for the years ended December 31, 2017 and 2016, consists of:

(in thousands of Korean won)		2017		2016
Current tax:	₩	-	₩	-
Changes in deferred tax liabilities by temporary difference[1]		-		-
Changes in deferred tax by taxable loss[1]		-		-
Tax effect		-		-
Changes in deferred tax liabilities reflected directly in equity:		-		-
Income tax expense	₩	-	₩	-

[1] The Company did not recognize deferred income tax assets because the realization of temporary difference and taxable loss is almost uncertain.

Reconciliation between accounting profit and income tax expense for the years ended December 31, 2017 and 2016, is as follows:

(in thousands of Korean won)		2017		2016
Profit before income tax	₩	131,202,756	₩	76,018,784
Taxes payable		28,444,606		16,304,133
Tax effect of:				
Non-taxable income		(32,395,471)		(18,371,658)
Non-deductible expenses		804,914		157,674
Consolidated tax and others		3,145,951		1,909,851
Income tax expense	₩	-	₩	-
Effective tax rate		-		-

(income tax expense/profit before income tax)

Changes in accumulated temporary differences and tax loss carried forward as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)	2017			
	Beginning balance	**Decrease**	**Increase[1]**	**Ending balance**
Unconfirmed costs	₩ 1,855,497	₩ 1,855,497	₩ 2,711,284	₩ 2,711,284
Commissions paid (bond discount)	8,143	8,143	-	-
Defined benefit obligations	3,420,223	1,703,056	2,508,650	4,225,817
Pension plan asset	(3,420,223)	(1,703,056)	(2,508,650)	(4,225,817)
Stock compensation cost	283,938	283,938	364,965	364,965
Depreciation in excess of tax limit	78,302	26,529	99,463	151,236
Non-trade payables	732,170	713,111	100,000	119,059
Commission paid	-	-	341,000	341,000
	2,958,050	2,887,218	3,616,712	3,687,544
Tax loss carried forward [2]	4,620,123	-	-	4,620,123
Not recognized as deferred tax assets [3]	7,578,173	-	-	8,307,667
Recognized as deferred tax assets	-	-	-	-
Deferred tax assets	₩ -	₩ -	₩ -	₩ -

[1] Tax adjustments include adjustments that eventuated from additional adjustments made at the time of filing of taxation report.

[2] The Company does not recognize deferred tax assets from tax loss carried forward at the end of the reporting date due to its uncertainty of realization.

[3] The Company does not recognize deferred tax assets from temporary difference and tax losses due to its uncertainty of realization.

(in thousands of Korean won)	2016			
	Beginning balance	**Decrease**	**Increase[1]**	**Ending balance**
Unconfirmed costs	₩ 1,399,619	₩ 1,399,619	₩ 1,855,497	₩ 1,855,497
Commissions paid (bond discount)	167,980	167,980	8,143	8,143
Defined benefit obligations	3,494,084	1,507,152	1,433,291	3,420,223
Pension plan asset	(3,365,571)	(1,507,152)	(1,561,804)	(3,420,223)
Stock compensation cost	172,870	172,870	283,938	283,938
Depreciation in excess of tax limit	38,403	3,456	43,355	78,302
Non-trade payables	616,392	597,333	713,111	732,170
	2,523,777	2,341,258	2,775,531	2,958,050
Tax loss carried forward [2]	4,620,123	-	-	4,620,123
Not recognized as deferred tax assets [3]	7,143,900	-	-	7,578,173
Recognized as deferred tax assets	-	-	-	-
Deferred tax assets	₩ -	₩ -	₩ -	₩ -

[1] Tax adjustments include adjustments that eventuated from additional adjustments made at the time of filing of taxation report.

[2] The Company does not recognize deferred tax assets from tax loss carried forward at the end of the reporting date due to its uncertainty of realization.

[3] The Company does not recognize deferred tax assets from temporary difference and tax losses due to its uncertainty of realization.

At the end of the reporting date, the amount of tax loss carried forward and the deductible deadline are as follows:

(in thousands of Korean won)

Year incurred	Loss incurred[1]	Lapse amount	December 31, 2017	Offset period
2011	₩ 4,620,123	₩ -	₩ 4,620,123	Until the end of 2021

[1] Tax adjustments include adjustments that eventuated from additional adjustments made at the time of filing of taxation report. Also, the Company has adopted consolidated tax return from 2012 and, hence, has no deductible loss carried forward.

