

**BNK FINANCIAL GROUP INC.  
and Subsidiaries**

**Consolidated Interim Financial Statements  
June 30, 2018 and 2017**

**BNK FINANCIAL GROUP INC. and Subsidiaries**

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June 30, 2018 and 2017

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## **Report on Review of Interim Financial Statements**

(English Translation of a Report Originally Issued in Korean)

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

### **Reviewed Financial Statements**

We have reviewed the accompanying consolidated interim financial statements of BNK Financial Group Inc. and its subsidiaries (collectively referred to as the "Group"). These financial statements consist of the consolidated interim statement of financial position of the Group as at June 30, 2018, and the related consolidated interim statements of comprehensive income for the three-month and six-month periods ended June 30, 2018 and 2017, and consolidated interim statements of changes in equity and cash flows for the six-month periods ended June 30, 2018 and 2017, and a summary of significant accounting policies and other explanatory notes, expressed in Korean won.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS) 1034 *Interim Financial Reporting*, and for such internal control as management determines is necessary to enable the preparation of consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to issue a report on these consolidated interim financial statements based on our review.

We conducted our review in accordance with quarterly or semi-annual review standards established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Korean Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe the accompanying consolidated interim financial statements are not presented fairly, in all material respects, in accordance with Korean IFRS 1034 *Interim Financial Reporting*

**Other Matters**

We have audited the consolidated statement of financial position of the Group as at December 31, 2017, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, in accordance with Korean Standards on Auditing. We expressed an unqualified opinion on those financial statements, not presented herein, in our audit report dated March 15, 2018. The consolidated statement of financial position as at December 31, 2017, presented herein for comparative purposes, is consistent, in all material respects, with the above audited statement of financial position as at December 31, 2017.

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

Seoul, Korea  
August 14, 2018

<p>This report is effective as of August 14, 2018, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.</p>
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**BNK FINANCIAL GROUP INC. and Subsidiaries**  
**Consolidated Interim Statements of Financial Position**  
**June 30, 2018 and December 31, 2017**

<i>(in millions of Korean won)</i>	Notes		June 30, 2018 (Unaudited) <sup>1</sup>		December 31, 2017
<b>Assets</b>					
Cash and cash equivalents	4,6,7	W	3,442,769	W	3,142,147
Financial assets at fair value through profit or loss	4,6,8,13		3,137,814		1,400,100
Financial assets at fair value through other comprehensive income	4,6,9,13		4,741,975		-
Available-for-sale ("AFS") financial assets	4,6,10		-		5,822,006
Financial assets at amortized cost	4,6,11,13		6,831,235		-
Held-to-maturity ("HTM") financial assets	4,6,12		-		6,671,317
Loans and receivables	4,6,14		77,262,061		75,291,882
Derivative assets	4,6,16		65,119		79,605
Investments in associates and joint venture	17		391,634		62,998
Property and equipment	18		886,514		855,644
Intangible assets	19		284,484		312,769
Investment properties	20		182,913		186,415
Deferred tax assets			-		1,658
Other assets			655,113		523,436
<b>Total assets</b>		W	<u>97,881,631</u>	W	<u>94,349,977</u>
<b>Liabilities</b>					
Deposit liabilities	6	W	71,440,398	W	69,824,592
Borrowings	6,21		5,716,706		5,116,421
Debentures	6,22		8,611,115		8,807,408
Derivative liabilities	6,16		103,545		115,823
Net defined benefit liabilities	23		46,961		31,729
Provisions	24		50,655		44,973
Current tax liabilities			57,505		33,879
Deferred tax liabilities			37,019		20,977
Other liabilities	6		3,525,933		2,698,156
<b>Total liabilities</b>			<u>89,589,837</u>		<u>86,693,958</u>
<b>Equity</b>					
<b>Equity attributable to owners of the Parent Company</b>					
Share capital	25		1,629,676		1,629,676
Hybrid equity securities	25		508,521		259,277
Other paid-in capital	25		786,783		786,783
Other components of equity	25		(55,053)		(36,056)
Retained earnings	25		4,624,095		4,417,881
			7,494,022		7,057,561
<b>Non-controlling interest</b>			<u>797,773</u>		<u>598,459</u>
<b>Total equity</b>			<u>8,291,795</u>		<u>7,656,020</u>
<b>Total liabilities and equity</b>		W	<u>97,881,632</u>	W	<u>94,349,978</u>

<sup>1</sup> The consolidated interim statement of financial position as at June 30, 2018, has been prepared in accordance with Korean IFRS 1109 and comparative figures as at December 31, 2017, have not been restated.

The above consolidated interim statements of financial position should be read in conjunction with the accompanying notes.

**BNK FINANCIAL GROUP INC. and Subsidiaries**  
**Consolidated Interim Statements of Comprehensive Income**  
**Three-Month and Six-Month Periods Ended June 30, 2018 and 2017**

		Period Ended June 30			
		2018 (Unaudited) <sup>1</sup>		2017 (Unaudited)	
(in millions of Korean won, except per share amounts)	Notes	Three months	Six months	Three months	Six months
Net interest income	5,24				
Interest income		W 897,443	W 1,770,856	W 842,777	W 1,662,706
Interest expenses		(310,552)	(601,971)	(264,210)	(528,815)
		<u>586,891</u>	<u>1,168,885</u>	<u>578,567</u>	<u>1,133,891</u>
Net fee and commission income	5,25				
Commission income		89,928	182,291	86,295	163,383
Commission expenses		(35,383)	(71,995)	(42,020)	(75,941)
		<u>54,545</u>	<u>110,296</u>	<u>44,275</u>	<u>87,442</u>
Gain (loss) on financial assets at FVTPL	5,26	(7,289)	13,959	7,422	7,925
Gain on financial assets at fair value through other comprehensive income		1,313	7,034	-	-
Gain on AFS financial assets	5,27	-	-	14,767	30,888
Gain (loss) on financial assets at amortized cost		11	(31)	-	-
Contribution to provision for credit loss	5,28	(83,160)	(151,085)	(123,074)	(225,480)
General and administrative expenses	5,29	(293,719)	(574,140)	(261,987)	(515,440)
Other operating income (expenses)	5				
Gain on foreign currency transaction		1,853	7,603	5,414	30,791
Gain (loss) from derivatives		7,758	4,798	9,434	(2,069)
Other operating income		52,623	110,034	45,119	87,602
Other operating expenses		(99,352)	(191,869)	(97,347)	(183,892)
<b>Operating profit</b>		<u>221,474</u>	<u>505,484</u>	<u>222,590</u>	<u>451,658</u>
<b>Non-operating income (expenses)</b>	5,30				
Share of profit of associates		1,423	2,017	(178)	492
Other income		4,231	10,580	3,381	7,106
Other expenses		(10,847)	(20,435)	(6,497)	(14,598)
		<u>(5,193)</u>	<u>(7,838)</u>	<u>(3,294)</u>	<u>(7,000)</u>
Profit before income tax	5	216,281	497,646	219,296	444,658
Income tax expense	5,31	(57,534)	(124,066)	(52,616)	(105,498)
<b>Profit for the period</b>	5,32	<u>158,747</u>	<u>373,580</u>	<u>166,680</u>	<u>339,160</u>
Profit is attributable to:					
Owners of the Parent Company		150,343	357,596	162,392	330,713
Non-controlling interest		8,403	15,982	4,288	8,448
<b>Other comprehensive income, net of tax</b>					
<i>Items that will not be reclassified to profit or loss</i>					
Remeasurements of net defined benefit liabilities		(1,869)	(6,429)	302	1,086
Gain on valuation of equity instruments at fair value through other comprehensive income		5,080	5,819	-	-
<i>Items that may be subsequently reclassified to profit or loss</i>					
Gain on valuation of debt instruments at fair value through other comprehensive income		10,742	14,703	-	-
Changes in the fair value of AFS financial assets		-	-	3,307	8,001
Cash flow hedge		-	-	-	-
Exchange differences on translation of foreign operations		4,711	4,504	2,217	(6,648)
Gain (loss) on valuation of hedges of net investments in foreign operations		(3,656)	(3,331)	(1,589)	4,663
Impairment loss of debt instruments at fair value through other comprehensive income		(26)	(50)	-	-
Other comprehensive income for the period, net of tax		<u>14,982</u>	<u>15,216</u>	<u>4,237</u>	<u>7,102</u>
<b>Total comprehensive income for the period</b>		<u>W 173,729</u>	<u>W 388,796</u>	<u>W 170,917</u>	<u>W 346,262</u>
Total comprehensive income for the period is attributable to:					
Owners of the Parent Company		W 165,323	W 372,812	W 166,629	W 337,816
Non-controlling interests		8,403	15,982	4,288	8,448
<b>Earnings per share (in Korean won)</b>	32				
Basic and diluted earnings per share		W 444	W 1,067	W 489	W 997

<sup>1</sup> The consolidated interim statement of comprehensive income for the three-month and six-month period ended June 30, 2018, has been prepared in accordance with Korean IFRS 1109 and comparative figures for the three-month and six-month period ended June 30, 2017, have not been restated.

**BNK FINANCIAL GROUP INC. and Subsidiaries**  
**Consolidated Interim Statements of Changes in Equity**  
**Six-Month Periods Ended June 30, 2018 and 2017**

	Attributable to owners of the Parent Company										Non-controlling interests	Total equity
	Share capital	Hybrid equity securities	Other paid-in capital	Other components of equity	Retained earnings	Total						
<i>(In millions of Korean won)</i>												
<b>Balance at January 1, 2017</b>	₩ 1,629,676	₩ 259,277	₩ 789,802	₩ 2,191	₩ 4,101,672	₩ 6,782,618	₩ 304,534	₩ 7,087,152				
Dividends	-	-	-	-	(74,962)	(74,962)	-	(74,962)				
Dividends on hybrid equity securities	-	-	-	-	(5,917)	(5,917)	(8,211)	(14,128)				
<b>Total comprehensive income</b>	-	-	-	-	330,713	330,713	8,448	339,161				
Profit for the period	-	-	-	-	-	-	-	-				
Other comprehensive income	-	-	-	1,086	-	1,086	-	1,086				
Remeasurements of net defined benefit liabilities	-	-	-	8,001	-	8,001	-	8,001				
Changes in the fair value of the AFS financial assets	-	-	-	-	-	-	-	-				
Cash flow hedge	-	-	-	-	-	-	-	-				
Exchange differences on translation of foreign operations	-	-	-	(6,648)	-	(6,648)	-	(6,648)				
Gain on valuation of hedges of net investments in foreign operations	-	-	-	4,863	-	4,863	-	4,863				
<b>Balance at June 30, 2017 (Unaudited)</b>	₩ 1,629,676	₩ 259,277	₩ 789,802	₩ 9,293	₩ 4,351,506	₩ 7,039,554	₩ 304,771	₩ 7,344,325				
<b>Balance at January 1, 2018</b>	₩ 1,629,676	₩ 259,277	₩ 786,783	₩ (36,056)	₩ 4,417,881	₩ 7,057,561	₩ 598,459	₩ 7,656,020				
Changes in accounting policy	-	-	-	(34,213)	(66,666)	(100,879)	4	(100,875)				
Dividends	-	-	-	-	(74,962)	(74,962)	-	(74,962)				
Issuance of hybrid equity securities	-	249,244	-	-	-	249,244	199,335	448,579				
Dividends on hybrid equity securities	-	-	-	-	(9,843)	(9,843)	(15,982)	(25,825)				
Others	-	-	-	-	-	-	(25)	(25)				
<b>Total comprehensive income</b>	-	-	-	-	357,596	357,596	15,982	373,578				
Profit for the period	-	-	-	-	-	-	-	-				
Other comprehensive income	-	-	-	(6,429)	-	(6,429)	-	(6,429)				
Remeasurements of net defined benefit liabilities	-	-	-	(6,429)	-	(6,429)	-	(6,429)				
Gain on valuation of financial assets at fair value through other comprehensive income	-	-	-	20,523	-	20,523	-	20,523				
Gain on disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	89	89	-	89				
Exchange differences on translation of foreign operations	-	-	-	4,504	-	4,504	-	4,504				
Loss on valuation of hedges of net investments in foreign operations	-	-	-	(3,331)	-	(3,331)	-	(3,331)				
Impairment loss of debt instruments at fair value through other comprehensive income	-	-	-	(50)	-	(50)	-	(50)				
<b>Balance at June 30, 2018 (Unaudited)<sup>1</sup></b>	₩ 1,629,676	₩ 508,521	₩ 786,783	₩ (55,052)	₩ 4,624,095	₩ 7,494,023	₩ 797,773	₩ 8,291,796				

<sup>1</sup>The consolidated interim statement of changes in equity for the six-month period ended June 30, 2018, has been prepared in accordance with Korean IFRS 1109 and comparative figures for the six-month period ended June 30, 2017, have not been restated.

The above consolidated interim statements of changes in equity should be read in conjunction with the accompanying notes.

## BNK FINANCIAL GROUP INC. and Subsidiaries

### Consolidated Interim Statements of Cash Flows

Six-Month Periods Ended June 30, 2018 and 2017

(in millions of Korean won)	Notes	Six-Month Period Ended June 30	
		2018 (Unaudited) <sup>1</sup>	2017 (Unaudited)
<b>Cash flows from operating activities</b>			
Profit for the period	₩	373,578	₩ 339,160
Adjustments to profit for the period:			
Interest income		(1,770,856)	(1,662,706)
Interest expense		601,971	528,815
Loss (gain) on financial assets at fair value through profit or loss, net		11,721	(7,925)
Gain on financial assets at fair value through other comprehensive income, net		(7,034)	-
Changes in the fair value of the AFS financial assets		-	(30,888)
Loss on financial assets at amortized cost, net		31	-
Contribution to provision for credit loss		211,245	227,531
Loss (gain) on foreign currency translation		1,777	(9,124)
Loss (gain) on valuation of derivatives, net		1,591	(329)
Depreciation		31,596	30,845
Amortization		37,056	38,524
Post-employment benefits		29,401	25,611
Other operating expenses, net		59,602	61,617
Share of profit of associates		(2,017)	(492)
Gain on property and equipment, and intangible assets		(41)	(207)
Income tax expense		124,066	105,498
		<u>(669,891)</u>	<u>(693,230)</u>
Changes in operating assets and liabilities:			
Decrease (increase) in due from banks		(592,103)	105,634
Decrease (increase) in financial assets at fair value through profit or loss		(630,716)	77,141
Increase in loan receivable		(2,315,381)	(3,412,475)
Increase or decrease in derivative assets and liabilities		681	20,383
Increase in other assets		(222,396)	(113,268)
Increase in deposit liabilities		1,606,308	2,976,123
Decrease in provisions		(70)	(186)
Increase in other liabilities		799,244	1,060,161
Decrease in defined benefit obligation		(20,626)	(21,998)
Decrease (increase) in plan assets		(2,279)	2,139
		<u>(1,377,338)</u>	<u>693,654</u>
Interest received		1,784,512	1,712,645
Dividend received		6,391	18,167
Interest paid		(567,467)	(582,473)
Income tax paid		(55,231)	(107,177)
<b>Net cash inflow (outflow) from operating activities</b>	₩	<u>(505,446)</u>	₩ <u>1,380,746</u>

The above consolidated interim statements of cash flows should be read in conjunction with the accompanying notes.

## BNK FINANCIAL GROUP INC. and Subsidiaries

### Consolidated Interim Statements of Cash Flows

Six-Month Periods Ended June 30, 2018 and 2017

	Notes	Six-Month Period Ended June 30	
		2018 (Unaudited) <sup>1</sup>	2017 (Unaudited)
<i>(in millions of Korean won)</i>			
<b>Cash flows from investing activities</b>			
Proceeds from disposal of financial assets at fair value through profit or loss	₩	649,466	₩ -
Payments for financial assets at fair value through profit or loss		(839,535)	-
Proceeds from disposal of financial assets at fair value through other comprehensive income		892,439	-
Payments for financial assets at fair value through other comprehensive income		(707,726)	-
Proceeds from disposal of AFS financial assets		-	1,710,377
Payments for AFS financial assets		-	(1,417,339)
Proceeds from disposal of financial assets at amortized cost		767,507	-
Payments for financial assets at amortized cost		(919,270)	-
Proceeds from disposal of HTM financial assets		-	714,754
Payments for HTM financial assets		-	(1,013,909)
Proceeds from disposal of investments in associates		207,079	77,528
Payments for investments in associates		(533,974)	(64,750)
Proceeds from disposal of property and equipment		57	2,695
Payments for property and equipment		(62,785)	(62,667)
Proceeds from disposal of intangible assets		2,258	44
Payments for intangible assets		(6,964)	(48,570)
Others		1,739	1,278
<b>Net cash outflow from investing activities</b>		<b>(549,709)</b>	<b>(100,559)</b>
<b>Cash flows from financing activities</b>			
Increase in borrowings		19,419,005	76,194,166
Decrease in borrowings		(18,804,814)	(76,738,287)
Issuance of debentures		1,701,139	1,546,470
Repayment of debentures		(1,907,368)	(1,803,620)
Dividends paid		(98,407)	(89,138)
Issuance of hybrid equity securities		448,579	-
<b>Net cash inflow (outflow) from financing activities</b>		<b>758,134</b>	<b>(890,409)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(297,021)</b>	<b>389,778</b>
Cash and cash equivalents at the beginning of the period		1,014,578	858,612
Effects of exchange rate changes on cash and cash equivalents		5,344	14,462
<b>Cash and cash equivalents at the end of the period</b>	₩	<b>722,901</b>	₩ <b>1,262,852</b>

<sup>1</sup> The consolidated interim statement of cash flows for the six-month period ended June 30, 2018, has been prepared in accordance with Korean IFRS 1109 and comparative figures for the six-month period ended June 30, 2017, have not been restated.