The Company, as the parent company on behalf of its subsidiaries, recognizes total corporate income tax payables as a current tax liability amounting to ₩33,860,437 thousand as at December 31, 2017, in accordance with the consolidated corporate tax system.

17. Share Capital and Other Paid-in Capital

(a) Share Capital

As at December 31, 2017, the Company has 700 million ordinary shares authorized with a par value per share of ₩5,000 and 325,935,246 shares have been issued. Share capital is ₩1,629,676 million.

(b) Hybrid Equity Securities

Hybrid equity securities classified as equity as at December 31, 2017, are as follows:

(In thousands of Korean won)	2017			
	Issue date	**Maturity**	**Annual Interest rates (%)**	**December 31, 2017**
Hybrid equity securities in Korean won	2015-06-24	2045-06-24	4.60	₩ 80,000,000
	2015-06-24	2045-06-24	5.10	30,000,000
	2015-08-31	2045-08-31	4.48	150,000,000
Issuance cost				(722,989)
				₩ 259,277,011

The Company can exercise its right to early repayment after 5 or 10 years after issuing hybrid equity securities, and at the date of maturity, the contractual agreements allow the Company to indefinitely extend the maturity date with the same contractual terms. In addition, the Company decides not to pay the dividends of ordinary shares at general shareholders' meeting, the Company may not pay interest on the hybrid equity securities.

(c) Other paid-in capital

Other paid-in capital is the amount of difference in the acquisition cost of subsidiaries and par value of the Company's transfer shares, net of treasury shares acquired to eliminate fractional shares arising from the share exchange.

(In thousands of Korean won)	**2017**	**2016**
Share premium	₩ 2,277,035,810	₩ 2,277,035,810
Treasury shares	(213,973)	(213,973)
	₩ 2,276,821,837	₩ 2,276,821,837

1 Article 53 of The Financial Holding Company Act requires a parent Company to appropriate at least 10% of profit for the period to legal reserve, until such reserve equals 100% of its paid-up capital. This reserve is not available for payment of cash dividends; however, it can be used to reduce deficit or be transferred to capital.

(d) Other components of equity

Other components of equity for the year ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)	2017		
	Beginning balance	**Decrease**	**Ending balance**
Remeasurements of net defined benefit liabilities	₩ (1,680,077)	₩ (1,443,218)	₩ (3,123,295)

(in thousands of Korean won)	2016		
	Beginning balance	**Decrease**	**Ending balance**
Remeasurements of net defined benefit liabilities	₩ (1,251,640)	₩ (428,437)	₩ (1,680,077)

18. Retained Earnings

Retained earnings as at December 31, 2017 and 2016, consist of:

(In thousands of Korean won)	**2017**	**2016**
Reserves:		
Earned profit reserves	₩ 70,296,407	₩ 62,694,407
Reserve for credit losses	409,000	263,000
Reserve for claims liability	2,000,000	2,000,000
Discretionary reserves	267,601,000	286,338,000
	340,306,407	351,295,407
Retained earnings before appropriation	119,273,160	63,973,094
	₩ 459,579,567	₩ 415,268,501

The appropriation of retained earnings for the years ended December 31, 2017 and 2016, is as follows:

(In thousands of Korean won)		**2017**		**2016**
Unappropriated retained earnings				
Unappropriated retained earnings carried over from prior year	₩	403	₩	87
Dividends from hybrid equity securities		(11,930,000)		(12,045,778)
Profit for the year		131,202,756		76,018,784
		119,273,160		63,973,093
Transfers such as discretionary reserves				
Discretionary reserves		-		18,737,000
Reversal of reserve for credit losses		240,000		-
		240,000		18,737,000
Appropriation of retained earnings				
Legal reserve		13,121,000		7,602,000
Reserve for credit losses		-		146,000
Discretionary reserves		31,430,000		-
Cash dividends (Cash dividend (%)):				
₩ 230 (4.60%) in 2017				
₩ 230 (4.60%) in 2016		74,961,690		74,961,690
		119,512,690		82,709,690
Unappropriated retained earnings to be carried forward	₩	470	₩	403

The appropriation of retained earnings for the year ended December 31, 2017, is expected to be appropriated on March 23, 2018. The appropriation date for the year ended December 31, 2016, was March 24, 2017.