**BNK FINANCIAL GROUP INC. and Subsidiaries**  
**Notes to the Consolidated Interim Financial Statements**  
**June 30, 2018 and 2017 (Unaudited), and December 31, 2017**

**1. General Information**

General Information of BNK Financial Group Inc. (“BNK Financial Group” or the “Parent Company”), which is a controlling entity in accordance with Korean IFRS 1110 *Consolidated Financial Statements*, and its subsidiaries (collectively referred to as the “Group”), is as follows:

**1.1 BNK Financial Group**

BNK Financial Group was incorporated on March 15, 2011, in accordance with the provisions of the Financial Holding Company Act, whereby holders of the ordinary share of Busan Bank; BNK Securities Co., Ltd.; BNK Capital Co., Ltd.; and BNK Credit Information Co., Ltd. transferred all of their shares to the Parent Company and in return received shares of the Parent Company’s ordinary share in order to control, manage and provide financial support to subsidiaries engaged in financial business or financial industry-related subsidiaries. Meanwhile, BNK Financial Group established BNK Information System Co., Ltd. and BNK Savings Bank Co., Ltd. as its subsidiaries with 100% investment in 2011. The Parent Company obtained control of Kyongnam Bank by acquiring 56.97% of its shares in October 2014 and ultimately acquired 100% of shares of Kyongnam Bank through comprehensive exchange of shares on June 4, 2015. In July 2015, the Parent Company also obtained 51.01% of shares in BNK Asset Management Co., Ltd. and established it as its subsidiary through paid-in capital increase and acquisition of ownership. In December 2017, the Parent Company took over the rest of BNK Asset Management Co., Ltd.’s shares, accordingly, it became a wholly-owned subsidiary. The headquarters of BNK Financial Group is located at Busan Nam-gu Munhyeongeumyu-ro, 30. Meanwhile, after several capital increases, the Parent Company’s share capital as at June 30, 2018, amounts to ₩1,629,676 million with 325,935,246 outstanding shares.

**1.2 Consolidated Subsidiaries**

Details of consolidated subsidiaries as at June 30, 2018 and December 31, 2017, are as follows:

Name of subsidiary	Location	Industry	Closing month	Ownership interests (%)	
				June 30, 2018	December 31, 2017
BNK Financial Group:					
Busan Bank Co., Ltd.	Korea	Banking	December	100	100
Kyongnam Bank Co., Ltd.	Korea	Banking	December	100	100
BNK Capital Co., Ltd.	Korea	Specialized credit financial business	December	100	100
BNK Securities Co., Ltd.	Korea	Investment brokerage and trading	December	100	100
BNK Savings Bank Co., Ltd.	Korea	Saving bank services	December	100	100
BNK Asset Management Co., Ltd.	Korea	Financial advisory and collective investment	December	100	100
BNK Credit Information Co., Ltd.	Korea	Credit investigation and collection agency	December	100	100
BNK System Co., Ltd.	Korea	System software developing and supply	December	100	100
BNK ‘Strong’ Short-term Government Bond No. 1	Korea	Beneficiary certificate	December	93.27	90.44
BNK Brave New KOREA No. 1	Korea	Beneficiary certificate	December	92.68	-
Busan Bank:					
Non-restricted money trust account <sup>1</sup>	Korea	Trust business	December	-	-
Development trust account <sup>1</sup>	Korea	Trust business	December	-	-
Retirement pension trust <sup>1</sup>	Korea	Trust business	December	-	-

**BNK FINANCIAL GROUP INC. and Subsidiaries**  
**Notes to the Consolidated Interim Financial Statements**  
**June 30, 2018 and 2017 (Unaudited), and December 31, 2017**

Name of subsidiary	Location	Industry	Closing month	Ownership interests (%)	
				June 30, 2018	December 31, 2017
Personal pension trust <sup>1</sup>	Korea	Trust business	December	-	-
Retirement trust <sup>1</sup>	Korea	Trust business	December	-	-
New private pension trust <sup>1</sup>	Korea	Trust business	December	-	-
Pension trust <sup>1</sup>	Korea	Trust business	December	-	-
Installment money in trust <sup>1</sup>	Korea	Trust business	December	-	-
Household money in trust <sup>1</sup>	Korea	Trust business	December	-	-
Kyongnam Bank Co., Ltd.:					
Consus 6th LLC <sup>2</sup>	Korea	Special Purpose Company (SPC)	December	-	-
Non-restricted money trust account <sup>1</sup>	Korea	Trust business	December	-	-
Retirement pension trust <sup>1</sup>	Korea	Trust business	December	-	-
Personal pension trust <sup>1</sup>	Korea	Trust business	December	-	-
Development trust account <sup>1</sup>	Korea	Trust business	December	-	-
Retirement trust <sup>1</sup>	Korea	Trust business	December	-	-
New private pension trust <sup>1</sup>	Korea	Trust business	December	-	-
Pension trust <sup>1</sup>	Korea	Trust business	December	-	-
Installment money in trust <sup>1</sup>	Korea	Trust business	December	-	-
Household money in trust <sup>1</sup>	Korea	Trust business	December	-	-
Company money in trust <sup>1</sup>	Korea	Trust business	December	-	-
HDC Dual Private Securities Investment Trust 1st	Korea	Beneficiary certificate	December	100	100
HDC Dual Private Securities Investment Trust 3rd	Korea	Beneficiary certificate	December	100	100
BNK Capital Co., Ltd.:					
BNKC (Cambodia) MFI Plc	Cambodia	Specialized credit financial business	December	100	100
BNK Capital Myanmar Co., Ltd.	Myanmar	Specialized credit financial business	March	99.99	99.99
BNK Capital Lao Leasing Co., Ltd	Laos	Specialized credit financial business	December	94.99	94.99
MFO BNK Finance Kazakhstan LLP	Kazakhstan	Specialized credit financial business	December	100	-

<sup>1</sup> As a money trust in accordance with the Trust Business Act, the Group owns less than 50% ownerships of the trust. However, the Group is considered to have control over the trust because the Group is exposed to variable returns from its involvement with the trust and has the ability to affect those returns through its power to direct the activities of the trust.

<sup>2</sup> As a structured company for purpose of marketable securities investment, the Group owns less than 50% ownerships of the entity. However, the Group is considered to have control over the entity because the Group is exposed to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

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**1.3 Summarized Financial Information**

Summarized financial information for consolidated subsidiaries as at June 30, 2018 and December 31, 2017, and for the six-month periods ended June 30, 2018 and 2017, are as follows:

(in millions of Korean won)

Name of subsidiary	June 30, 2018			2018			Total comprehensive income
	Assets	Liabilities	Equity	Operating income	Operating profit	Profit for the period	
Busan Bank Co., Ltd. and its Subsidiaries	₩52,483,737	₩47,740,910	₩ 4,742,827	₩ 1,405,248	₩ 332,005	₩ 248,205	₩ 259,476
Kyongnam Bank Co., Ltd. and its Subsidiaries	37,767,510	34,536,163	3,231,347	802,895	142,200	108,650	113,030
BNK Capital Co., Ltd. and its Subsidiaries	4,903,105	4,288,791	614,314	265,046	52,873	38,189	38,578
BNK Securities Co., Ltd.	2,012,530	1,601,149	411,381	78,083	3,653	2,400	1,704
BNK Savings Bank Co., Ltd.	889,181	764,767	124,414	27,542	8,915	8,613	8,613
BNK Asset Management Co., Ltd.	41,716	631	41,085	3,563	489	219	219
BNK Credit Information Co., Ltd.	9,752	562	9,190	2,657	472	338	338
BNK System Co., Ltd.	12,506	4,451	8,055	21,322	1,224	945	945

(in millions of Korean won)

Name of subsidiary	December 31, 2017			2017			Total comprehensive income
	Assets	Liabilities	Equity	Operating income	Operating profit	Profit for the period	
Busan Bank Co., Ltd. and its Subsidiaries	₩51,232,105	₩46,777,012	₩ 4,455,093	₩ 1,480,817	₩ 247,035	₩ 189,013	₩ 192,804
Kyongnam Bank Co., Ltd. and its Subsidiaries	36,683,540	33,574,450	3,109,090	757,427	187,482	146,234	145,077
BNK Capital Co., Ltd. and its Subsidiaries	4,812,026	4,201,734	610,292	240,042	47,233	35,465	33,014
BNK Securities Co., Ltd.	886,119	675,902	210,217	86,373	3,027	2,218	2,423
BNK Savings Bank Co., Ltd.	849,837	722,821	127,016	24,070	7,482	6,021	6,021
BNK Asset Management Co., Ltd.	41,753	887	40,866	2,929	606	482	482
BNK Credit Information Co., Ltd.	9,420	568	8,852	2,567	606	467	450
BNK System Co., Ltd.	9,831	2,721	7,110	23,962	380	292	292

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**1.4 Changes in Scope of Consolidation**

Subsidiaries newly included in the consolidation during the six-month period ended June 30, 2018:

Name of Subsidiary	Reason
HDC Dual Private Securities Investment Trust 3rd	Transferred from Hanhwa Private Securities Investment Trust 15 <sup>th</sup>
BNK Brave New KOREA No.1	Participated in affiliate's investment when setting beneficiary certificate
MFO BNK Finance Kazakhstan LLP	Establishment of BNK Capital Co., Ltd.'s foreign subsidiary in Kazakhstan

Subsidiaries excluded from the consolidation during the six-month period ended June 30, 2018:

Name of Subsidiary	Reason
Hanhwa Private Securities Investment Trust 15 <sup>th</sup>	Transfer to HDC Dual Private Securities Investment Trust 3rd
Daishin Balance Private Securities Investment Trust 51 <sup>st</sup>	Liquidation of BNK Kyongnam Bank Co., Ltd.' beneficiary certificate
Daishin Balance Private Securities Investment Trust 55 <sup>th</sup>	Liquidation of BNK Kyongnam Bank Co., Ltd.' beneficiary certificate
BNK Auto First Securitization Specialty Co., Ltd.	Liquidation of BNK BNK Capital Co., Ltd.' beneficiary certificate

There were no subsidiaries newly included and excluded in the consolidation for the year ended December 31, 2017.

**2. Significant Accounting Policies**

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

**2.1 Basis of Preparation**

The Group 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 consolidated interim financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

The Group's consolidated interim financial statements for the six-month period ended June 30, 2018, have been prepared in accordance with Korean IFRS 1034 *Interim Financial Reporting*. These consolidated interim financial statements have been prepared in accordance with Korean IFRS which is effective or early adopted as at June 30, 2018.

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*(a) New and amended standards adopted by the Group*

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2018. These applications do not have a material impact on the consolidated interim financial statements.

- 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 is 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 amendment has not been applied because the Group 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.

- 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.

- Enactment of Interpretation 2122 *Foreign Currency Transaction and Advance Consideration*

According to the enactment, 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.

- Enactment of Korean IFRS 1109 *Financial Instruments*

The Group has applied Korean IFRS 1109 *Financial Instruments* on January 1, 2018, the date of initial application. In accordance with the transitional provisions in Korean IFRS 1109, comparative figures have not been restated, and the differences between previous book amounts and book amounts at the date of initial application are recognized to retained earnings (or other comprehensive income). See Note 39 for further details on the impact of the application of the standard.

- Enactment of Korean IFRS 1115 *Revenue from Contracts with Customers*

The Group has elected to apply Korean IFRS 1115 *Revenue from Contracts with Customers*. In accordance with the transition provisions in Korean IFRS 1115, comparative figures have not been restated. The Group elected the modified retrospective approach, and recognized the cumulative impact of initially applying the revenue standard as an adjustment to retained earnings as at January 1 2018, the period of initial application. See Note 39 for further details on the impact of the application of the standard.

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*(b) New and amended standards and interpretations not yet adopted by the Group*

Certain new accounting standards and interpretations that have been published that are not mandatory for annual reporting period commencing January 1, 2018 and have not been early adopted by the Group are set out below.

- 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*. The Group will apply the standards for annual periods beginning on or after January 1, 2019.

Under the new standard, with implementation of a single lease model, lessee is required to recognize assets and liabilities for all lease which lease term is over 12 months and underlying assets are not low value assets. A lessee is required to recognize a right-of-use asset and a lease liability representing its obligation to make lease payments.

The Group performed an impact assessment to identify potential financial effects of applying Korean IFRS 1116. The Group is analyzing the effects on the financial statements based on available information as at June 30, 2018 to identify effects on 2018 interim financial statements; however, it is difficult to provide reasonable estimates of financial effects until the analysis is complete.

## **2.2 Significant Accounting Policies**

Significant accounting policies and method of computation used in the preparation of the consolidated interim financial statements are consistent with those of the consolidated financial statements for the year ended December 31, 2017, except for the changes due to the application of amendment and enactments of standards described in Note 2.1 (a) and the ones described below.

### **2.2.1 Income Tax Expense**

Income tax expense for the interim period is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate is applied to the pre-tax income.

### **2.2.2 Financial Assets**

*(a) Classification*

From January 1, 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortized cost

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or

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other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. The Group reclassifies debt investments when and only when its business model for managing those assets changes.

For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. Changes in fair value of the investments in equity instruments that are not accounted for as other comprehensive income are recognized in profit or loss.

*(b) Measurement*

At initial recognition, the Group measures a financial asset, in the case of a financial asset not at fair value through profit or loss, at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset or the issuance of the financial liabilities. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Hybrid (combined) contracts with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

*Debt instruments*

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments into one of the following three measurement categories:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired.
- **Fair value through other comprehensive income("FVTOCI") :** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (and reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.
- **Fair value through profit or loss("FVTPL") :** Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss.

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*Equity instruments*

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss when the Group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in the statement of profit or loss as applicable. Impairment loss (and reversal of impairment loss) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

*(c) Impairment*

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

**3. Critical Accounting Estimates and Assumptions**

The preparation of financial statements requires the Group to make estimates and assumptions concerning the future. Estimates and judgments 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.

Significant accounting estimates and assumptions applied in the preparation of these condensed consolidated interim financial statements are the same as those that applied to the consolidated financial statements for the year ended December 31, 2017, except for the accounting estimates and assumptions for implementation of Korean IFRS 1109 explained as below.

*(a) Impairment of financial assets*

The provision for impairment for financial assets disclosed in Note 4 are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

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**4. Financial Risk Management**

*(a) General*

The Group is exposed to various financial risks, such as credit risk, liquidity risk, market risk and operational risk, associated with financial instruments. There has not been a significant change in the Group's purpose of financial risk management and risk management policy since December 31, 2017.

*(b) Credit Risk*

*Maximum exposure to credit risk*

The Group's maximum exposure to credit risk that does not consider value of collateral as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	<b>June 30, 2018</b>	<b>December 31, 2017</b>
<b>On balance</b>		
Cash and due from banks	₩ 2,719,867	₩ 2,127,570
Financial assets at fair value through profit or loss	3,107,968	1,327,345
Financial assets at fair value through other comprehensive income	4,571,231	-
AFS financial assets	-	4,734,875
Financial assets at amortized cost	6,831,235	-
HTM financial assets	-	6,671,317
Loans	74,498,176	73,272,572
Receivables	2,763,884	2,019,310
Derivative assets	65,119	79,605
	<u>94,557,480</u>	<u>90,232,594</u>
<b>Off balance</b>		
Guarantees and acceptances	1,232,046	1,229,169
Loan commitments	18,274,611	11,148,925
	<u>19,506,657</u>	<u>12,378,094</u>
	<u>₩ 114,064,137</u>	<u>₩ 102,610,688</u>

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*Analysis of financial assets' credit quality*

Credit quality is classified based on internal credit grades as below:

	<u>Household</u>	<u>Corporates, public sector and other</u>
Grade 1	1	AAA
Grade 2	2	AA+, AA
Grade 3	3	AA-
Grade 4	4	A
Grade 5	5	BBB, BBB-
Grade 6	6	BB+, BB, BB-
Grade 7	7 - 10	B, B-, C, D

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The gross carrying amount of loans, receivables and debt securities by credit risk grade as at June 30, 2018, is as follows:

	(in millions of Korean won)		June 30, 2018												
			Loans and receivables					Debt securities							
	Loans					Receivables					Fair value through other comprehensive income		Amortized cost		
	12 months expected credit losses	Expected lifetime credit losses	Unrecognized impairment	Recognized impairment	Subtotal	12 months expected credit losses	Expected lifetime credit losses	Unrecognized impairment	Recognized impairment	Subtotal	12 months expected credit losses	12 months expected credit losses	Subtotal		
Grade 1	₩ 3,239,901	₩ 5,561	₩ 6,522	₩ 3,403	₩ 213,986	₩ 4	₩ 3,469,373	₩ 3,439,165	₩ 5,495,655	₩ 8,934,820					
Grade 2	4,763,969	14,924	4,760	380,418	4	5,164,075	1,122,080	1,291,868	2,413,948						
Grade 3	6,766,882	37,650	8,712	5,828	10,306	-	6,829,378	-	-						
Grade 4	11,388,282	83,751	12,979	10,563	146	-	11,495,721	9,986	40,642	50,628					
Grade 5	21,847,119	784,281	26,121	17,673	953	-	22,676,147	-	-	-					
Grade 6	15,682,238	5,534,822	45,554	22,571	8,165	146	21,293,496	-	-	-					
Grade 7	1,220,207	1,982,010	918,948	545	3,500	1,249	4,126,459	-	-	-					
Non-graded	980,747	38,003	12,662	2,082,785	6,649	65	3,120,910	-	3,873	3,873					
	₩ 65,889,345	₩ 8,481,002	₩ 1,036,258	₩ 2,523,786	₩ 243,709	₩ 1,460	₩ 78,175,559	₩ 4,571,231	₩ 6,832,038	₩ 11,403,269					

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Exposure to credit risk for loan commitments and guarantees and acceptances by credit risk grade as at June 30, 2018, is as follows:

	12 months expected credit losses		Loan commitments				Guarantees and acceptances			
			Expected lifetime credit losses		12 months expected credit losses		Expected lifetime credit losses		12 months expected credit losses	
			Unrecognized impairment	Recognized impairment	Subtotal	Unrecognized impairment	Recognized impairment	Subtotal		
(in millions of Korean won)										
June 30, 2018										
Grade 1	₩ 1,297,668	₩ 1,921	₩ 6	₩ 1,299,595	₩ 13,742	₩ -	₩ -	₩ 13,742		
Grade 2	2,009,310	562	8	2,009,880	39,103	-	-	39,103		
Grade 3	2,290,332	6,384	17	2,296,733	32,582	110	-	32,692		
Grade 4	4,224,744	5,496	37	4,230,277	207,818	45	-	207,863		
Grade 5	4,221,938	76,385	62	4,298,385	581,101	35,492	3	616,596		
Grade 6	2,609,074	514,791	431	3,124,296	182,957	110,492	-	293,449		
Grade 7	243,761	226,150	4,177	474,088	-	14,637	13,964	28,601		
Non-graded	172,778	1,085	-	173,863	-	-	-	-		
	₩ 17,069,605	₩ 832,774	₩ 4,738	₩ 17,907,117	₩ 1,057,303	₩ 160,776	₩ 13,967	₩ 1,232,046		

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

	December 31, 2017						
	Loans in Korean won				Other loans	Receivables	Total
(in millions of Korean won)	Household	Corporates	Public sector	Subtotal			
Assets neither past due nor impaired	₩ 22,523,767	₩ 44,317,728	₩ 1,682,486	₩ 68,523,981	₩ 4,137,213	₩ 2,033,993	₩ 74,695,187
Assets past due but not impaired	120,162	210,623	-	330,785	49,437	-	380,222
Impaired assets	87,769	760,988	1,644	850,401	59,894	3	910,298
	<u>22,731,698</u>	<u>45,289,339</u>	<u>1,684,130</u>	<u>69,705,167</u>	<u>4,246,544</u>	<u>2,033,996</u>	<u>75,985,707</u>
Deferred loan origination fees and costs	73,116	52,733	667	126,516	8,807	-	135,323
Provision for impairment	(70,182)	(648,679)	(8,233)	(727,094)	(87,368)	(5,314)	(819,776)
Present value discounts (leasehold deposits)	-	-	-	-	-	(9,372)	(9,372)
Total	<u>₩ 22,734,632</u>	<u>₩ 44,693,393</u>	<u>₩ 1,676,564</u>	<u>₩ 69,104,589</u>	<u>₩ 4,167,983</u>	<u>₩ 2,019,310</u>	<u>₩ 75,291,882</u>

**5. Operating Segment Information**

*(a) Segment report and division information*

Segment information indicates details of the Group's divisions. The Group's business divisions were classified based on the information reported internally. The Group consists of six business divisions: 2 banks, securities, capital, savings bank and others. These business divisions are divided based on information such as products, characteristics of services, customers and organization of the Group, and such information by each division are disclosed as follows:

Profit or loss, total assets and liabilities by each division for the six-month periods ended and as at June 30, 2018 and 2017, are as follows:

	June 30, 2018			
	Busan Bank	Kyongnam Bank	BNK Capital Co., Ltd.	BNK Securities Co., Ltd.
(in millions of Korean won)				
Net interest income (expenses)	₩ 613,157	₩ 430,902	₩ 115,323	₩ 6,711
Net commission income (expenses)	40,122	23,600	9,729	27,062
Net gain on financial assets at fair value through profit or loss	6,687	5,845	-	440
Net gain on financial assets at fair value through other comprehensive income	5,139	1,775	-	120
Net gain (loss) on financial assets at amortized cost	15	(47)	-	-
Additional provision for credit loss and others	(27,062)	(81,261)	(41,933)	36
General and administrative expenses	(275,650)	(200,955)	(34,243)	(31,588)
Other operating income (expenses), net	(30,403)	(37,659)	3,998	872
Non-operating income (expenses), net	(7,702)	478	(295)	60
Profit before income tax	<u>324,303</u>	<u>142,678</u>	<u>52,579</u>	<u>3,713</u>
Income tax expense	(76,098)	(34,028)	(14,390)	(1,313)
Profit for the period	<u>248,205</u>	<u>108,650</u>	<u>38,189</u>	<u>2,400</u>
Total assets	<u>₩ 52,483,737</u>	<u>₩ 37,767,510</u>	<u>₩ 4,903,105</u>	<u>₩ 2,012,530</u>
Total liabilities	<u>₩ 47,740,910</u>	<u>₩ 34,536,163</u>	<u>₩ 4,288,791</u>	<u>₩ 1,601,149</u>

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<i>(in millions of Korean won)</i>	June 30, 2018					Consolidated financial statements
	BNK Savings Bank	Others	Total	Adjustment		
Net interest income (expenses)	₩ 18,205	₩ (14,740)	₩ 1,169,558	₩ (673)	₩ 1,168,885	
Net commission income (expenses)	679	9,935	111,127	(831)	110,296	
Net gain on financial assets at fair value through profit or loss	80	412	13,464	495	13,959	
Net gain on financial assets at fair value through other comprehensive income	-	-	7,034	-	7,034	
Net gain (loss) on financial assets at amortized cost	-	-	(32)	-	(32)	
Additional provision for credit loss and others	(896)	-	(151,116)	31	(151,085)	
General and administrative expenses	(7,449)	(26,151)	(576,036)	1,896	(574,140)	
Other operating income (expenses), net	(1,704)	97,917	33,021	(102,455)	(69,434)	
Non-operating income (expenses), net	322	(90)	(7,227)	(612)	(7,839)	
Profit before income tax	9,237	67,283	599,793	(102,149)	497,644	
Income tax expense	(624)	(559)	(127,012)	2,946	(124,066)	
Profit for the period	8,613	66,724	472,781	(99,203)	373,578	
Total assets	₩ 889,181	₩ 6,187,609	₩ 104,243,672	₩ (6,362,042)	₩ 97,881,630	
Total liabilities	₩ 764,767	₩ 1,277,338	₩ 90,209,118	₩ (619,283)	₩ 89,589,835	

<i>(in millions of Korean won)</i>	June 30, 2017			
	Busan Bank	Kyongnam Bank	BNK Capital Co., Ltd.	BNK Securities Co., Ltd.
Net interest income (expenses)	₩ 604,324	₩ 416,631	₩ 109,907	₩ 7,461
Net commission income	42,487	19,467	5,754	11,718
Net gain (loss) on financial assets at FVTPL	(2,843)	3,080	-	5,893
Net gain on AFS financial assets	15,107	22,438	16	107
Additional provision for credit loss and others	(125,093)	(54,064)	(40,776)	(4,092)
General and administrative expenses	(255,318)	(188,686)	(29,532)	(18,915)
Other operating income (expenses), net	(31,629)	(31,384)	1,865	855
Non-operating income (expenses), net	(3,197)	(72)	(1,191)	39
Profit before income tax	243,838	187,410	46,043	3,066
Income tax expense	(54,825)	(41,176)	(10,578)	(848)
Profit for the period	189,013	146,234	35,465	2,218
Total assets	₩ 53,237,194	₩ 36,696,046	₩ 4,810,469	₩ 1,389,195
Total liabilities	₩ 48,833,684	₩ 33,748,633	₩ 4,225,128	₩ 1,178,653

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<i>(in millions of Korean won)</i>	June 30, 2017					Consolidated financial statements
	BNK Savings Bank	Others	Total	Adjustment		
Net interest income (expenses)	₩ 17,381	₩ (15,847)	₩ 1,139,857	₩ (5,966)	₩ 1,133,891	
Net commission income	3	9,101	88,530	(1,088)	87,442	
Net gain (loss) on financial assets at FVTPL	-	-	6,130	1,795	7,925	
Net gain on AFS financial assets	45	-	37,713	(6,825)	30,888	
Additional provision for credit loss and others	(1,400)	-	(225,425)	(55)	(225,480)	
General and administrative expenses	(7,113)	(16,041)	(515,605)	165	(515,440)	
Other operating income (expenses), net	(1,434)	60,899	(828)	(66,740)	(67,568)	
Non-operating income (expenses), net	233	(2,940)	(7,128)	128	(7,000)	
Profit (loss) before income tax	7,715	35,172	523,244	(78,586)	444,658	
Income tax expense	(1,694)	(353)	(109,474)	3,976	(105,498)	
Profit (loss) for the period	6,021	34,819	413,770	(74,610)	339,160	
Total assets	₩ 791,503	₩ 5,790,060	₩ 102,714,467	₩ (5,918,978)	₩ 96,795,489	
Total liabilities	₩ 670,050	₩ 1,232,370	₩ 89,888,518	₩ (437,355)	₩ 89,451,163	

*(b) Information on financial instruments and geographical areas*

As the financial instruments of the Group are categorized as interest bearing instruments, non-interest bearing instruments and others, and the categorization is already reflected in the composition of the reportable segments above, revenue from external customers by financial instruments is not separately disclosed. Revenue by geographical areas is not separately disclosed as the Group operates its business domestically.

**6. Fair Value**

There are no significant changes in the business and economic environments that affect the fair value of the Group's financial assets and liabilities for the six-month period ended June 30, 2018.

**6.1 Fair Value of Financial Instruments by Category**

Carrying amount and fair value of financial instruments by category as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2018		December 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and due from banks	₩ 3,442,769	₩ 3,442,769	₩ 3,142,147	₩ 3,142,147
Financial assets at fair value through profit or loss	3,137,814	3,137,814	1,400,100	1,400,100
Financial assets at fair value through other comprehensive income	4,741,975	4,741,975	-	-
AFS financial assets	-	-	5,822,006	5,822,006

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Financial assets at amortized cost	6,831,235	6,805,707	-	-
HTM financial assets	-	-	6,671,317	6,611,223
Loans and receivables	77,262,060	77,866,176	75,291,882	74,835,634
Derivative assets	65,119	65,119	79,605	79,605
	<u>₩ 95,480,972</u>	<u>₩ 96,059,560</u>	<u>₩ 92,407,057</u>	<u>₩ 91,890,715</u>
<b>Financial liabilities</b>				
Deposit liabilities	₩ 71,440,398	₩ 71,445,956	₩ 69,824,592	₩ 70,124,191
Borrowings	5,716,706	5,694,071	5,116,421	5,112,838
Debentures	8,611,115	8,660,460	8,807,408	8,837,866
Derivative liabilities	103,545	103,545	115,823	115,823
Other financial liabilities <sup>1</sup>	3,385,567	3,385,575	2,557,644	2,557,644
	<u>₩ 89,257,331</u>	<u>₩ 89,289,607</u>	<u>₩ 86,421,888</u>	<u>₩ 86,748,362</u>

<sup>1</sup> Other financial liabilities consist of non-trade payables and accrued expenses.

## 6.2 Fair Value Assessment Method and Assumptions

Fair value assessment method and assumptions are as follows:

<b>Classification</b>	<b>Fair value measurement technique</b>
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..
Securities	The fair value of financial instruments that are quoted in active markets is determined using the quoted prices. Fair value is determined by independent third-party pricing services when quoted prices are not available. Pricing services use one or more of the valuation techniques, including Discounted Cash Flow Model ("DCF"), Free Cash Flow to Equity Model, Comparable Company Analysis, Dividend Discount Model, Risk-Adjusted Discount Rate Method, Net Asset Value Method, Precedent Transaction Analysis, Binomial Tress, MonteCarlo Simulation and Hull & White Model.
Derivatives	For exchange-traded derivative, a quoted price in active market is used to determine fair value, and for over-the-counter ("OTC") derivative, fair value is determined using valuation techniques. The Group uses internally developed valuation models that are widely used by market participants to determine fair value of plain OTC derivatives, including option, interest rate swap and currency swap, based on observable market parameters. However, some complex financial instruments are valued using advanced internal valuation model or the results of independent pricing services, where part or all of the inputs are not observable in the market. OTC derivatives with closed form solution in their valuation are valued using the appropriate model. Complex derivative instruments where their valuation method cannot be defined by closed form solution are valued using techniques, including finite difference method and Monte Carlo simulation.
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 a reset period of less than three months, the carrying amount is regarded as fair value.
Deposit liabilities	Demand deposits do not have maturity and will be paid immediately as deposit

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Classification	Fair value measurement technique
	liabilities; therefore, carrying amount approximates the fair value. Fair value of time deposit is determined using DCF. Fair value is determined by using appropriate discount rate and the expected cash flows by contractual cash flows with prepayment rate taken into account. For those deposits 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.
Borrowings	Fair value is determined using DCF, discounting contractual future cash flows by appropriate discount rate. However, for borrowings 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.
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.

**6.3 Fair Value Hierarchy Classifications of the Financial Instruments that are Subsequently Measured at Fair Value**

Fair value hierarchy classifications of the financial instruments that are subsequently measured at fair value as at June 30, 2018 and December 31, 2017, are as follows:

(in millions of Korean won)

	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value through profit or loss	₩ 364,706	₩ 2,001,321	₩ 771,787	₩ 3,137,814
Financial assets at fair value through other comprehensive income	1,428,458	3,143,714	169,803	4,741,975
Loans and receivables	-	-	10,987	10,987
Derivative assets	-	64,828	291	65,119
	₩ 1,793,164	₩ 5,209,863	₩ 952,868	₩ 7,955,895
Financial liabilities:				
Derivative liabilities	₩ -	₩ 92,442	₩ 11,103	₩ 103,545

(in millions of Korean won)

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at FVTPL:				
Financial assets held for trading	₩ 45,867	₩ 1,290,725	₩ -	₩ 1,336,592
Designated as at FVTPL	-	1,680	61,828	63,508
AFS financial assets	1,305,804	3,696,982	804,530	5,807,316
Derivative assets	-	79,529	76	79,605
	₩ 1,351,671	₩ 5,068,916	₩ 866,434	₩ 7,287,021
Financial liabilities:				
Derivative liabilities	₩ -	₩ 105,894	₩ 9,929	₩ 115,823

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The valuation techniques and input variables of Level 2 financial instruments, subsequently measured at fair value, as at June 30, 2018 and December 31, 2017, are as follows:

(in millions of Korean won)

		<b>June 30, 2018</b>		
<b>Classification</b>	<b>Fair value</b>	<b>Valuation techniques</b>	<b>Input variables</b>	
<b>Financial assets:</b>				
Financial assets at fair value through profit or loss				
Debt securities	₩ 1,586,278	DCF Model	Discount rate	
Beneficiary certificates	415,043	Net Asset Value Method	Value of underlying assets	
Financial assets at fair value through other comprehensive income				
Debt securities	3,143,714	DCF Model	Discount rate	
Derivative assets	64,828	DCF Model	Discount rate	
<b>Financial liabilities:</b>				
Derivative liabilities	92,442	DCF Model	Discount rate	

(in millions of Korean won)

		<b>December 31, 2017</b>		
<b>Classification</b>	<b>Fair value</b>	<b>Valuation techniques</b>	<b>Input variables</b>	
<b>Financial assets:</b>				
Financial assets at FVTPL				
Debt securities	₩ 1,254,528	DCF Model	Discount rate	
Beneficiary certificates	37,877	Net Asset Value Method	Value of underlying assets	
AFS financial assets				
Debt securities	3,430,385	DCF Model	Discount rate	
Beneficiary certificates	266,597	Net Asset Value Method	Value of underlying assets	
Derivative assets	79,529	DCF Model	Discount rate	
<b>Financial liabilities:</b>				
Derivative liabilities	105,894	DCF Model	Discount rate	

The valuation techniques, input variables and range of significant unobservable input variables of Level 3 financial instruments, which are subsequently measured at fair value, as at June 30, 2018 and December 31, 2017, are as follows:

(in millions of Korean won)

		<b>June 30, 2018</b>		
<b>Classification</b>	<b>Fair value</b>	<b>Valuation techniques</b>	<b>Range of significant unobservable inputs</b>	<b>Relationship between significant unobservable inputs and fair value</b>
<b>Financial assets</b>				
Financial assets at fair value through profit or loss:				
Equity securities	₩ 818	Free Cash Flow to Equity Model, Dividend Discount Model and others	Discount rate: 4.61%~18.34% Growth rate: 0.00%~1.00%	Discount rate decreases (increases), growth rate increases (decreases)

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June 30, 2018

	Fair value	Valuation techniques	Range of significant unobservable inputs	Relationship between significant unobservable inputs and fair value
Debt securities	325,380	DCF Model and others	Discount rate: 2.40%~18.34% Growth rate: 0.00%~1.00%	Discount rate decreases (increases), growth rate increases (decreases)
Beneficiary certificates	440,799	NAV	Value of underlying assets	Fair value increases (decreases) when value of underlying assets increases (decreases)
Other certificates	4,790	NAV and others	Value of underlying assets and others	Fair value increases (decreases) when value of underlying assets increases (decreases) and others
Financial assets at fair value through other comprehensive income:				
Equity securities	169,803	Free Cash Flow to Equity Model, Dividend Discount Model and others	Discount rate: 3.39%~18.73% Growth rate: 0.00%~1.00% Liquidation value: -1.00%~1.00%	Fair value increases (decreases) when discount rate decreases (increases), growth rate increases (decreases) or liquidation value increases (decreases)
Loans at fair value through profit or loss				
Compound instruments	10,987	Binomial Trees	Volatility: 0.05%~36.94% Discount rate: 1.66%~11.30%	Fair value increases (decreases) when volatility increases (decreases) or discount rate decreases (increases)
Derivative assets	291	Binomial Trees	Volatility: 0.05%~17.12% Discount rate: 1.66%~11.30%	Fair value increases (decreases) when volatility increases (decreases) or discount rate decreases (increases)
<b>Financial liabilities</b>				
Derivative liabilities	11,103	Binomial Trees	Volatility: 0.51% Discount rate: 1.38%~1.94%	Fair value increases (decreases) when volatility increases (decreases) or discount rate decreases (increases)

(in millions of Korean won)

December 31, 2017

	Fair value	Valuation techniques	Range of significant unobservable inputs	Relationship between significant unobservable inputs and fair value
<b>Financial assets</b>				
Financial assets designated as at FVTPL	₩ 61,828	Binominal Trees and Strip&Bootstrapping	Volatility: 5.10%	Fair value increases (decreases) when volatility increases (decreases)
AFS financial assets (equity securities)	436,563	Free Cash Flow Equity Model, Dividend Discount Model	Discount rate: 2.35%~21.65% Growth rate: 0%~2.50% Liquidation value: 0.00%	Fair value increases (decreases) when discount rate decreases (increases), growth rate increases (decreases) or liquidation value increases (decreases)

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December 31, 2017

	Fair value	Valuation techniques	Range of significant unobservable inputs	Relationship between significant unobservable inputs and fair value
AFS financial assets (beneficiary certificates)	367,967	Net Asset Value Method	Value of underlying assets	Fair value increases (decreases) when value of underlying assets increases (decreases)
Derivative assets	76	Binomial Trees	Volatility: 27.87% Discount rate: 1.27%~1.56%	Fair value increases (decreases) when volatility increases (decreases) or discount rate decreases (increases)
<b>Financial liabilities</b>				
Derivative liabilities	9,929	Binomial Trees	Volatility: 27.87% Discount rate: 1.27%~1.56%	Fair value increases (decreases) when volatility increases (decreases) or discount rate decreases (increases)

The results of the sensitivity analysis for the effect on profit or loss and other comprehensive income from changes in significant and unobservable inputs for each financial instrument that categorized as level 3 and subject to sensitivity analysis as at June 30, 2018 and December 31, 2017, are as follows:

(in millions of Korean won)

June 30, 2018

	Profit (loss) for the period		Other comprehensive income	
	Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
Financial assets				
Financial assets at fair value through profit or loss	₩ 2,752	₩ (2,437)	₩ -	₩ -
Financial assets at fair value through other comprehensive income <sup>1</sup>	-	-	27,849	(12,716)
Loans at fair value through profit or loss	1,101	(797)	-	-
Derivative assets <sup>2</sup>	1,349	(10,688)	-	-
Financial liabilities	-	-	-	-
Derivative liabilities <sup>3</sup>	21,808	(44,132)	-	-
	<u>₩ 27,010</u>	<u>₩ (58,054)</u>	<u>₩ 27,849</u>	<u>₩ (12,716)</u>

(in millions of Korean won)

December 31, 2017

	Profit (loss) for the period		Other comprehensive income	
	Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
Financial assets				
AFS financial assets <sup>1</sup>	₩ -	₩ (8)	₩ 17,355	₩ (9,129)
Derivative assets <sup>2</sup>	29,462	(63,425)	-	-
Financial liabilities				
Derivative liabilities <sup>3</sup>	29,421	(63,401)	-	-
	<u>₩ 58,883</u>	<u>₩ (126,834)</u>	<u>₩ 17,355</u>	<u>₩ (9,129)</u>

<sup>1</sup> Fair value changes of securities are calculated by increasing or decreasing growth rate (0% - 1%) and

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discount rate or liquidation value (-1% - 1%) and discount rate. The growth rate, discount rate and liquidation value are major unobservable inputs

<sup>2</sup> Fair value changes of equity derivatives are calculated by increasing or decreasing share price or historical fluctuation rate of share price by 10%. The share price and historical fluctuation rate of share price are major unobservable inputs.

<sup>3</sup> Fair value changes in Callable IRS are calculated by increasing or decreasing KRW Swaption by 10%. The KRW Swaption is major unobservable input.

Changes in Level 3 financial instruments subsequently measured at fair value for the six-month period ended June 30, 2018 and the year ended December 31, 2017, are as follows:

(in millions of Korean won)

	<b>June 30, 2018</b>				
	<b>Financial assets at fair value through profit or loss</b>	<b>Financial assets at fair value through other comprehensive income</b>	<b>Loans at fair value through profit or loss</b>	<b>Derivative assets</b>	<b>Derivative liabilities</b>
Beginning balance	₩ 674,523	₩ 159,478	₩ 10,877	₩ 82	₩ 10,011
Total profit or loss					
Amount recognized in profit or loss <sup>1</sup>	(1,942)	(25)	110	209	1,092
Amount recognized in other comprehensive income	-	7,922	-	-	-
Purchases	110,024	-	-	-	-
Sales	(29,971)	-	-	-	-
Other changes					
Transfer into level 3 <sup>2</sup>	19,153	2,428	-	-	-
Reclassification	-	-	-	-	-
Ending balance	<u>₩ 771,787</u>	<u>₩ 169,803</u>	<u>₩ 10,987</u>	<u>₩ 291</u>	<u>₩ 11,103</u>

<sup>1</sup> In relation to changes in Level 3 of the fair value hierarchy, total gains or losses recognized in profit or loss for the period, and total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period in the consolidated interim statement of comprehensive income for the six-month period ended June 30, 2018, are as follows:

(in millions of Korean won)

	<b>Loss from financial assets at fair value through profit or loss</b>	<b>Gain from loans at fair value through profit or loss</b>	<b>Loss from derivatives</b>	<b>Total</b>
Profit (loss) for the period	₩ (1,942)	₩ 110	₩ (883)	₩ (2,715)
Change in unrealized loss	(1,389)	110	(883)	(2,162)

<sup>2</sup> As the valuation techniques of available-for-sale financial assets have changed from a quoted price in an active market and cost pricing to external pricing, the fair value hierarchy of AFS financial assets has been transferred into Level 3.

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	December 31, 2017							
	Financial assets designated at FVTPL		AFS financial assets		Derivative assets		Derivative liabilities	
Beginning balance	₩	1,029	₩	789,065	₩	461	₩	-
Total profit or loss								
Amount recognized in profit or loss <sup>1</sup>		1,098		6,576		(31)		8,943
Amount recognized in other comprehensive income		-		(2,196)		-		-
Purchases		-		73,094		-		-
Sales		-		(64,402)		-		-
Other changes								
Transfer into level 3		-		2,437		(354)		986
Transfer into other levels <sup>2</sup>		-		(44)		-		-
Reclassification		59,700		-		-		-
Ending balance	₩	61,827	₩	804,530	₩	76	₩	9,929

<sup>1</sup> In relation to changes in Level 3 of the fair value hierarchy, total gains or losses recognized in profit or loss for the period, and total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period in the consolidated statement of comprehensive income for the year ended December 31, 2017, are as follows:

(in millions of Korean won)

	Loss from financial assets at fair value through profit or loss		Gain from loans at fair value through profit or loss		Loss from derivatives		Total	
Profit (loss) for the period	₩	1,098	₩	6,576	₩	(8,974)	₩	(1,300)
Change in unrealized loss		484		(6,860)		(8,974)		(15,350)

At the end of the reporting period, market prices for certain financial instruments are not quoted in an active market and fair values were not reliably measured. Therefore, financial instruments accounted for using the cost method are as follows:

(in millions of Korean won)	Type	June 30, 2018	December 31, 2017
Financial assets:			
AFS financial assets	Unlisted equity securities	₩ -	₩ 14,691

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**6.4 Fair Value Hierarchy Classifications of the Financial Instruments that are not Subsequently Measured at Fair Value**

Fair value hierarchy classifications of the financial instruments that are subsequently not measured at fair value as at June 30, 2018 and December 31, 2017, are as follows:

*(in millions of Korean won)*

	<b>June 30, 2018</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets:</b>				
Cash and due from banks	₩ 635,629	₩ 2,807,140	₩ -	₩ 3,442,769
Loans and receivables	-	-	77,855,189	77,855,189
Financial assets at amortized cost	66,488	6,739,219	-	6,805,707
	<u>₩ 702,117</u>	<u>₩ 9,546,359</u>	<u>₩ 77,855,189</u>	<u>₩ 88,103,665</u>
<b>Financial liabilities:</b>				
Deposit liabilities	₩ -	₩ 9,135,917	₩ 62,310,039	₩ 71,445,956
Borrowings	825,664	2,804,366	2,064,041	5,694,071
Debentures	-	8,660,460	-	8,660,460
Other financial liabilities	-	-	3,385,575	3,385,575
	<u>₩ 825,664</u>	<u>₩ 20,600,743</u>	<u>₩ 67,759,655</u>	<u>₩ 89,186,062</u>

*(in millions of Korean won)*

	<b>December 31, 2017</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets:</b>				
Cash and due from banks	₩ 715,614	₩ 2,426,533	₩ -	₩ 3,142,147
Loans and receivables	-	-	74,835,634	74,835,634
HTM financial assets	58,172	6,553,051	-	6,611,223
	<u>₩ 773,786</u>	<u>₩ 8,979,584</u>	<u>₩ 74,835,634</u>	<u>₩ 84,589,004</u>
<b>Financial liabilities:</b>				
Deposit liabilities	₩ -	₩ 29,464,121	₩ 40,660,070	₩ 70,124,191
Borrowings	463,890	4,639,100	9,848	5,112,838
Debentures	-	8,837,866	-	8,837,866
Other financial liabilities	-	-	2,557,644	2,557,644
	<u>₩ 463,890</u>	<u>₩ 42,941,087</u>	<u>₩ 43,227,562</u>	<u>₩ 86,632,539</u>

The valuation techniques and input variables of Level 2 financial instruments, subsequently not measured at fair value as at June 30, 2018 and December 31, 2017, are as follows. However, the valuation techniques and input variables of financial instruments that are disclosed at carrying amount as the carrying amount is a reasonable approximation of fair value, are not disclosed.

*(in millions of Korean won)*

	<b>June 30, 2018</b>		
	<b>Fair value</b>	<b>Valuation techniques</b>	<b>Input variables</b>
<b>Financial assets:</b>			
Financial assets at amortized cost:			
Debt securities	₩ 6,739,219	- DCF Model	- Discount rate
<b>Financial liabilities:</b>			
Deposit liabilities	9,135,917	- DCF Model	- Discount rate

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Borrowings	2,804,366	- DCF Model	- Discount rate
Debentures	8,660,460	- DCF Model	- Discount rate

(in millions of Korean won)

	December 31, 2017		
	Fair value	Valuation techniques	Input variables
Financial assets:			
HTM financial assets:			
Debt securities	₩ 6,553,051	- DCF Model	- Discount rate
Financial liabilities:			
Deposit liabilities	29,464,121	- DCF Model	- Discount rate
Borrowings	4,639,100	- DCF Model	- Discount rate
Debentures	8,837,866	- DCF Model	- Discount rate

The valuation techniques and input variables of Level 3 financial instruments, subsequently not measured at fair value as at June 30, 2018 and December 31, 2017, are as follows:

(in millions of Korean won)	Fair value		Valuation techniques	Input variables
	June 30, 2018	December 31, 2017		
Financial assets:				
Loans and receivables	₩ 77,855,189	₩ 74,835,634	- DCF Model	- Discount rate
Financial liabilities:				
Deposit liabilities	62,310,039	40,660,070	- DCF Model	- Discount rate
Borrowings	2,064,041	9,848	- DCF Model	- Discount rate
Other financial liabilities	3,385,575	2,557,644	- DCF Model	- Discount rate

### 6.5 Transfer of Financial Assets

The Group holds securities sold under repurchase and securities lending arrangements, and such transactions have resulted in transfer of financial assets. However, they have been recorded in the financial statements since the assets did not meet the removal criteria. In case of securities sold under repurchase agreements, the Group sells the assets to another party with a commitment to buy the assets back at a specified price. Loaned securities will be returned at the end of security lending agreement; hence, the Group retains substantially all the risks and rewards of ownership of the financial assets.

Details of book amounts of transferred assets and relevant liabilities at the reporting date are as follows:

(in millions of Korean won)	June 30, 2018		December 31, 2017	
	Book amount of transferred assets	Book amount of related liabilities	Book amount of transferred assets	Book amount of related liabilities
Securities sold under repurchase agreement	₩ 1,661,309	₩ (1,515,129)	₩ 1,289,308	₩ (1,108,219)
Loaned securities	219,045	-	198,028	-
	<u>₩ 1,880,354</u>	<u>₩ (1,515,129)</u>	<u>₩ 1,487,336</u>	<u>₩ (1,108,219)</u>

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**7. Cash and Due from Banks**

Restricted cash and due from banks as at June 30, 2018 and December 31, 2017, consist of the following:

<i>(in millions of Korean won)</i>	<b>Financial institution</b>	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>Reason for restriction</b>
Due from banks:				
Due from banks in Korean won	The BOK <sup>2</sup>	₩ 2,310,249	₩ 1,805,687	The BOK Act
	KSFC <sup>1</sup>	100,666	-	Consignment transaction deposits
	Korea Federation of Savings Banks and others	67,927	77,170	Reserve deposits and others
	KSD <sup>1</sup> and others	29,598	-	Consignment transaction deposits
	Security companies and others	7,248	-	Subscription deposit
	KRX <sup>3</sup> and others	4,947	33,713	Reserve to compensate for losses and others
	Busan bank	2	-	Deposits for opening a bank account
		<u>2,520,637</u>	<u>1,916,570</u>	
Due from banks in foreign currencies	The BOK <sup>2</sup>	65,763	75,671	Reserve deposits
	The People's Bank of China and others	25,326	31,490	Oversea subsidiaries reserve deposit and others
	KRX <sup>3</sup> and others	8,392	-	Consignment transaction deposits
		<u>99,481</u>	<u>107,161</u>	
		<u>₩ 2,620,118</u>	<u>₩ 2,023,731</u>	

<sup>1</sup> Korea Securities Finance Corporation ("KSFC") and Korea Securities Depository ("KSD")

<sup>2</sup> The Bank of Korea("The BOK")

<sup>3</sup> Korea Exchange("KRX")

**8. Financial Assets at Fair Value through Profit or Loss**

Financial assets at fair value through profit or loss as at June 30, 2018 and December 31, 2017, consist of the following:

<i>(in millions of Korean won)</i>	<b>June 30, 2018</b>	<b>December 31, 2017</b>
Financial assets at fair value through profit or loss		
Equity securities	₩ 29,846	₩ 24,193
Government and public bonds	106,471	63,469
Finance bonds	351,004	310,170
Corporate bonds in Korean won	962,210	657,726
Other debt securities	317,259	-
Beneficiary certificates	897,319	37,971
Others	473,705	243,064
	<u>3,137,814</u>	<u>1,336,593</u>

Financial assets designated as at FVTPL

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<i>(in millions of Korean won)</i>	<b>June 30, 2018</b>	<b>December 31, 2017</b>
Debt securities	-	63,507
	₩ 3,137,814	₩ 1,400,100

**9. Financial Assets at Fair Value through Other Comprehensive Income**

Financial assets at fair value through other comprehensive income as at June 30, 2018, consist of the following:

<i>(in millions of Korean won)</i>	<b>June 30, 2018</b>	
Equity securities		
Equity securities	₩	169,764
Equity investments		980
		<u>170,744</u>
Debt securities		
Government and public bonds		1,392,918
Finance bonds		624,517
Corporate bonds		2,334,751
Loaned securities		219,045
		<u>4,571,231</u>
	₩	<u>4,741,975</u>

**10. Available-for-sale (“AFS”) Financial Assets**

AFS financial assets as at December 31, 2017, consist of the following:

<i>(in millions of Korean won)</i>	<b>December 31, 2017</b>	
Equity securities		
Equity securities	₩	390,554
Equity investments		62,014
		<u>452,568</u>
Debt securities		
Government and public bonds		1,309,778
Finance bonds		804,131
Corporate bonds		2,442,264
Loaned securities		178,702
		<u>4,734,875</u>
Beneficiary certificates and others		
Beneficiary certificates		483,061
Others		151,502
		<u>634,563</u>
	₩	<u>5,822,006</u>

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**11. Financial Assets at Amortized Cost**

Financial assets at amortized cost as at June 30, 2018, consist of the following:

<i>(in millions of Korean won)</i>	<b>June 30, 2018</b>	
Debt securities		
Government and public bonds	₩	3,337,988
Finance bonds		407,050
Corporate bonds		3,087,000
Provision for impairment		(803)
	₩	6,831,235

**12. Held-to-maturity (“HTM”) Financial Assets**

The HTM financial assets by type as at December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	<b>June 30, 2017</b>	
Debt securities		
Government and public bonds	₩	3,187,344
Finance bonds		368,348
Corporate bonds		3,096,299
Loaned securities		19,326
	₩	6,671,317

**13. Assets Provided as Collateral**

The investments in financial assets provided as collaterals as at June 30, 2018 and December 31, 2017, consist of the following:

<i>(in millions of Korean won)</i>	<b>June 30, 2018</b>		
	<b>Provided to</b>	<b>Face value</b>	<b>Reason</b>
Financial assets at fair value through profit or loss	KSFC	₩ 25,305	Lending transaction
	KSD	840,756	Sold under repurchase agreements
	KSD	114	Lending transaction
	KRX	2,001	Collateral for CCP transaction
	Samsung Futures	19,012	Margin for futures
Financial assets at fair value through other comprehensive income	Standard Chartered Bank Korea Ltd.	29,860	Collateral for Credit Support Annex
	The BOK	297,227	Borrowing collateral and overdraft and settlement
	KSD	308,392	Sold under repurchase agreements
	Sumitomo Mitsui Banking Corporation	45,544	Foreign borrowings
	Nomura Finance Investment and others	31,498	Sold under repurchase agreements
Financial assets at amortized cost	Standard Chartered Bank Korea Ltd. and others	23,471	Collateral for Credit Support Annex
	The BOK	1,270,629	Borrowing collateral and overdraft and settlement
	KSD	480,663	Sold under repurchase agreements

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KSD	85	Common fund for damages
KRX	2,009	OTC common fund and damage compensation common fund for in-kind
Futures Companies and others	46,511	Margin for futures and others
Industrial Bank of Korea	43,022	Foreign borrowings
Standard Chartered Bank Korea Ltd. and others	12,556	Collateral for Credit Support Annex
	<u>₩ 3,478,655</u>	

(in millions of Korean won)