Regulatory reserve for credit losses

In accordance with the Regulations for Supervision of Financial Holding Company, if provision for impairment under Korean IFRS is less than provisions that were calculated for the regulatory purpose, the Company is required to appropriate such shortfall amount as regulatory reserve for credit losses. The reserve for credit losses is included in retained earnings and is allowed to reduce the reserve amount required by the related financial regulation if the reserve for credit losses is over the required reserve. If there is an accumulated deficit, the reserve for credit losses is not appropriated until the undisposed accumulated deficit is disposed of.

Balances of regulatory reserve for credit losses as at December 31, 2017 and 2016, are as follows:

(In thousands of Korean won)		**2017**		**2016**
Provided regulatory reserve	₩	409,000	₩	263,000
Expected provision (reversal) of reserve for credit losses		(240,000)		146,000
	₩	169,000	₩	409,000

Expected reversal (provision) of reserve for credit losses, adjusted profit (loss) after the expected reversal (provision) of regulatory reserve and adjusted earnings (loss) per share after the expected reversal (provision) of regulatory reserve for the years ended December 31, 2017 and 2016, are as follows:

(In thousands of Korean won)		**2017**	**2016**
Profit for the year	₩	131,202,756	76,018,784
Reversal (provision) of reserve for credit losses		240,000	(146,000)
Adjusted profit (loss) after the reversal (provision) of regulatory reserve[1]	₩	131,442,756	75,872,784
Adjusted earnings (loss) per share after the reversal (provision) of regulatory reserve[1] *(In Korean won)*	₩	367	198

[1] Profit (loss) and earnings (loss) per share after the expected reversal (provision) of reserve for credit losses are not in accordance with Korean IFRS, but are calculated on the assumption that provision or reversal of reserve for credit losses is adjusted to the profit (loss) for the year. Earnings (loss) per share after the expected reversal (provision) of reserve for credit losses are presented net of dividends on hybrid equity securities.

19. Net Interest Loss

Net interest loss and interest revenues and expenses for the years ended December 31, 2017 and 2016, are as follows:

(In thousands of Korean won)		2017		2016
Interest revenues:				
Cash and due from banks	₩	12,719	₩	18,420
Interest expenses:				
Debentures		(31,109,286)		(35,558,625)
Net interest loss	₩	(31,096,567)		(35,540,205)

20. Net Commission Income

Net commission income and commission revenues and expenses for the years ended December 31, 2017 and 2016, are as follows:

(In thousands of Korean won)		2017	2016
Commission revenues:			
Brand revenues	₩	9,955,000	10,414,000
Other commission revenues		3,500	12,550
		9,958,500	10,426,550
Commission expenses:			
Other commission expenses		(2,291,590)	(989,093)
Net commission income	₩	7,666,910	9,437,457

21. General and Administrative Expenses

General and administrative expenses for the years ended December 31, 2017 and 2016, are as follows:

(In thousands of Korean won)		2017		2016
Employee benefits:				
Salaries	₩	9,759,038		8,356,057
Employee benefits		2,444,954		2,080,794
Post-employment benefits		1,012,789		934,003
		13,216,781		11,370,854
Rent expense		305,679		185,313
Business promotion expenses		645,687		725,279
Depreciation		683,224		615,660
Amortization		94,747		99,275
Taxes and dues		41,449		136,717
Others		3,089,631		2,920,090
	₩	18,077,198		16,053,188

22. Non-operating Loss

Non-operating income and expenses for the years ended December 31, 2017 and 2016, are as follows:

(In thousands of Korean won)		2017		2016
Non-operating revenues:				
Miscellaneous income	₩	72,155	₩	1,153,981
Non-operating expenses:				
Loss on disposal of property and equipment		(358)		-
Donations		(3,111,300)		(3,001,100)
Miscellaneous expense		(6,000)		(116)
		(3,117,658)		(3,001,216)
	₩	(3,045,503)	₩	(1,847,235)

23. Earnings per Share

Basic earnings per share for the years ended December 31, 2017 and 2016, are as follows:

(In Korean won and in shares)	**2017**	**2016**
Profit attributable ordinary shares	₩ 131,202,756,468	₩ 76,018,784,306
Dividends from hybrid equity securities	(11,930,000,000)	(12,045,777,778)
Profit for the year attributable ordinary shares	119,272,756,468	63,973,006,528
Weighted average number of ordinary shares outstanding	325,920,391	321,712,741
Basic earnings per share	₩ 366	₩ 199