		December 31, 2017		
	Provided to	Face value	Reason	
Financial assets at FVTPL	KSD	₩ 491,015	Sold under repurchase agreements	
	KSFC	5,628	Lending transaction	
	KRX	1,999	Margin for futures and others	
	Futures Companies and others	18,989	Margin for futures and others	
AFS financial assets	The BOK	434,855	Borrowing collateral and overdraft and settlement	
	KSD	1,002	Common fund for damages and others	
	KSD	169,586	Sold under repurchase agreements	
	BOA and others	21,769	Collateral for Credit Support Annex	
	Nomura Finance Investment and others	57,934	Sold under repurchase agreements and others	
	Sumitomo Mitsui Banking Corporation and others	45,534	Foreign borrowings and others	
HTM financial assets	KRX	1,599	CCP, settlement agreements and others	
	The BOK	1,250,304	Borrowing collateral and overdraft and settlement	
	KSD	530,856	Sold under repurchase agreements	
	Nomura Finance Investment and others	39,917	Sold under repurchase agreements	
	Citibank Korea and others	1,479	Collateral for Credit Support Annex, borrowings for securities and others	
	Futures Companies and others	50,005	Margin for futures and others	
		<u>₩ 3,122,471</u>		

#### 14. Loans and Receivables

Loans and receivables as at June 30, 2018 and December 31, 2017, consist of the following:

(in millions of Korean won)

	June 30, 2018			December 31, 2017	
	Measured at amortized cost	Measured at fair value	Total	Measured at amortized cost	
Loans:					
Loans in Korean won					
Corporates	₩ 45,865,892	₩ -	₩ 45,865,892	₩ 45,289,339	
Household	23,426,430	-	23,426,430	22,731,698	
Public sector and others	1,500,785	-	1,500,785	1,469,797	
Interbank loans	214,692	-	214,692	214,333	

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(in millions of Korean won)

	June 30, 2018			December 31, 2017	
	Measured at amortized cost	Measured at fair value	Total	Measured at amortized cost	
	71,007,799	-	71,007,799	69,705,167	
Loans in foreign currencies	1,187,218	-	1,187,218	1,149,540	
Call loans	180,314	-	180,314	240,322	
Bills bought in local currency	14,801	-	14,801	10,014	
Bills bought in foreign currencies	263,398	-	263,398	256,417	
Advances for customers	4,517	-	4,517	6,522	
Credit card receivables	1,008,039	-	1,008,039	917,755	
Bonds purchased under repurchase agreement	395,200	-	395,200	470,000	
Privately placed bonds	108,391	10,987	119,378	36,819	
Finance lease receivables	482,872	-	482,872	425,282	
Installment financing receivables	616,258	-	616,258	733,873	
	75,268,807	10,987	75,279,794	73,951,711	
Provision for impairment of loans <sup>1</sup>	(919,416)	-	(919,416)	(814,462)	
Deferred loan origination fees	(14,454)	-	(14,454)	(18,784)	
Deferred loan origination costs	152,252	-	152,252	154,107	
	₩ 74,487,189	₩ 10,987	₩ 74,498,176	₩	73,272,572
Receivables:					
Suspense payments	₩ 2,724	₩ -	₩ 2,724	₩	2,664
Non-trade receivable	1,688,608	-	1,688,608	850,273	
Domestic exchange settlement debits	362,109	-	362,109	449,735	
Guarantee deposits provided	324,400	-	324,400	335,363	
Accrued income	398,939	-	398,939	393,571	
Deposits under regulation	888	-	888	1,717	
Bills unsettled	84	-	84	540	
Other	388	-	388	133	
	2,778,140	-	2,778,140	2,033,996	
Provision for impairment of receivables	(5,070)	-	(5,070)	(5,314)	
Present value discounts (leasehold deposits provided)	(9,186)	-	(9,186)	(9,372)	
	2,763,884	-	2,763,884	2,019,310	
Loans and receivables	₩ 77,251,073	₩ 10,987	₩ 77,262,060	₩	75,291,882

<sup>1</sup> Present value discount and premium of ₩1,328 million and ₩7,277 million are included as at June 30, 2018, respectively, and present value discount and premium of ₩3,573 million and ₩5,579 million are included as at December 31, 2017, respectively.

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**15. Provision for Impairment**

Changes in provision for impairment of loans and receivables at amortized cost for the six-month periods ended June 30, 2018 and 2017, are as follows:

(in millions of Korean won)

	2018			
	12 months expected credit losses	Expected lifetime credit losses		Total
		Unrecognized impairment	Recognized impairment	
Beginning balance	₩ 266,722	₩ 271,788	₩ 405,156	₩ 943,666
Changes in financial instruments recognized in beginning balance	1,609	(73,248)	71,639	-
Transfer to 12 months expected credit losses	26,924	(26,278)	(646)	-
Transfer to expected lifetime credit losses	(17,742)	28,077	(10,335)	-
Transfer to financial assets with recognized impairment	(7,573)	(75,047)	82,620	-
Written off during the period as uncollectible	-	(82)	(158,559)	(158,641)
Decrease in provision due to sales of loans	(285)	(30,558)	(95,348)	(126,191)
Collection of previously written-off loans	-	1	52,638	52,639
Financial assets issued or acquired	371	-	-	371
Changes from adjustments in receivable and payables	-	-	(278)	(278)
Exchange differences	190	85	149	424
Others	(1,896)	(2)	(5,620)	(7,518)
	266,711	167,984	269,777	704,472
Additional (reversal of) provision for impaired receivables during the period	(1,559)	15,995	205,578	220,014
Ending balance	₩ 265,152	₩ 183,979	₩ 475,355	₩ 924,486

<sup>1</sup> The balance of provision for impairment as at December 31, 2017, recognized in accordance with Korean IFRS 1039, has been reflected in retained earnings as at January 1, 2018 with the adoption of Korean IFRS 1109 (Note 39).

(in millions of Korean won)

	2017				
	Loans in Korean won	Loans in foreign currencies	Credit card receivable	Others	Total
Beginning balance	₩ 591,277	₩ 17,912	₩ 32,911	₩ 33,364	₩ 675,464
Written off during the period as uncollectible	(124,255)	(50)	(18,767)	(8,124)	(151,196)
Decrease in provision due to sales of loans	(36,448)	(51)	(226)	(420)	(37,145)
Collection of previously written	25,826	134	3,710	2,939	32,609

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off loans					
Exchange differences	-	(306)	-	(23)	(329)
Other	(10,971)	(774)	(14)	208	(11,551)
	<u>445,429</u>	<u>16,865</u>	<u>17,614</u>	<u>27,944</u>	<u>507,852</u>
Additional provision for impaired receivables during the period	198,161	35	17,092	12,418	227,706
Ending balance	<u>₩ 643,590</u>	<u>₩ 16,900</u>	<u>₩ 34,706</u>	<u>₩ 40,362</u>	<u>₩ 735,558</u>

**16. Derivative Instruments and Hedge Accounting**

The valuation of derivatives for trading as at June 30, 2018 and December 31, 2017, are as follows:

(in millions of Korean won)

	June 30, 2018			
	Valuation gain	Valuation loss	Assets	Liabilities
Currency:				
Currency forwards	₩ 74,761	₩ 65,870	₩ 52,297	₩ 45,973
Currency swaps	1,449	1,584	1,614	1,848
Currency options	3,623	2,765	10,050	10,183
	<u>79,833</u>	<u>70,219</u>	<u>63,961</u>	<u>58,004</u>
Interest rate:				
Interest rate forwards	3	7	-	-
Interest rate swaps	1,138	10	866	742
	<u>1,141</u>	<u>17</u>	<u>866</u>	<u>742</u>
Stock:				
Stock forwards	1	1	-	-
Stock option	-	-	1	1
	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
	<u>₩ 80,975</u>	<u>₩ 70,237</u>	<u>₩ 64,828</u>	<u>₩ 58,747</u>

(in millions of Korean won)

	December 31, 2017			
	Valuation gain	Valuation loss	Assets	Liabilities
Currency:				
Currency forwards	₩ 68,472	₩ 70,822	₩ 74,274	₩ 78,235
Currency swaps	4,178	4,237	3,191	3,291
Currency options	881	420	1,704	1,714
	<u>73,531</u>	<u>75,479</u>	<u>79,169</u>	<u>83,240</u>
Interest rate:				
Interest rate forwards	28	4	-	-
Interest rate swaps	166	1,632	277	1,283
	<u>194</u>	<u>1,636</u>	<u>277</u>	<u>1,283</u>
Stock:				
Stock options	-	383	65	-
Deferred gain on valuation of derivatives	-	2	12	-
	<u>-</u>	<u>385</u>	<u>77</u>	<u>-</u>

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₩	73,725	₩	77,500	₩	79,523	₩	84,523
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*Fair value hedge*

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset, liability or unrecognized firm commitments that are attributable to the hedged risk.

Hedge accounting is discontinued when the Group revokes the hedging relationship; when the hedging instrument expires or is sold, terminated or exercised; or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

The interest rate swap, the interest rate forwards, the interest rate options and others offset changes in the fair value of the hedged items resulting from the fluctuation in market interest rate. In addition, derivatives related to market interest rates hedge variable risk in fair value of hedged item that is resulted from foreign currency fluctuations.

The valuation of derivatives designated as a hedging instrument as at June 30, 2018 and December 31, 2017, are as follows:

*(in millions of Korean won)*

	<b>June 30, 2018</b>			
	<b>Valuation gain</b>	<b>Valuation loss</b>	<b>Assets</b>	<b>Liabilities</b>
Interest rate:				
Interest rate swaps	₩ 1,165	₩ 11,191	₩ 291	₩ 42,493
Currency:				
Currency swaps	-	2,304	-	2,304

*(in millions of Korean won)*

	<b>December 31, 2017</b>			
	<b>Valuation gain</b>	<b>Valuation loss</b>	<b>Assets</b>	<b>Liabilities</b>
Interest rate:				
Interest rate swaps	₩ 889	₩ 8,671	₩ 82	₩ 31,300

Gain (loss) on valuation of hedged items and hedging instrument for the six-month period ended June 30, 2018 and the year ended December 31, 2017, are as follows

*(in millions of Korean won)*

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
Loss on valuation of hedging instrument	₩ (12,330)	₩ (7,782)
Gain on valuation of hedged items	11,804	6,300
	<u>₩ (526)</u>	<u>₩ (1,482)</u>

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*Hedges of net investments in foreign operations*

The Group applied hedge accounting for certain portion of net investments in foreign operations. The valuation gain or loss recognized as other comprehensive income by hedging instruments for the six-month periods ended June 30, 2018 and 2017, is as follows:

<i>(in millions of Korean won)</i>	<b>2018</b>		<b>2017</b>	
Borrowings denominated in foreign currencies	₩	(4,502)	₩	6,152
Income tax effect		1,171		(1,489)
	₩	<u>(3,331)</u>	₩	<u>4,663</u>

*The amount, timing and uncertainty of future cash flows*

*(in millions of Korean won)*

	<b>Less than 1 year</b>	<b>Between 1 year and 2 years</b>	<b>Between 2 years and 3 years</b>	<b>Between 3 years and 4 years</b>	<b>Between 4 years and 5 years</b>	<b>Over 5 years</b>
The quantity of the hedging instrument	₩ (2,763)	₩ (3,695)	₩ (3,760)	₩ (3,682)	₩ (3,558)	₩ 22,124
Average ratio of hedging (%)	100	100	100	100	100	100

Effect of hedging instrument on statement of financial position as at June 30, 2018, statement of comprehensive income and changes in equity for the six-month period ended June 30, 2018, is as follows:

*(in millions of Korean won)*

	<b>June 30, 2018</b>					<b>Changes in the fair value</b>
	<b>Nominal amount</b>	<b>Book amount</b>		<b>Account</b>		
		<b>Assets</b>	<b>Liabilities</b>			
Fair value hedge						
Interest rate	₩ 620,425	₩ 291	₩ 42,493	Derivative financial liabilities	₩ (10,026)	
Foreign currency change risk	59,294	-	2,304	Derivative financial liabilities	(2,304)	
Hedge of net investments in foreign operations						
Foreign currency change risk	100,392	-	100,392	Borrowings denominated in foreign currencies	(4,502)	

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Effect of hedged item on statement of financial position as at June 30, 2018, and statements of comprehensive income and changes in equity for the six-month period June 30, 2018, is as follows:

(in millions of Korean won)	June 30, 2018														
	Book amount		Accumulated fair value hedge adjusted amount				Account	Changes in the fair value	Cash flow hedge reserves	Foreign currency translation reserves					
	Assets	Liabilities	Assets	Liabilities	Liabilities										
Fair value hedge															
Interest rate	₩	-	₩	578,903	₩	-	₩	41,522	Deposit liabilities	₩	9,657	₩	-	₩	-
Foreign currency change risk									Borrowings		2,148		-		-
Hedge of net investments in foreign operations															
Foreign currency change risk									Borrowings in foreign currencies		4,502		-		336
	₩	-	₩	636,049	₩	-	₩	43,670		₩	16,307	₩	-	₩	336

Details of hedge ineffectiveness recognized in profit or loss from fair value hedge for the six-month period ended June 30, 2018, are as follows:

(in millions of Korean won)	2018	
	Hedge ineffectiveness recognized in profit or loss	Account
Fair value hedge		
Interest rate	₩ (370)	Loss on valuation of derivatives
Foreign currency change risk	(156)	Loss on valuation of derivatives

Details of hedge ineffectiveness recognized in other comprehensive income and profit or loss from net investments in foreign operations for the six-month period ended June 30, 2018, are as follows:

(in millions of Korean won)	2018						
	Changes in value of hedged instruments			Reclassified from cash flow hedge reserves to profit or loss	Reclassified from foreign currency translation reserves to profit or loss	Reclassification amount recognized in profit or loss	
	Amount recognized in other comprehensive income	Amount recognized in profit or loss	Account recognized in profit or loss				
Hedge of net investments in foreign operations							
Foreign currency change risk	₩ (4,502)	₩	-	₩	-	₩	

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**17. Investments in Associates and Joint Venture**

Details of investments in associates and joint venture as at June 30, 2018 and December 31, 2017, are as follows:

(in millions of Korean won)

		June 30, 2018				
	Main business	Location	Closing month	Percentage of ownership (%)	Acquisition cost	Book amount
Investments in associates:						
Consus Clean Water Private Special Asset Fund 1 <sup>st</sup>	Financial investment	The Republic of Korea	December	50.00	\ 13,482	\ 13,648
BNK 'Strong' Dividend Securities Investment Trust 1 <sup>st</sup>	Financial investment	The Republic of Korea	December	20.91	4,852	5,663
BNK 'Strong' Korea Securities Investment Trust 1 <sup>st</sup>	Financial investment	The Republic of Korea	December	33.54	7,913	9,091
Hanhwa Private Securities Investment Trust 102 <sup>nd</sup>	Financial investment	The Republic of Korea	December	30.28	30,000	30,464
BNK 'Winning' Securities Investment Trust 1 <sup>st</sup>	Financial investment	The Republic of Korea	December	45.51	17,974	17,913
Shinhan BNPP Private Securities Investment Trust 6 <sup>th</sup>	Financial investment	The Republic of Korea	December	23.08	30,000	30,444
HDC Presto Private Securities Investment Trust 8 <sup>th</sup>	Financial investment	The Republic of Korea	December	42.87	30,000	30,433
IBK Private Securities Investment Trust RP 2 <sup>nd</sup>	Financial investment	The Republic of Korea	December	23.08	30,000	30,198
BNK REPO PLUS Professional Investment Private 1 <sup>st</sup>	Financial investment	The Republic of Korea	December	41.67	25,000	25,023
SHBNPP Corporate Professional Investment Private Security Investment Trust 8 <sup>th</sup>	Financial investment	The Republic of Korea	December	50.00	50,000	50,606
Mirae Asset Smart Q Income Plus Professional Investment Private Security Investment Trust 1 <sup>st</sup>	Financial investment	The Republic of Korea	December	24.99	50,000	50,292
Yoori REPO Alpha Professional Investment Private Security Investment Turst 1 <sup>st</sup>	Financial investment	The Republic of Korea	December	44.44	40,000	40,159
Kiwoom Frontier Professional Investment Private Security Investment Trust 11 <sup>th</sup>	Financial investment	The Republic of Korea	December	50.00	50,000	50,325
BNK KOSDAQ Private Venture Investment Trust -1	Financial investment	The Republic of Korea	December	24.42	4,000	3,936
Investments in joint venture:						
Dongwha Capital <sup>1</sup>	Specialized credit financial business	The Republic of Korea	December	30.00	6,000	3,439
					\ 389,221	\ 391,634

(in millions of Korean won)

December 31, 2017

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	Main business	Location	Closing month	Percentage of ownership (%)	Acquisition cost	Book amount
Investments in associates:						
Consus Clean Water Private Special Asset Fund-1	Financial investment	The Republic of Korea	December	50.00	\ 13,560	\ 13,706
BNK 'Strong' Dividend Securities Investment Trust-1	Financial investment	The Republic of Korea	December	30.70	4,852	5,996
BNK 'Strong' Korea Securities Investment Trust-1	Financial investment	The Republic of Korea	December	36.76	7,913	9,342
Hanhwa Private Securities Investment Trust 102 <sup>nd</sup>	Financial investment	The Republic of Korea	December	30.00	30,000	30,031
BNK 'Winning' Securities Investment Trust -1	Financial investment	The Republic of Korea	December	-	-	-
Shinhan BNPP Private Securities Investment Trust 6	Financial investment	The Republic of Korea	December	-	-	-
HDC Presto Private Securities Investment Trust 8	Financial investment	The Republic of Korea	December	-	-	-
IBK Private Securities Investment Trust RP2	Financial investment	The Republic of Korea	December	-	-	-
BNK REPO PLUS Professional Investment Private 1	Financial investment	The Republic of Korea	December	-	-	-
SHBNPP Corporate Professional Investment Private Security Investment Trust -8	Financial investment	The Republic of Korea	December	-	-	-
Mirae Asset Smart Q Income Plus Professional Investment Private Security Investment Trust -1	Financial investment	The Republic of Korea	December	-	-	-
Yoori REPO Alpha Professional Investment Private Security Investment Trust -1	Financial investment	The Republic of Korea	December	-	-	-
Kiwoom Frontier Professional Investment Private Security Investment Trust -11	Financial investment	The Republic of Korea	December	-	-	-
BNK KOSDAQ Private Venture Investment Trust -1	Financial investment	The Republic of Korea	December	-	-	-
Investments in joint venture:						
Dongwha Capital <sup>1</sup>	Specialized credit financial business	The Republic of Korea	December	30.00	6,000	3,923
					\ 62,325	\ 62,998

<sup>1</sup> All of the joint arrangements, which the Group holds joint control of that arrangements, were structured through other entities. However, there are no contractual terms and/or conditions stating that the parties have rights to the assets and obligations for the liabilities relating to the arrangements. Since the parties having joint control of the arrangements believe that they have rights to the net assets of the joint arrangements, such parties are classified as joint ventures. Additionally, the net assets of the joint ventures are incorporated in the Group's financial statements using the equity method of accounting.

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Changes in investments in associates and joint venture for the six-month period ended June 30, 2018 and the year ended December 31, 2017, are as follows:

(in millions of Korean won)

	June 30, 2018					
	Beginning balance	Acquisition/ disposal	Share of profit or loss of associates and joint venture	Dividends received	Others	Ending balance
Investments in associates:						
Consus Clean Water Private Special Asset Fund-1	\ 13,706	\ (79)	\ 310	\ (289)	\ -	\ 13,648
BNK 'Strong' Dividend Securities Investment Trust-1	5,996	-	(333)	-	-	5,663
BNK 'Strong' Korea Securities Investment Trust-1	9,342	-	(264)	-	13	9,091
Hanhwa Private Securities Investment Trust 102 <sup>nd</sup>	30,031	-	433	-	-	30,464
BNK 'Winning' Securities Investment Trust -1	-	17,974	(61)	-	-	17,913
Shinhan BNPP Private Securities Investment Trust 6	-	30,000	444	-	-	30,444
HDC Presto Private Securities Investment Trust 8	-	30,000	433	-	-	30,433
IBK Private Securities Investment Trust RP2	-	30,000	198	-	-	30,198
BNK REPO PLUS Professional Investment Private 1	-	25,000	23	-	-	25,023
SHBNPP Corporate Professional Investment Private Security Investment Trust -8	-	50,000	606	-	-	50,606
Mirae Asset Smart Q Income Plus Professional Investment Private Security Investment Trust -1	-	50,000	292	-	-	50,292
Yoori REPO Alpha Professional Investment Private Security Investment Turst -1	-	40,000	159	-	-	40,159
Kiwoom Frontier Professional Investment Private Security Investment Trust -11	-	50,000	325	-	-	50,325
BNK KOSDAQ Private Venture Investment Trust -1	-	4,000	(64)	-	-	3,936
Investments in joint venture:						
Dongwha Capital	3,923	-	(484)	-	-	3,439
	\ 62,998	\ 326,895	\ 2,017	\ (289)	\ 13	\ 391,634

(in millions of Korean won)

	December 31, 2017					
	Beginning balance	Acquisition/ disposal	Share of profit or loss of associates and joint venture	Dividends received	Others	Ending balance

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Investments in associates:

Consus Clean Water Private Special Asset Fund 1 <sup>st</sup>	\ 9,233	\ 4,403	\ 472	\ (402)	\ -	\ 13,706
BNK 'Strong' Dividend Securities Investment Trust 1 <sup>st</sup>	10,290	(4,290)	282	-	(286)	5,996
BNK 'Strong' Korea Securities Investment Trust 1 <sup>st</sup>	6,982	3,018	(290)	-	(368)	9,342
Hanhwa Private Securities Investment Trust 102 <sup>nd</sup>	-	30,000	31	-	-	30,031
Investments in joint venture:						
Dongwha Capital	5,846	-	(1,923)	-	-	3,923
	<u>\ 32,351</u>	<u>\ 33,131</u>	<u>\ (1,428)</u>	<u>\ (402)</u>	<u>\ (654)</u>	<u>\ 62,998</u>

Financial information of associates and joint venture as at June 30, 2018 and December 31, 2017, are as follows:

(in millions of Korean won)

June 30, 2018

	Current assets	Current liabilities	Equity	Operating income	Operating profit (loss)	Total comprehensive income (loss)
Investments in associates:						
Consus Clean Water Private Special Asset Fund 1 <sup>st</sup>	\ 27,327	\ 30	\ 27,297	\ 341	\ 311	\ 311
BNK 'Strong' Dividend Securities Investment Trust 1 <sup>st</sup>	27,174	93	27,081	7,106	544	544
BNK 'Strong' Korea Securities Investment Trust 1 <sup>st</sup>	28,066	961	27,105	9,581	742	742
Hanhwa Private Securities Investment Trust 102 <sup>nd</sup>	271,820	171,226	100,594	3,894	2,603	1,429
BNK 'Winning' Securities Investment Trust 1 <sup>st</sup>	40,870	1,507	39,363	4,269	(134)	(134)
Shinhan BNPP Private Securities Investment Trust 6 <sup>th</sup>	259,658	127,736	131,922	2,267	2,231	1,922
HDC Presto Private Securities Investment Trust 8 <sup>th</sup>	141,008	70,016	70,992	1,105	1,092	1,009
IBK Private Securities Investment Trust RP 2 <sup>nd</sup>	240,988	110,129	130,859	657	646	859
BNK REPO PLUS Professional Investment Private 1 <sup>st</sup>	170,267	110,212	60,055	41	40	55
SHBNPP Corporate Professional Investment Private Security Investment Trust 8 <sup>th</sup>	200,631	99,420	101,211	1,772	1,211	1,211
Mirae Asset Smart Q Income Plus Professional Investment Private Security Investment Trust 1 <sup>st</sup>	380,169	178,951	201,218	4,688	1,117	1,117
Yoori REPO Alpha Professional Investment Private Security	245,487	155,129	90,358	664	358	358

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Investment Turst 1 <sup>st</sup>						
Kiwoom Frontier Professional Investment Private Security Investment Trust 11 <sup>th</sup>	200,774	100,125	100,649	913	649	649
BNK KOSDAQ Private Venture Investment Trust 1 <sup>st</sup>	16,224	69	16,155	53	(225)	(225)
Investments in joint venture: Dongwha Capital	19,953	1,215	18,738	5,352	79	79
	<u>12,270,416</u>	<u>1,126,819</u>	<u>1,143,597</u>	<u>42,703</u>	<u>11,264</u>	<u>9,926</u>

(in millions of Korean won)

**December 31, 2017**

	<b>Current assets</b>	<b>Current liabilities</b>	<b>Equity</b>	<b>Operating income</b>	<b>Operating profit (loss)</b>	<b>Total comprehen sive income (loss)</b>
Investments in associates:						
Consus Clean Water Private Special Asset Fund 1 <sup>st</sup>	\ 27,440	\ 27	\ 27,413	\ 303	\ 276	\ 276
BNK 'Strong' Dividend Securities Investment Trust 1 <sup>st</sup>	19,628	100	19,528	9,084	3,239	3,239
BNK 'Strong' Korea Securities Investment Trust 1 <sup>st</sup>	25,477	67	25,410	14,894	4,989	4,989
Hanhwa Private Securities Investment Trust 102 <sup>nd</sup>	189,920	89,816	100,104	88	59	59
Investments in joint venture: Dongwha Capital	19,777	1,121	18,656	9,030	(825)	(825)
	<u>\ 282,242</u>	<u>\ 91,131</u>	<u>\ 191,111</u>	<u>\ 33,399</u>	<u>\ 7,738</u>	<u>\ 7,738</u>

The reconciliations from the net assets of associates and joint venture based on the ownership ratio of the Group to its corresponding book amount of investments in associates and joint venture as at June 30, 2018 and December 31, 2017, are as follows:

(in millions of Korean won)

**June 30, 2018**

	<b>Net assets of associates and joint venture (A)</b>	<b>The Group's ownership (B) (%)</b>	<b>Net assets owned (AXB)</b>	<b>Book amount</b>
Investments in associates:				
Consus Clean Water Private Special Asset Fund 1 <sup>st</sup>	\ 27,297	50.00	\ 13,648	\ 13,648
BNK 'Strong' Dividend Securities Investment Trust 1 <sup>st</sup>	27,081	20.91	5,663	5,663
BNK 'Strong' Korea Securities Investment Trust 1 <sup>st</sup>	27,105	33.54	9,091	9,091
Hanhwa Private Securities Investment Trust 102 <sup>nd</sup>	100,594	30.28	30,464	30,464
BNK 'Winning' Securities Investment Trust 1 <sup>st</sup>	39,363	45.51	17,913	17,913

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Shinhan BNPP Private Securities Investment Trust 6 <sup>th</sup>	131,922	23.08	30,444	30,444
HDC Presto Private Securities Investment Trust 8 <sup>th</sup>	70,992	42.87	30,433	30,433
IBK Private Securities Investment Trust RP 6 <sup>nd</sup>	130,859	23.08	30,198	30,198
BNK REPO PLUS Professional Investment Private 1 <sup>st</sup>	60,055	41.67	25,023	25,023
SHBNPP Corporate Professional Investment Private Security Investment Trust -8 <sup>th</sup>	101,211	50.00	50,606	50,606
Mirae Asset Smart Q Income Plus Professional Investment Private Security Investment Trust 1 <sup>st</sup>	201,218	24.99	50,292	50,292
Yoori REPO Alpha Professional Investment Private Security Investment Turst 1 <sup>st</sup>	90,358	44.44	40,159	40,159
Kiwoom Frontier Professional Investment Private Security Investment Trust 11 <sup>th</sup>	100,649	50.00	50,325	50,325
BNK KOSDAQ Private Venture Investment Trust 1 <sup>st</sup>	16,155	24.42	3,945	3,936
Investments in joint venture:				
Dongwha Capital	18,738	30.00	5,621	3,439

(in millions of Korean won)

**December 31, 2017**

	<b>Net assets of associates and joint venture (A)</b>	<b>The Group's ownership (B) (%)</b>	<b>Net assets owned (AXB)</b>	<b>Book amount</b>
Investments in associates:				
Consus Clean Water Private Special Asset Fund 1 <sup>st</sup>	\ 27,413	50.00	\ 13,706	\ 13,706
BNK 'Strong' Dividend Securities Investment Trust 1 <sup>st</sup>	19,528	30.70	5,996	5,996
BNK 'Strong' Korea Securities Investment Trust 1 <sup>st</sup>	25,410	36.76	9,342	9,342
Hanhwa Private Securities Investment Trust 102 <sup>nd</sup>	100,104	30.00	30,031	30,031
Investments in joint venture:				
Dongwha Capital	18,656	30.00	5,597	3,923

**BNK FINANCIAL GROUP INC. and Subsidiaries**  
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**18. Property and Equipment**

Changes in property and equipment for the six-month period ended June 30, 2018 and the year ended December 31, 2017, are as follows:

	June 30, 2018									
	Beginning balance	Acquisition	Disposal	Reclassification	Depreciation	Impairment loss	Others	Ending Balance		
Land	₩ 269,849	₩ 881	₩ -	₩ 3,370	₩ -	₩ -	₩ -	₩ 274,100		
Buildings	393,265	5,391	-	6,561	(4,980)	-	12	400,249		
Leasehold Improvements	31,691	4,353	(183)	893	(5,900)	-	(733)	30,121		
Equipment and vehicles	95,246	10,107	(43)	3,914	(19,709)	-	733	90,248		
Construction in progress	39,421	42,053	-	(16,125)	-	-	275	65,624		
Others	26,172	-	-	-	-	-	-	26,172		
	₩ 855,644	₩ 62,785	₩ (226)	₩ (1,387)	₩ (30,589)	₩ -	₩ 287	₩ 886,514		
December 31, 2017										
	Beginning balance	Acquisition	Disposal	Reclassification	Depreciation	Impairment loss	Others	Ending Balance		
Land	₩ 281,417	₩ 2,732	₩ (2,205)	₩ (12,095)	₩ -	₩ -	₩ -	₩ 269,849		
Buildings	350,988	9,012	(1,138)	43,433	(9,030)	-	-	393,265		
Leasehold Improvements	29,086	9,307	(1,154)	1,710	(7,029)	-	(229)	31,691		
Equipment and vehicles	107,294	19,948	(2,913)	16,013	(44,682)	(273)	(141)	95,246		
Construction in progress	32,260	110,338	-	(103,177)	-	-	-	39,421		
Others	-	-	-	26,172	-	-	-	26,172		
	₩ 801,045	₩ 151,337	₩ (7,410)	₩ (27,944)	₩ (60,741)	₩ (273)	₩ (370)	₩ 855,644		

(in millions of Korean won)

**BNK FINANCIAL GROUP INC. and Subsidiaries**  
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**19. Intangible Assets**

Changes in intangible assets for the six-month period ended June 30, 2018 and the year ended December 31, 2017, are as follows:

	<b>June 30, 2018</b>									
	<b>Beginning balance</b>	<b>Acquisition</b>	<b>Disposal</b>	<b>Reclassification<sup>1</sup></b>	<b>Amortization</b>	<b>Impairment loss</b>	<b>Others</b>	<b>Ending balance</b>		
Software	₩ 54,585	₩ 2,330	₩ -	₩ 1,424	₩ (11,223)	₩ -	₩ (18)	₩ 47,098		
Goodwill	26,025	-	-	-	-	-	-	26,025		
Core deposits	116,077	-	-	-	(8,759)	-	-	107,318		
Others	116,082	4,633	(2,066)	2,460	(17,070)	-	4	104,043		
	₩ 312,769	₩ 6,963	₩ (2,066)	₩ 3,884	₩ (37,052)	₩ -	₩ (14)	₩ 284,484		

(in millions of Korean won)

	<b>December 31, 2017</b>									
	<b>Beginning balance</b>	<b>Acquisition</b>	<b>Disposal</b>	<b>Reclassification<sup>1</sup></b>	<b>Amortization</b>	<b>Impairment loss</b>	<b>Others</b>	<b>Ending balance</b>		
Software	₩ 61,622	₩ 12,133	₩ -	₩ 5,754	₩ (24,918)	₩ -	₩ (6)	₩ 54,585		
Goodwill	26,025	-	-	-	-	-	-	26,025		
Core deposits	133,594	-	-	-	(17,517)	-	-	116,077		
Others	103,698	45,648	(459)	(21)	(32,644)	(127)	(13)	116,082		
	₩ 324,939	₩ 57,781	₩ (459)	₩ 5,733	₩ (75,079)	₩ (127)	₩ (19)	₩ 312,769		

<sup>1</sup> Transferred from construction in progress.

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**20. Investment Properties**

The fair value and assessment method of investment property as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>Valuation techniques</b>	<b>Input variables</b>
Land	₩ 123,603	₩ 125,555	- The evaluation method of using officially assessed land pricing - Sales comparison approach	- Officially assessed land pricing - Sales history
Buildings	84,427	85,201	- Evaluation by the prime cost	- Repurchase cost - Durable years
	<u>₩ 208,030</u>	<u>₩ 210,756</u>		

Investment properties are classified as Level 3 and measured by independent professionals who have specialty and similar experience in the area where the investment properties are located.

Changes in investment properties for the six-month period ended June 30, 2018 and the year ended December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	<b>June 30, 2018</b>					
	<b>Beginning balance</b>	<b>Reclassification<sup>1</sup></b>	<b>Depreciation</b>	<b>Disposal</b>	<b>Impairment loss</b>	<b>Ending Balance</b>
Land	₩ 103,703	₩ (3,369)	₩ -	₩ -	₩ -	₩ 100,334
Buildings	82,712	872	(995)	-	(10)	82,579
	<u>₩ 186,415</u>	<u>₩ (2,497)</u>	<u>₩ (995)</u>	<u>₩ -</u>	<u>₩ (10)</u>	<u>₩ 182,913</u>

  

<i>(in millions of Korean won)</i>	<b>December 31, 2017</b>					
	<b>Beginning balance</b>	<b>Reclassification<sup>1</sup></b>	<b>Depreciation</b>	<b>Disposal</b>	<b>Impairment loss</b>	<b>Ending Balance</b>
Land	₩ 94,846	₩ 9,496	₩ -	₩ (639)	₩ -	₩ 103,703
Buildings	42,969	42,535	(1,463)	(1,329)	-	82,712
	<u>₩ 137,815</u>	<u>₩ 52,031</u>	<u>₩ (1,463)</u>	<u>₩ (1,968)</u>	<u>₩ -</u>	<u>₩ 186,415</u>

<sup>1</sup> Reclassifications as at June 30, 2018 and December 31, 2017, are due to change in lease ratio for investment in real properties.