Weighted average number of ordinary shares for the years ended December 31, 2017 and 2016, are as follows:

(In shares)

	2017				
	Beginning	**Ending**	**Days**	**Number of shares**	**Accumulation of days**
Beginning	2017-01-01	2017-12-31	365	325,920,391	118,960,942,715
	Total		365		118,960,942,715
Weighted average number of ordinary shares outstanding					325,920,391

(In shares)

	2016				
	Beginning	**Ending**	**Days**	**Number of shares**	**Accumulation of days**
Beginning	2016-01-01	2016-01-22	22	255,920,391	5,630,248,602
	2016-01-23	2016-12-31	344	325,920,391	112,116,614,504
	Total		366		117,746,863,106
Weighted average number of ordinary shares outstanding					321,712,741

Diluted earnings per share from continuing operations and diluted net earnings per share are computed by dividing the earnings from continuing operations and net earnings by the number of ordinary shares outstanding, plus dilutive securities outstanding during that period. Diluted earnings per share from continuing operations and diluted net earnings per share are not calculated because the Company had no dilutive potential ordinary shares during that period.

24. Dividends

The dividends paid in 2017 were ₩ 74,962 million (₩ 230 per share) and identical to the dividends paid in 2016.

A dividend in respect of the year ended December 31, 2017, of ₩ 230 per share, amounting to a total dividend of ₩ 74,962 million, is to be proposed to shareholders at the annual general meeting on March 23, 2018. These separate financial statements do not reflect this dividend payable.

25. Statements of Cash Flows

The cash and cash equivalents in the separate statements of cash flows include cash, bank deposits and investment in money market, which mature within three months after the date of acquisition. The Company's cash and cash equivalents in the separate statements of cash flows as at December 31, 2017 and 2016, are as follows:

(In thousands of Korean won)		2017		2016
Cash on hand	₩	161,666,426	₩	101,083,615

Details of material transactions without cash inflows and outflows as at December 31, 2017 and 2016, are as follows:

(In thousands of Korean won)		2017		2016
Reclassification of construction in process	₩	103,640	₩	-
Remeasurements of net defined benefit liabilities		1,443,218		428,437
Offsetting of receivables and tax payables due to consolidated tax system		47,993,925		39,349,837
Dividends payable on hybrid equity securities		-		115,778

Changes in liabilities arising from financial activities

Chances in liabilities arising from financial activities for the years ended December 31, 2017 and 2016, are as follows:

(In thousands of Korean won)	2017					
	Beginning balance	Cash flows	Exchange differences	Fair value hedge	Others	Ending balance
Debentures	₩1,138,411,840	₩ (670,580)	₩ -	₩ -	₩ 872,778	₩1,138,614,038

(In thousands of Korean won)	2016					
	Beginning balance	**Cash flows**	**Exchange differences**	**Fair value hedge**	**Others**	**Ending balance**
Debentures	₩1,108,436,608	₩29,214,219	₩ -	₩ -	₩761,013	₩1,138,411,840

26. Contingencies and Commitments

The Company filed a lawsuit against the Korea Deposit Insurance Corporation to seek compensation for damages (amount spent on litigation: ₩53.2 billion) as at the end of the reporting period. On December 15, 2017, the court ordered the Korea Deposit Insurance Corporation to pay ₩53.2 billion to the Company in the first trial. In respect of the first court decision, the Korea Deposit Insurance Corporation paid ₩53.2 billion in advance and the Company recognized the corresponding amount as other liabilities. In addition, the Korea Deposit Insurance Corporation appealed against the first decision on December 28, 2017, and the lawsuit is pending at the Seoul High Court. The Company determined not to recognize provisions because it anticipates that the outflows of resources are unlikely to be realized as at December 31, 2017.

BNK Financial Group Inc., Busan Bank, BNK Securities Co., Ltd. and their former and current employees, were filed in a lawsuit with violation of the Financial Investment Services and Capital Markets Act such as anti-competitive transactions related to second capital increase of BNK Financial Group Inc. by Busan District Public Prosecutor's Office on May 1, 2017. First court decision was made for the violation of certain former employees on January 9, 2018. The ultimate outcome of this case and its financial effect cannot be predicted at the end of the reporting period.