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**21. Borrowings**

Borrowings as at June 30, 2018 and December 31, 2017, consist of the following:

<i>(in millions of Korean won)</i>	<b>Interest rate (%)</b>	<b>June 30, 2018</b>	<b>December 31, 2017</b>
Borrowings in Korean won:			
The BOK	-	₩ 728,850	₩ 935,775
Others	1.82 ~ 3.56	2,457,835	2,401,754
		<u>3,186,685</u>	<u>3,337,529</u>
Borrowings in foreign currencies:			
Overdraft on our account	2.05 ~ 6.75	41,586	2,458
Banks	0.15 ~ 3.06	431,283	267,297
Relending loans	2.58 ~ 2.86	55,771	61,841
Others	2.94 ~ 3.72	316,855	276,607
		<u>845,495</u>	<u>608,203</u>
Call money	0.10 ~ 2.60	96,507	17,683
Bonds sold under repurchase agreement:			
Korean won	1.10 ~ 3.50	1,488,744	1,064,560
Foreign currencies	-	26,385	43,659
		<u>1,515,129</u>	<u>1,108,219</u>
Bills sold	-	33,152	30,095
Securities sold	1.75	39,923	14,832
Deferred expenses from borrowings	-	(186)	(140)
		<u>₩ 5,716,705</u>	<u>₩ 5,116,421</u>

**22. Debentures**

Debentures issued by the Group as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	<b>Interest rate (%)</b>	<b>June 30, 2018</b>	<b>December 31, 2017</b>
Debentures in Korean won:			
Unsecured coupon bond	1.36 ~ 3.47	₩ 5,702,740	₩ 6,093,328
Subordinated bond	3.05 ~ 4.40	2,590,000	2,290,000
Present value discounts	-	(10,535)	(9,883)
		<u>8,282,205</u>	<u>8,373,445</u>
Debentures in foreign currencies:			
Senior bond	4.85	84,705	189,822
Subordinated bond	3.63	280,425	244,601
Loss (gain) on fair value hedge	-	(33,519)	1,889
Present value discounts	-	(2,701)	(2,349)
		<u>328,910</u>	<u>433,963</u>
		<u>₩ 8,611,115</u>	<u>₩ 8,807,408</u>

**BNK FINANCIAL GROUP INC. and Subsidiaries**  
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**23. Net Defined Benefit Liabilities**

As at June 30, 2018 and December 31, 2017, the amounts recognized in the consolidated statements of financial position related to post-employment benefits are as follows:

<i>(in millions of Korean won)</i>	<b>June 30, 2018</b>		<b>December 31, 2017</b>	
Present value of funded defined benefit obligations	₩	465,161	₩	445,125
Fair value of plan assets		<u>(418,200)</u>		<u>(413,396)</u>
Net defined benefit liabilities	₩	<u>46,961</u>	₩	<u>31,729</u>

Income and expenses related to net defined benefit liabilities for the six-month periods ended June 30, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	<b>2018</b>					
	<b>Present value of defined benefit obligation</b>		<b>Plan assets</b>		<b>Total</b>	
Current service cost	₩	28,920	₩	-	₩	28,920
Interest expenses (interest income)		7,478		<u>(6,998)</u>		<u>481</u>
	₩	<u>36,398</u>	₩	<u>(6,998)</u>	₩	<u>29,401</u>

<i>(in millions of Korean won)</i>	<b>2017</b>					
	<b>Present value of defined benefit obligation</b>		<b>Plan assets</b>		<b>Total</b>	
Current service cost	₩	25,593	₩	-	₩	25,593
Interest expenses (interest income)		6,259		<u>(6,241)</u>		<u>18</u>
	₩	<u>31,852</u>	₩	<u>(6,241)</u>	₩	<u>25,611</u>

**24. Provisions**

Changes in provision for acceptances and guarantees and provision for unused credit limit for the six-month period ended June 30, 2018 and the year ended December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	<b>June 30, 2018</b>					
	<b>Provision for acceptances and guarantees</b>		<b>Provision for unused credit limit</b>		<b>Total</b>	
Beginning balance	₩	10,778	₩	24,549	₩	35,327
Effects of changes in accounting policy		395		11,377		11,772
Foreign currency translation and others		128		-		128
Reversal		<u>(1,580)</u>		<u>(7,259)</u>		<u>(8,839)</u>
Ending balance	₩	<u>9,721</u>	₩	<u>28,667</u>	₩	<u>38,388</u>

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	December 31, 2017				
	Provision for acceptances and guarantees		Provision for unused credit limit		Total
Beginning balance	₩	9,812	₩	22,640	₩ 32,452
Foreign currency translation and others		(357)		-	(357)
Provision		1,323		1,909	3,232
Ending balance	₩	10,778	₩	24,549	₩ 35,327

Changes in other provisions for the six-month period ended June 30, 2018 and the year ended December 31, 2017, are as follows:

(in millions of Korean won)

	June 30, 2018				
	Beginning balance	Increase	Decrease	Others	Ending balance
Provision for restoration costs	₩ 6,617	₩ 34	₩ (11)	₩ (226)	₩ 6,414
Provision for credit card point	2,033	33	(208)	-	1,858
Provision for litigation	440	-	-	-	440
Others	555	3,000	-	-	3,555
	₩ 9,645	₩ 3,067	₩ (219)	₩ (226)	₩ 12,267

(in millions of Korean won)

	December 31, 2017				
	Beginning balance	Increase	Decrease	Others	Ending balance
Provision for restoration costs	₩ 6,312	₩ 75	₩ -	₩ 230	₩ 6,617
Provision for credit card point	1,865	248	(81)	1	2,033
Provision for dormant deposit	4,801	-	(4,801)	-	-
Provision for litigation	61,568	-	(61,128)	-	440
Others	1,434	10	(881)	(8)	555
	₩ 75,980	₩ 333	₩ (66,891)	₩ 223	₩ 9,645

Provision for restoration costs is the present value of expected settlement cost for the existing leasehold stores as at June 30, 2018 and December 31, 2017, which is discounted at an appropriate discount rate. Provision for restoration costs will be incurred at the end of lease contract of leasehold store. In order to reasonably estimate the restoration cost three-year historical average lease period, restoration expense based on seven-year historical data and three-year historical average inflation rate were used.

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**25. Equity**

*(a) Share capital*

As at June 30, 2018, the Group has 700 million shares authorized with a par value of ₩ 5,000, and 325,935,246 shares have been issued. The Parent Company's share capital as at June 30, 2018, amounts to ₩ 1,629,676 million.

*(b) Other paid-in capital*

Other paid-in capital as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	<b>June 30, 2018</b>		<b>December 31, 2017</b>	
Share premium	₩	678,953	₩	678,953
Other reserves		102,339		102,339
Treasury shares		(213)		(213)
Gain on disposal of treasury share		5,826		5,826
Loss on disposal of treasury share		(122)		(122)
	₩	<u>786,783</u>	₩	<u>786,783</u>

*(c) Hybrid equity securities*

Details of hybrid equity securities issued by the Parent Company as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	<b>Issue date</b>	<b>Maturity</b>	<b>Interest rate (%)</b>	<b>June 30, 2018</b>		<b>December 31, 2017</b>	
Hybrid equity securities in Korean won	2015.06.24	2045.06.24	4.60	₩	80,000	₩	80,000
	2015.06.24	2045.06.24	5.10		30,000		30,000
	2015.08.31	2045.08.31	4.48		150,000		150,000
	2018.02.13	-	4.83		100,000		-
	2018.03.02	-	4.26		150,000		-
Issuance cost					(1,479)		(723)
				₩	<u>508,521</u>	₩	<u>259,277</u>

Hybrid equity securities classified as non-controlling equity as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	<b>Issue date</b>	<b>Maturity</b>	<b>Interest rate (%)</b>	<b>June 30, 2018</b>		<b>December 31, 2017</b>	
Hybrid equity securities in Korean won	2013.04.25	2043.04.25	4.75	₩	60,000	₩	60,000
	2013.05.27	2043.05.27	4.83		40,000		40,000
	2013.10.25	2043.10.25	5.55		90,000		90,000
	2013.11.07	2043.11.07	5.72		10,000		10,000
	2013.11.11	2043.11.11	6.00		37,000		37,000
	2013.11.28	2043.11.28	6.14		63,000		63,000

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<i>(in millions of Korean won)</i>	<b>Issue date</b>	<b>Maturity</b>	<b>Interest rate (%)</b>	<b>June 30, 2018</b>	<b>December 31, 2017</b>
	2017.07.24	2047.07.24	4.58	150,000	150,000
	2017.09.19	2047.09.19	4.79	150,000	150,000
	2018.05.04	-	4.50	100,000	-
	2018.06.26	-	4.65	100,000	-
Issuance cost				(2,210)	(1,545)
				₩ 797,790	₩ 598,455

The Group can exercise its right to early repayment after 10 years from issuance of hybrid equity securities and the Group, on the maturity date, at its discretion may extend the maturity with the same term. In addition, if the Group decides not to pay dividends on the ordinary shares, the Group may not pay interest on the hybrid equity securities.

*(d) Other components of equity*

Other components of equity as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	<b>June 30, 2018</b>		<b>December 31, 2017</b>	
Gain on valuation of financial assets at fair value through other comprehensive income	₩	47,377	₩	-
Gain on valuation of AFS financial assets		-		66,641
Exchange differences on translation of foreign operations		(3,156)		(9,242)
Remeasurements of net defined benefit liabilities		(119,677)		(110,991)
Gain on valuation of hedges of net investments in foreign operations		455		4,839
Share of other comprehensive income of associates and joint venture		(89)		(89)
Provision for impairment of debt instruments at fair value through other comprehensive income		694		-
Tax effects		19,343		12,786
	₩	(55,053)	₩	(36,056)

*(e) Retained earnings*

Retained earnings as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	<b>June 30, 2018</b>		<b>December 31, 2017</b>	
Reserve:				
Earned profit reserves <sup>1</sup>	₩	539,559	₩	481,671
Regulatory reserve for credit loss		548,168		490,391
Discretionary reserves		2,254,884		2,125,577
		3,342,611		3,097,639
Retained earnings before appropriation		1,281,484		1,320,242
	₩	4,624,095	₩	4,417,881

<sup>1</sup> Article 53 of The Financial Holding Company Act requires a Parent Company to appropriate at least 10%

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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.

*Regulatory reserve for credit loss*

In accordance with the Regulations for Supervision of Financial Company Holding, if provision for impairment under Korean IFRS for the accounting purpose do not exceed those for the regulatory purpose, the Group discloses such shortfall amount as regulatory reserve for credit loss. Due to the fact that regulatory reserve for credit loss is a discretionary reserve, amounts exceeding the existing reserve for credit loss are over the compulsory reserve for credit loss at the period-end date and are able to be reversed in profit. In case of accumulated deficit, the Group should set aside reserve for credit loss at the time when accumulated deficit is gone.

Regulatory reserve for credit loss as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	<b>June 30, 2018</b>		<b>December 31, 2017</b>	
Provided reserve for credit loss <sup>1</sup>	₩	548,168	₩	490,391
Effect of changes in accounting policy		(67,122)		-
Expected provision of reserve for credit loss		23,643		57,777
Regulatory reserve for credit loss	₩	<u>504,689</u>	₩	<u>548,168</u>
Owners of the Parent Company	₩	504,689	₩	548,168
Non-controlling interests		-		-

<sup>1</sup> Provided reserve for credit loss as at June 30, 2018 and December 31, 2017, is the amount after appropriations of retained earnings.

Expected provision of reserve for credit losses, adjusted profit after the provision of regulatory reserve and adjusted earnings per share after the provision of regulatory reserve for the three-month and six-month periods ended June 30, 2018 and 2017, are as follows

<i>(in millions of Korean won)</i>	<b>2018</b>				<b>2017</b>			
	<b>Three months</b>		<b>Six months</b>		<b>Three months</b>		<b>Six months</b>	
Profit for the period of owners of the Parent Company	₩	150,343	₩	357,596	₩	162,392	₩	330,713
Provision of reserve for credit losses		<u>(17,500)</u>		<u>23,643</u>		<u>112,439</u>		<u>126,274</u>
Adjusted profit after the provision (reversal) of regulatory reserve <sup>1</sup>	₩	<u>167,843</u>	₩	<u>333,953</u>	₩	<u>49,953</u>	₩	<u>204,439</u>
Adjusted earnings per share after the provision of regulatory reserve <sup>1</sup> <i>(in Korean won)</i>	₩	497	₩	994	₩	144	₩	609

<sup>1</sup> Adjusted profit and earnings per share after provision of reserve for credit loss are not in accordance with Korean IFRS, but are calculated on the assumption that provision or reversal of reserve for credit loss is adjusted to the profit for the period. Earnings (loss) per share after provision of reserve for credit loss are presented net of dividends on hybrid equity securities.

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**26. Net Interest Income**

Net interest income, interest income and expenses for the three-month and six-month periods ended June 30, 2018 and 2017, are as follow:

(in millions of Korean won)

	2018		2017	
	Three months	Six months	Three months	Six months
Interest income:				
Due from banks	₩ 1,911	₩ 4,096	₩ 2,208	₩ 4,517
Financial assets at fair value through profit or loss	10,827	19,608	9,560	19,163
Financial assets at fair value through other comprehensive income	19,755	39,028		-
AFS financial assets	-	-	19,545	40,192
Financial assets at amortized cost	40,015	78,849		-
HTM financial assets	-	-	37,432	74,869
Loans	775,785	1,531,043	723,149	1,423,960
Others	49,150	98,232	50,883	100,005
	<u>897,443</u>	<u>1,770,856</u>	<u>842,777</u>	<u>1,662,706</u>
Interest expense:				
Deposit liabilities	(226,480)	(436,925)	(182,261)	(361,771)
Borrowings	(20,862)	(38,689)	(18,684)	(37,163)
Debentures	(59,311)	(119,076)	(59,518)	(122,734)
Others	(3,899)	(7,281)	(3,747)	(7,147)
	<u>(310,552)</u>	<u>(601,971)</u>	<u>(264,210)</u>	<u>(528,815)</u>
Net interest income	<u>₩ 586,891</u>	<u>₩ 1,168,885</u>	<u>₩ 578,567</u>	<u>₩ 1,133,891</u>

**27. Net Commission Income**

Net commission income, commission income and expenses for the three-month and six-month periods ended June 30, 2018 and 2017, are as follow:

(in millions of Korean won)

	2018		2017	
	Three months	Six months	Three months	Six months
Commission income:				
Commission received	₩ 84,575	₩ 171,580	₩ 80,638	₩ 152,979
Guarantees	3,631	7,523	3,860	7,000
Credit card	1,663	3,089	1,670	3,073
Others	59	99	127	331
	<u>89,928</u>	<u>182,291</u>	<u>86,295</u>	<u>163,383</u>
Commission expenses:				
Commission paid	(13,623)	(29,337)	(19,364)	(33,847)
Credit card	(21,760)	(42,658)	(22,655)	(42,094)
	<u>(35,383)</u>	<u>(71,995)</u>	<u>(42,019)</u>	<u>(75,941)</u>
Net commission income	<u>₩ 54,545</u>	<u>₩ 110,296</u>	<u>₩ 44,276</u>	<u>₩ 87,442</u>

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**28. Gain or loss on Financial Assets at Fair Value through Profit or Loss**

Gain or loss on financial assets at fair value through profit or loss for the three-month and six-month periods ended June 30, 2018 and 2017, are as follow:

(in millions of Korean won)

	2018		2017	
	Three months	Six months	Three months	Six months
Gain on financial assets at fair value through profit or loss:				
Gain on disposal of financial assets at fair value through profit or loss	₩ 74	₩ 125	₩ 28	₩ 39
Gain on sale of financial assets at fair value through profit or loss	12,608	23,407	15,032	22,258
Gain on valuation of financial assets at fair value through profit or loss	7,064	16,877	5,975	9,067
Stock, beneficiary certificates, dividend income and others	5,107	14,401	122	182
Gain on financial assets designated as at FVTPL	-	-	389	389
	<u>24,853</u>	<u>54,810</u>	<u>21,545</u>	<u>31,934</u>
Loss on financial assets at fair value through profit or loss:				
Loss on disposal of financial assets at fair value through profit or loss	(188)	(236)	(250)	(402)
Loss on sale of financial assets at fair value through profit or loss	(5,657)	(10,976)	(10,966)	(17,054)
Loss on valuation of financial assets at fair value through profit or loss	(26,297)	(29,637)	(2,416)	(5,996)
Purchase expense of financial assets at fair value through profit or loss	-	(2)	-	-
Loss on financial assets designated as at FVTPL	-	-	(491)	(558)
	<u>(32,142)</u>	<u>(40,851)</u>	<u>(14,123)</u>	<u>(24,010)</u>
Net gain (loss) on financial assets at fair value through profit or loss	₩ (7,289)	₩ 13,959	₩ 7,422	₩ 7,924

**29. Gain or loss on Financial Assets at Fair Value through Other Comprehensive Income**

Gain or loss on financial assets at fair value through other comprehensive income for the three-month and six-month period ended June 30, 2018, are as follow:

(in millions of Korean won)

	2018	
	Three months	Six months
Gain on financial assets at fair value through other comprehensive income:		
Gain on sale of financial assets at fair value through other comprehensive income	₩ 957	₩ 1,001

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<i>(in millions of Korean won)</i>	<b>2018</b>	
	<b>Three months</b>	<b>Six months</b>
Reversal of impairment loss	54	117
Dividend income	359	6,027
	1,370	7,145
Loss on financial assets at fair value through other comprehensive income:		
Loss on sale of financial assets at fair value through other comprehensive income	(11)	(13)
Impairment loss on financial assets at fair value through other comprehensive income	(46)	(98)
	(57)	(111)
Net gain on financial assets at fair value through other comprehensive income	₩ 1,313	₩ 7,034

**30. Gain or Loss on AFS Financial Assets**

Gain or loss on AFS financial assets for the three-month and six-month period ended June 30, 2017, are as follow:

<i>(in millions of Korean won)</i>	<b>2017</b>	
	<b>Three months</b>	<b>Six months</b>
Gain on AFS financial assets:		
Gain on sale of AFS financial assets	₩ 9,091	₩ 13,658
Dividend income	5,696	17,812
	14,787	31,470
Loss on AFS financial assets:		
Loss on sale of AFS financial assets	(16)	(578)
Impairment loss on AFS financial assets	(4)	(4)
	(20)	(582)
Net gain on AFS financial assets	₩ 14,767	₩ 30,888

**31. Gain or Loss on Financial Assets at Amortized Cost**

Gain or loss on financial assets at amortized cost for the three-month and six-month period ended June 30, 2018, are as follow:

<i>(in millions of Korean won)</i>	<b>2018</b>	
	<b>Three months</b>	<b>Six months</b>
Gain on financial assets at amortize cost:		
Reversal of impairment loss	₩ 26	₩ 51
	26	51
Loss on financial assets at amortize cost:		
Impairment loss	(15)	(83)

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(in millions of Korean won)