27. Transactions with Related Parties

Related parties as at December 31, 2017, are as follows:

Relationship	**Name of the related party**
Subsidiaries	Busan Bank Co., Ltd., Kyongnam Bank Co., Ltd., BNK Securities Co., Ltd., BNK Capital Co., Ltd., BNK Savings Bank Co., Ltd., BNK Asset Management Co., Ltd., BNK Credit Information Co., Ltd., BNK System Co., Ltd., BNK 'Strong' Short-term Government Bond 1st, Busan Bank trust accounts guaranteeing a fixed rate of return and the repayment of principal, Busan Bank trust accounts guaranteeing the repayment of principal, Kyongnam Bank trust accounts guaranteeing a fixed rate of return and the repayment of principal, Kyongnam Bank trust accounts guaranteeing the repayment of principal, Daishin Balance Private Securities Investment Trust 51st, Daishin Balance Private Securities Investment Trust 55th, HDC Dual Private Securities Investment Trust 1st, Hanhwa Private Securities Investment Trust 15th, Consus 6th LLC, BNKC (Cambodia) MFI PLC, BNK Capital Myanmar Co., Ltd., BNK Capital Lao Leasing Co., Ltd., BNK Auto First Securitization Specialty Co., Ltd.
Associates	Dongwha Capital Ltd., Consus Clean water Private Securities Investment Trust

1st, Hanhwa Private Securities Investment Trust 102nd, BNK Strong dividend Securities Investment Trust 1st, BNK Strong Korea Securities Investment 1st

Transactions with related parties for the years ended December 31, 2017 and 2016, are as follows:

(In thousands of Korean won)		2017				
		Revenues		Expenses		Acquisition of property and equipment
Type	**Name of entity**	**Interest revenues**	**Other revenues**	**Interest expenses**	**Other expenses**	
Subsidiaries	Busan Bank Co., Ltd.	₩ 12,719	₩ 85,457,763	₩ -	₩ 133,127	₩ -
	Kyongnam Bank Co., Ltd.	-	82,751,502	-	338,369	-
	BNK Securities Co., Ltd.	-	6,323,800	-	-	-
	BNK Capital Co., Ltd.	-	10,944,350	-	45,445	-
	BNK Saving Bank Co., Ltd.	-	99,200	-	-	-
	BNK Asset Management Co., Ltd.	-	10,000	-	-	-
	BNK Credit Information Co., Ltd.	-	8,000	-	-	-
	BNK System Co., Ltd.	-	119,000	-	245,046	3,932,787
		₩ 12,719	₩ 185,713,615	₩ -	₩ 761,987	₩ 3,932,787

(In thousands of Korean won)		2016				
		Revenues		Expenses		Acquisition of property and equipment
Type	Name of entity	Interest revenues	Other revenues	Interest expenses	Other expenses	
Subsidiaries	Busan Bank Co., Ltd.	₩ 18,420	₩ 85,839,063	₩ -	₩ 36,112	₩ -
	Kyongnam Bank Co., Ltd.	-	43,294,242	-	83,882	-
	BNK Securities Co., Ltd.	-	278,150	-	-	-
	BNK Capital Co., Ltd.	-	849,750	-	34,844	-
	BNK Saving Bank Co., Ltd.	-	99,300	-	-	-
	BNK Asset Management Co., Ltd.	-	6,000	-	-	-
	BNK Credit Information Co., Ltd.	-	6,000	-	-	-
	BNK System Co., Ltd.	-	76,000	-	182,746	2,879,760
		₩ 18,420	₩ 130,448,505	₩ -	₩ 337,584	₩ 2,879,760

Fund transactions with related parties for the years ended December 31, 2017 and 2016, are as follows:

(In thousands of Korean won)		2017			
		Loan transactions		Investment	
Type	Name of entity	Loans	Repayments	Capital increase	Capital reduction
Subsidiaries	Busan Bank Co., Ltd.	₩ 315,676,652	₩ 255,093,841	₩ -	₩ -
	BNK Asset Management Co., Ltd.	-	-	30,000,000	-
		₩ 315,676,652	₩ 255,093,841	₩ 30,000,000	₩ -

(In thousands of Korean won)		2016			
		Loan transactions		Investment	
Type	Name of entity	Loans	Repayments	Capital increase	Capital reduction
Subsidiaries	Busan Bank Co., Ltd.	₩ 764,714,886	₩ 714,094,226	₩ 180,000,000	₩ -
	Kyongnam Bank Co., Ltd.	-	-	250,000,000	-
	BNK Securities Co., Ltd.	-	-	50,000,000	-
		₩ 764,714,886	₩ 714,094,226	₩ 480,000,000	₩ -