	2018	
	Three months	Six months
	(15)	(83)
Net gain (loss) on financial assets at amortized cost	₩ 11	₩ (32)

**32. Provision For Credit Loss**

Provision for credit loss for the three-month and six-month periods ended June 30, 2018 and 2017, are as follow:

(in millions of Korean won)

	2018		2017	
	Three months	Six months	Three months	Six months
Reversal of provision for credit loss and others:				
Reversal of provisions:				
Reversal of provision for impairment of receivables	₩ (189)	₩ 40	₩ -	₩ -
Reversal of provision for credit loss on acceptances and guarantees	965	1,580	592	708
Reversal of provision for credit loss on financial guarantee contract	15	15	250	250
Reversal of provision for credit loss on unused credit limits	1,410	7,494	1,374	1,497
Gain from loans at fair value through profit or loss	656	703	-	-
	2,857	9,832	2,216	2,455
Gain on disposal of loans	38,869	97,972	20,760	27,974
	41,726	107,804	22,976	30,428
Contribution to provision for credit loss and others:				
Contribution to provisions:				
Impairment loss	(109,760)	(220,054)	(120,814)	(227,706)
Contribution to provision for credit loss on acceptances and guarantees	34	-	69	-
Contribution to provision for credit loss on unused credit limits	(218)	(235)	(328)	(1,806)
Contribution to provision for credit loss on financial guarantee contract	660	(195)	(131)	(473)
Loss from loans at fair value through profit or loss	(592)	(592)	-	-
	(109,876)	(221,076)	(121,204)	(229,985)
Loss on disposal of loans	(15,010)	(37,813)	(24,846)	(25,923)
	(124,886)	(258,889)	(146,050)	(255,908)
Contribution to provision for credit loss	₩ (83,160)	₩ (151,085)	₩ (123,074)	₩ (225,480)

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**33. General and Administrative Expenses**

General and administrative expenses for the three-month and six-month periods ended June 30, 2018 and 2017, are as follow:

(in millions of Korean won)

	2018		2017	
	Three months	Six months	Three months	Six months
Employee benefits:				
Salaries	₩ 124,674	₩ 249,102	₩ 109,885	₩ 214,397
Employee benefit expenses	45,508	81,336	40,665	74,586
Post-employment benefits	14,314	29,409	12,764	25,633
	<u>184,496</u>	<u>359,847</u>	<u>163,314</u>	<u>314,616</u>
Rent	10,310	21,041	9,630	19,272
Business promotion expenses	3,948	8,026	3,227	6,781
Depreciation	15,851	31,584	15,225	30,811
Amortization	18,531	37,052	18,318	38,517
Taxes and dues	11,809	22,716	9,585	19,901
Other administrative expenses	48,774	93,874	42,688	85,542
	<u>₩ 293,719</u>	<u>₩ 574,140</u>	<u>₩ 261,987</u>	<u>₩ 515,440</u>

**34. Non-operating Income and Expenses**

Non-operating income and expenses for the three-month and six-month periods ended June 30, 2018 and 2017, are as follow:

(in millions of Korean won)

	2018		2017	
	Three months	Six months	Three months	Six months
Income from investments in associates				
Share of profit of associates	₩ 2,072	₩ 3,069	₩ 375	₩ 579
Gain on disposal of investments in associates	-	-	29	1,275
Share of loss of associates	(649)	(1,052)	(582)	(1,362)
	<u>1,423</u>	<u>2,017</u>	<u>(178)</u>	<u>492</u>
Non-operating income:				
Gain on disposal of property and equipment	28	45	59	470
Reversal of impairment loss on intangible assets	-	239	-	-
Rental income	736	1,367	470	1,133
Restoration income	16	19	5	93
Gain on collection of charge-offs	457	649	185	374
Miscellaneous income	2,845	8,028	2,658	5,033
Other non-operating income	149	232	4	3
	<u>4,231</u>	<u>10,579</u>	<u>3,381</u>	<u>7,106</u>
Non-operating expenses:				

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Expenses on collection of charge-offs	(118)	(180)	(97)	(190)
Loss on disposal of property and equipment	(198)	(215)	(53)	(263)
Impairment loss on investment properties	60	-	-	-
Loss on disposal of intangible assets	4	(47)	-	-
Donations	(9,501)	(16,726)	(5,780)	(10,465)
Miscellaneous expenses	(1,062)	(2,913)	(440)	(3,419)
Regulation penalty	(2)	(2)	-	(3)
Restoration loss	(31)	(352)	(127)	(258)
	<u>(10,848)</u>	<u>(20,435)</u>	<u>(6,497)</u>	<u>(14,598)</u>
Non-operating expenses, net	₩ (5,194)	₩ (7,839)	₩ (3,294)	₩ (7,000)

**35. Income Tax Expense**

Reconciliation between profit before income tax and income tax expense for the six-month periods ended June 30, 2018 and 2017, is as follow:

<i>(in millions of Korean won)</i>	<b>2018</b>		<b>2017</b>	
Profit before income tax	₩	497,644	₩	444,658
Taxes payable <sup>1</sup>		131,671		107,376
Tax effect of:				
Non-taxable income (₩27,727 million in 2018, ₩16,361 million in 2017)		(7,336)		(3,951)
Non-deductible expenses (₩7,173million in 2018, ₩9,856 million in 2017)		1,898		2,380
Consolidated tax		(6,873)		(6,237)
Others		4,706		5,930
Income tax expense	₩	<u>124,066</u>	₩	<u>105,498</u>
Effective tax rate (income tax expense/profit before income tax)		24.93%		23.73%

<sup>1</sup> Taxes payable are calculated by applying income tax rate (11% for less than ₩200 million, 22% for ₩200 million to ₩20 billion, 24.2% for more than ₩20 billion and 27.5% for more than ₩300 billion) to profit before income tax.

**36. Earnings Per Share**

Basic earnings per share are calculated by dividing profit attributable to owners of Parent Company by weighted average number of ordinary shares outstanding for the three-month and six-month periods ended June 30, 2018 and 2017.

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Weighted average number of ordinary shares for the three-month and six-month periods ended June 30, 2018 and 2017, are as follows:

<i>(in shares)</i>	<b>Three-month period ended June 30, 2018</b>		
	<b>Number of ordinary shares</b>	<b>Days</b>	<b>Weighted average number of shares</b>
Beginning	325,920,391	91	<u>29,658,755,581</u>
			<u>29,658,755,581</u>
Weighted average number of ordinary shares			<u>325,920,391</u>

<i>(in shares)</i>	<b>Six-month period ended June 30, 2018</b>		
	<b>Number of ordinary shares</b>	<b>Days</b>	<b>Weighted average number of shares</b>
Beginning	325,920,391	181	<u>58,991,590,771</u>
			<u>58,991,590,771</u>
Weighted average number of ordinary shares			<u>325,920,391</u>

<i>(in shares)</i>	<b>Three-month period ended June 30, 2017</b>		
	<b>Number of ordinary shares</b>	<b>Days</b>	<b>Weighted average number of shares</b>
Beginning	325,920,391	91	<u>29,658,755,581</u>
			<u>29,658,755,581</u>
Weighted average number of ordinary shares			<u>325,920,391</u>

<i>(in shares)</i>	<b>Six-month period ended June 30, 2017</b>		
	<b>Number of ordinary shares</b>	<b>Days</b>	<b>Weighted average number of shares</b>
Beginning	325,920,391	181	<u>58,991,590,771</u>
			<u>58,991,590,771</u>
Weighted average number of ordinary shares			<u>325,920,391</u>

Basic earnings per share attributable to owners of the Parent Company for the three-month and six-month periods ended June 30, 2018 and 2017, are as follows:

<i>(in Korean won and in shares)</i>	<b>2018</b>		<b>2017</b>	
	<b>Three months</b>	<b>Six months</b>	<b>Three months</b>	<b>Six months</b>
Profit for the period attributable to owners of the Parent Company	₩ 150,342,869,305	₩ 357,596,297,911	₩ 162,391,780,290	₩ 330,712,844,677
Dividends on hybrid equity securities	<u>(5,717,729,371)</u>	<u>(9,843,319,408)</u>	<u>(2,950,081,522)</u>	<u>(5,917,079,107)</u>

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Profit attributable to the ordinary equity holders	144,625,139,934	347,752,978,503	159,441,698,768	324,795,765,570
Weighted average number of ordinary shares outstanding	325,920,391	325,920,391	325,920,391	325,920,391
Basic earnings per share	₩ 444	₩ 1,067	₩ 489	₩ 997

Diluted earnings per share for the six-month periods ended June 30, 2018 and 2017, are equal to the basic earnings per share because the Group did not have any potentially dilutive ordinary shares during the period.

**37. Contingencies and Commitments**

Payment guarantees as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	Type	June 30, 2018	December 31, 2017
Confirmed acceptances and guarantees:			
Confirmed acceptances and guarantees in Korean won	Payment guarantee for loans	₩ 119,779	₩ 122,396
	Payment guarantee for issuance of debentures	-	59,281
	Others	558,347	510,439
		<u>678,126</u>	<u>692,116</u>
Confirmed acceptances and guarantees in foreign currencies	Acceptances on letters of credit	8,109	8,875
	Acceptances on letters of guarantee for importers	21,651	27,050
	Others	241,256	219,973
		<u>271,016</u>	<u>255,898</u>
		<u>949,142</u>	<u>948,014</u>
Unconfirmed acceptances and guarantees:	Letters of credit	270,804	270,906
	Others	11,042	10,249
		<u>281,846</u>	<u>281,155</u>
Others:	Endorsed bill	1,058	-
		<u>₩ 1,232,046</u>	<u>₩ 1,229,169</u>

Unused commitments as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2018	December 31, 2017
Corporates	₩ 7,884,268	₩ 7,162,738
Households	5,764,604	1,063,448
Credit card	4,258,246	2,536,297
Securities purchase agreement	367,493	386,442
	<u>₩ 18,274,611</u>	<u>₩ 11,148,925</u>

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*Lawsuits*

As at June 30, 2018 and December 31, 2017, the Group's major lawsuits are as follows:

<i>(in millions of Korean won)</i>	<b>June 30, 2018</b>		<b>December 31, 2017</b>	
	<b>As a plaintiff</b>	<b>As a defendant</b>	<b>As a plaintiff</b>	<b>As a defendant</b>
Number (case)	36 cases	71 cases	35 cases	62 cases
Amount	₩ 129,924	₩ 20,150	₩ 94,316	₩ 86,367
Provisions related to these lawsuits		₩ 440		440

The Group recognized ₩440 million of provisions related to these lawsuits as at June 30, 2018.

The Group filed a lawsuit against 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 Korea Deposit Insurance Corporation to pay ₩53.2 billion to the Group in the first trial. In respect of the first court decision, Korea Deposit Insurance Corporation paid ₩53.2 billion in advance and the Group recognized the corresponding amount as other liabilities. In addition, Korea Deposit Insurance Corporation appealed against the first decision on December 28, 2017, and the lawsuit is pending at the Seoul High Court. As at June 30, 2018, the Group cannot reasonably estimate the outcome of the case and its financial effect. Accordingly, any possible effect in relation to the lawsuit is not reflected in the consolidated interim financial statement.

*Others*

BNK Financial Group, 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 in Busan district court 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.

On May 18, 2018, the Financial Supervisory Service sanctions committee decided a suspension of new business operations of real estate PF for three months (May 28, 2018 ~ August 27, 2018) due to unfair loan practices by Busan Bank. The outcome of the suspension and its impact on the financial statements cannot be estimated at the end of the reporting period.

An investigation is in progress by the financial supervisory institutions in relation to the loan spread, and the estimated refund amounting to ₩ 3,000 million is included in other provisions.

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**38. Related Party Transactions**

All intercompany transactions, including intercompany receivables and payables, are eliminated in preparation of consolidated interim financial statements.

Sales and purchases with related parties for the six-month periods ended June 30, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>			<b>2018</b>		<b>2017</b>
Joint venture					
Dongwha Capital	Purchase of loans and others	₩	113,417	₩	41,053

Fund transactions with related parties for the six-month period ended June 30, 2018 and the year ended December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>			<b>June 30, 2018</b>		<b>December 31, 2017</b>
Joint venture					
Dongwha Capital	Credit grants <sup>1</sup>	₩	5,000	₩	5,000

<sup>1</sup> BNK Capital Co., Ltd., the Group's subsidiary, has provided general capital loans with limit up to ₩ 5,000 million to Dongwha Capital, a joint venture company, during the six-month period ended June 30, 2018 and the year ended December 31, 2017.

Compensation for key management (registered executive) for the six-month periods ended June 30, 2018 and 2017, is as follows:

<i>(in millions of Korean won)</i>			<b>2018</b>		<b>2017</b>
Short-term employee benefits		₩	1,262	₩	634
Share-based payment			481		810
		₩	<u>1,743</u>	₩	<u>1,444</u>

Key management consists of executives of the Parent Company and Busan Bank.

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**39. Changes in Accounting Policy**

**39.1 Adoption of Korean IFRS 1109 Financial Instruments**

As explained in Note 2, the Group has applied Korean IFRS 1109 *Financial Instruments* on January 1, 2018, the date of initial application. In accordance with the transitional provisions in Korean IFRS 1109, comparative figures have not been restated. The application of Korean IFRS 1109 has following impacts on the financial statements.

*(a) Classification and Measurement of Financial Instruments*

The total impact on the Group's retained earnings due to classification and measurement of financial instruments as at January 1, 2018, is as follows:

*(in millions of Korean won)*

**January 1, 2018**

**Retained earnings**

<b>Beginning balance - Korean IFRS 1039</b>	₩	4,417,881
Reclassification of available-for-sale securities to financial assets at fair value through profit or loss		6,925
Reversal of impairment loss on AFS financial assets		27,852
Recognized in loss from loans at fair value through profit or loss		(52)
Effect of other classification and measurement		423
Increase in provision for impairment of loans at amortized cost and off-balance account		(135,661)
Increase in provision for impairment of debt instruments at amortized cost		(814)
Increase in provision for impairment of debt instruments at fair value through other comprehensive income		(730)
Increase in deferred tax relating to the provision for impairment		35,391
Adjustments to retained earnings from adoption of Korean IFRS 1109		(66,666)
<b>Beginning balance of retained earnings - Korean IFRS 1109</b>	₩	<u>4,351,215</u>

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On the date of initial application of Korean IFRS 1109, January 1, 2018, the Group has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate Korean IFRS 1109 categories. The main effects resulting from this reclassification are as follows:

<i>(in millions of Korean won)</i>	Financial assets at fair value through profit or loss	AFS financial assets	Financial assets at fair value through other comprehensive income	HTM financial assets	Financial assets at amortized cost	Total
<b>Financial assets – January 1, 2018</b>						
Beginning balance – Korean IFRS 1039 <sup>1</sup>	₩ 1,400,100	₩ 5,822,006	₩ -	₩ 84,090,768	₩ -	₩ 91,312,874
Reclassification from available-for-sale financial assets to financial assets at fair value through profit or loss	924,212	(924,212)	-	-	-	-
Reclassification from available-for-sale financial assets to financial assets at fair value through other comprehensive income	-	(4,897,794)	4,897,794	-	-	-
Reclassification of compound financial instruments from financial assets at amortized cost to financial assets at FVTPL	10,801	-	-	(10,455)	-	346
Reclassification of held-to-maturity financial assets and loans and receivables to financial assets at amortized cost	-	-	-	(84,080,313)	84,080,313	-
Beginning balance - Korean IFRS 1109 <sup>1</sup>	₩ 2,335,113	₩ -	₩ 4,897,794	₩ -	₩ 84,080,313	₩ 91,313,220

<sup>1</sup> The adjustments arising from impairment of financial assets are not included. See Note 39.1 (a).

The impact on these changes on the Group's equity is as follows:

<i>(in millions of Korean won)</i>	Effect on accumulated other comprehensive income	Effects on fair value through other comprehensive income reserve	Effect on retained earnings
Beginning balance – Korean IFRS 1039 <sup>1</sup>	₩ 49,314	₩ -	₩ 4,417,881
Reclassification from available-for-sale financial assets to financial assets at fair value through profit or loss	(6,925)	-	6,925
Reclassification of equity investments that are not held for trading from available-for-sale financial assets to financial assets at fair value through other comprehensive income	(87,883)	60,031	27,852
Reclassification of privately placed convertible	-	-	(52)

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bonds from available-for-sale financial assets to financial assets at fair value through profit or loss			
Reclassification of listed and unlisted debt securities from available-for-sale financial assets to financial assets at fair value through other comprehensive income	45,494	(45,494)	-
Effect of other classification and measurement	-	-	423
	<u>(49,314)</u>	<u>14,537</u>	<u>35,148</u>
Beginning balance - Korean IFRS 1109 <sup>1</sup>	<u>₩ -</u>	<u>₩ 14,537</u>	<u>₩ 4,453,029</u>

<sup>1</sup> The adjustments arising from impairment of financial assets are not included. See Note 39.1 (a).

*(b) Impairment of Financial Assets*

The Group has three types of financial assets subject to Korean IFRS 1109's new expected credit loss model:

- Loans and receivables carried at amortized cost
- debt investments carried at fair value through other comprehensive income, and
- debt investments carried at amortized cost.

Upon adoption of Korean IFRS 1109, accounting policies for recognition of impairment have changed. The impact of the change in impairment methodology on the Group's beginning balance of retained earnings is disclosed in the table on (a) above.

*(i) Loans and receivables*

If the credit risk of loans and receivables has significantly increased since the initial recognition, a loss allowance at an amount equal to lifetime expected credit losses is recognized at the end of each reporting period. And if the credit risk has not significantly increased since the initial recognition, 12 month expected credit losses is recognized at the end of each reporting period.

*(ii) Debt instruments*

For debt instruments at amortized cost or fair value through other comprehensive income, that are determined to have low credit risk at the end of each reporting period, the Group applies a simplified approach which assumes that the credit risk on the financial instruments have not increased significantly since initial recognition.