Outstanding receivables and payables from related parties as at December 31, 2017 and December 31, 2016, are as follows:

(In thousands of Korean won)		2017			
		Receivables		Payables	
Type	Name of entity	Loans / due from banks	Other assets	Deposit liabilities	Other liabilities
Subsidiaries	Busan Bank Co., Ltd.	₩ 161,666,426	₩ 14,413,134	₩ -	₩ 108,689
	Kyongnam Bank Co., Ltd.	-	22,288,246	-	-
	BNK Securities Co., Ltd.	-	-	-	1,896,415
	BNK Capital Co., Ltd.	-	6,553,079	-	-
	BNK Saving Bank Co., Ltd	-	2,775,284	-	-
	BNK Credit Information Co., Ltd.	-	149,053	-	-
	BNK System Co., Ltd.	-	118,014	-	-
		₩ 161,666,426	₩ 46,296,810	₩ -	₩ 2,005,104

(In thousands of Korean won)		2016							
		Receivables				Payables			
Type	Name of entity	Loans / due from banks		Other assets		Deposit liabilities		Other liabilities	
Subsidiaries	Busan Bank Co., Ltd.	₩	101,083,615	₩	56,098,245	₩	-	₩	55,919
	Kyongnam Bank Co., Ltd.		-		16,258,866		-		-
	BNK Securities Co., Ltd.		-		436,171		-		-
	BNK Capital Co., Ltd.		-		14,900,663		-		-
	BNK Saving Bank Co., Ltd		-		1,836,055		-		-
	BNK Credit Information Co., Ltd.		-		133,827		-		-
	BNK System Co., Ltd.		-		117,662		-		-
		₩	101,083,615	₩	89,781,489	₩	-	₩	55,919

Compensation for key executives for the years ended December 31, 2017 and 2016, are as follows:

(In thousands of Korean won)		2017		2016
Short-term employee benefits	₩	892,922	₩	691,720
Performance compensation		368,738		191,410

28. Events After the Reporting Period

The Company’s Board of Directors approved additional contribution of ₩ 200 billion to BNK Securities Co., Ltd., a subsidiary, on February 28, 2018, and the payments were made on March 5, 2018. Accordingly, the Company owns 22,600,000 shares (percentage of ownership: 100%) of BNK Securities Co., Ltd.

The Company determined issuance terms and conditions of write-down contingent capital securities and issued them on February 13, 2018.

Report on Independent Accountants' Review of Internal Accounting Control System

To the President of
BNK Financial Group Inc.

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of BNK Financial Group Inc. (the "Company") as at December 31, 2017. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on its assessment of the operations of the IACS as at December 31, 2017, the Company's IACS has been effectively designed and is operating as at December 31, 2017, in all material respects, in accordance with the IACS standards."

Our review was conducted in accordance with the IACS review standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform, in all material respects, the review of management's report on the operations of the IACS to obtain a lower level of assurance than an audit. A review is to obtain an understanding of a company's IACS and consists principally of inquiries of management and, when deemed necessary, a limited inspection of underlying documents, which is substantially less in scope than an audit.

A company's IACS is a system to monitor and operate those policies and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the Republic of Korea. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that management's report on the operations of the IACS, referred to above, is not presented fairly, in all material respects, in accordance with the IACS standards.

Our review is based on the Company's IACS as at December 31, 2017, and we did not review management's assessment of its IACS subsequent to December 31, 2017. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers
March 15, 2018

Report on the Operations of the Internal Accounting Control System

To the Board of Directors and Audit Committee of
BNK Financial Group Inc.

I, as the Internal Accounting Control Officer (“IACO”) of BNK Financial Group Inc. (the ”Company”), assessed the status of the design and operations of the Company’s internal accounting control system (“IACS”) for the year ended December 31, 2017.

The Company’s management including IACO is responsible for designing and operating IACS. I, as the IACO, assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external purposes. I, as the IACO, applied the IACS standard for the assessment of design and operations of the IACS.

Based on the assessment on the operations of the IACS, the Company’s IACS has been effectively designed and is operating as at December 31, 2017, in all material respects, in accordance with the IACS standards.

February 28, 2018

Hyung Gook Myung, Internal Accounting Control Officer

Ji Wan Kim, Chief Executive Officer and President