

BNK FINANCIAL GROUP INC. and Subsidiaries

**Consolidated Financial Statements
December 31, 2018 and 2017**

BNK FINANCIAL GROUP INC. and Subsidiaries

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Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

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

Opinion

We have audited the accompanying consolidated financial statements of BNK Financial Group Inc. and its subsidiaries (collectively referred to as the "Group") which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS).

Basis for Opinion

We conducted our audits in accordance with Korean Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements of the Republic of Korea that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with the ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(1) A credit loss allowance to be individually assessed for loans at amortized cost

Key Audit Matter

'Impairment' standard in accordance with Korean IFRS 1109 *Financial Instruments* applying from January 1, 2018, is comparatively more complicate than Korean IFRS 1039 and requires more interpretation and judgment of the management.

The Group recognizes expected credit losses for loans at amortized cost using individual and collective assessment method and records provision for impairment of loans at amortized cost amounting to ₩ 76,926,742 million and ₩ 980,013 million, respectively. Individually assessed expected credit losses are calculated using present value of the future recoverable cash flows of financial assets that is individually significant and this assessment implies uncertainty and includes several assumptions and estimates. We focus on this area due to the significance of amount to be individually assessed in the consolidated financial statements, taking into account the impact of the individually assessed expected credit losses in the consolidated financial statements and management's estimates and judgments. Meanwhile, Busan Bank and Kyongnam Bank are the most affected companies from those impacts among subsidiaries.

How our audit addressed the Key Audit Matter

We understood the following to provide a basis for identifying and assessing the risk of material misstatement of accounting estimates related to individually assessed expected credit losses recognized by the Group:

- Method of selecting loans to be individually assessed by the Group
- Data applied when calculating individually assessed expected credit losses performed by the Group

We evaluated the level of uncertainty of the estimates related to individually assessed expected credit losses and determined the following based on the assessed risk of material misstatement:

- Whether the Group has appropriately applied the requirements of Korean IFRS in relation to the estimates of expected credit losses for individual assessment
- Whether the method of estimating provision for impairment on the basis of individual assessment used by the Group is appropriate and has been applied consistently

We also performed the following test of controls to determine operating effectiveness in relation to the estimates of expected credit losses for individual assessment:

- Test of control for verifying completeness of loans to be individually assessed
- Test of control for verifying accuracy of basic information for calculating individually assessed expected credit losses
- Test of control for the Group's approval procedures on the results of calculating individually assessed expected credit losses
- Test of control for reviewing accuracy of estimates of expected cash flows of debtor to be individually assessed
- Test of control for reviewing appropriateness of effective interest rate to be applied in individual assessment

We performed the following analytical procedures to estimate expected credit losses for individual assessment:

- We determined completeness and accuracy of loans to be individually assessed
- We determined accuracy of the amount of individually assessed expected credit losses
- We identified subsequent events after the date of financial statements

(2) Intangible assets that are separately identifiable from goodwill

Key Audit Matter

As explained in Note 20 to the consolidated financial statements, the Parent Company acquired 56.97% of equity shares of Kyongnam Bank at ₩ 1,226,908 million on October 10, 2014. As a result, the Parent Company obtained control over Kyongnam Bank and recognized core deposits of Kyongnam Bank as intangible assets separately from goodwill. In relation to this, the balance of core deposits as at December 31, 2018, is ₩ 98,559 million (2017: ₩ 116,077 million).

Intangible assets identified separately from goodwill shall be tested for impairment annually and the Parent Company internally reviewed whether the core deposits are impaired by assuming the customer bounce rate and the account transfer rate. We included such items in the key audit matter considering the size of intangible assets recognized in connection with the business combination and significant management's judgment related to the impairment test.

How our audit addressed the Key Audit Matter

We understood the following so as to provide the basis for identifying and assessing the risk of material misstatement of accounting estimates related to impairment of core deposits identified separately from goodwill by the Parent Company:

- How to calculate and what key assumptions the Parent Company applied at the initial recognition of core deposits
- How to determine impairment indicators and applicable data regarding core deposits conducted by the Parent Company annually

We evaluated the level of uncertainty of estimates related to impairment of core deposits and determined the following based on the assessed risk of material misstatement:

- Whether the Parent Company appropriately applied the requirements of Korean IFRS in relation to impairment test
- Whether the assessment for impairment indicators of core deposits used by the Parent Company is appropriate and has been applied consistently

We conducted recalculation on judgment of core deposits' impairment indicators performed by the Parent Company. In addition, we verified the accuracy of underlying data used to estimate key variables such as bounce rates and reviewed the adequacy of other variables such as discount rates.

Other Matter

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Korean IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Korean Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Korean Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Won-Dae Kim, Certified Public Accountant.

Seoul, Korea
March 20, 2019

<p>This report is effective as of March 20, 2019, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.</p>

BNK FINANCIAL GROUP INC. and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2018 and 2017

<i>(in millions of Korean won)</i>	Notes	2018¹	2017
Assets			
Cash and due from banks	4,6,7,45	₩ 3,212,849	₩ 3,142,147
Financial assets at fair value through profit or loss	4,6,8,13	3,471,853	1,400,100
Financial assets at fair value through other comprehensive income	4,6,9,13	5,030,992	-
Available-for-sale ("AFS") financial assets	4,6,10,13	-	5,822,006
Financial assets at amortized cost	4,6,11,13	6,798,768	-
Held-to-maturity ("HTM") financial assets	4,6,12,13	-	6,671,317
Loans and receivables	4,6,14,15,16	77,629,807	75,291,882
Derivative assets	4,6,17	30,362	79,605
Investments in associates and joint venture	18	465,099	62,998
Property and equipment	19	887,545	855,644
Intangible assets	20	271,652	312,769
Investment properties	21	198,173	186,415
Deferred tax assets	40	-	1,658
Other assets	22	796,483	523,436
Total assets		₩ 98,793,583	₩ 94,349,977
Liabilities			
Deposit liabilities	4,6,23	₩ 73,380,110	₩ 69,824,592
Borrowings	4,6,24	5,615,889	5,116,421
Debentures	4,6,25	8,590,658	8,807,408
Derivative liabilities	4,6,17	57,275	115,823
Net defined benefit liabilities	26	72,000	31,729
Provisions	27,42	42,656	44,973
Current tax liabilities	40	35,069	33,879
Deferred tax liabilities	40	47,088	20,977
Other liabilities	4,6,28	2,527,875	2,698,156
Total liabilities		90,368,620	86,693,958
Equity			
Equity attributable to owners of the Parent Company			
Share capital	29	1,629,676	1,629,676
Hybrid equity securities	29	508,521	259,277
Other paid-in capital	29	786,783	786,783
Other components of equity	29	(51,005)	(36,056)
Retained earnings	29	4,753,003	4,417,881
		7,626,978	7,057,561
Non-controlling interest		797,984	598,459
Total equity		8,424,962	7,656,020
Total liabilities and equity		₩ 98,793,582	₩ 94,349,978

¹ The consolidated statement of financial position as at December 31, 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 statements of financial position should be read in conjunction with the accompanying notes.

BNK FINANCIAL GROUP INC. and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2018 and 2017

<i>(in millions of Korean won, except per share amounts)</i>	Notes	2018¹	2017
Net interest income	30		
Interest income			
Financial assets at fair value through profit or loss		₩ 44,474	₩ 32,385
Financial asset at fair value through other comprehensive income and amortized cost		<u>3,584,328</u>	<u>3,320,992</u>
		3,628,802	3,353,377
Interest expenses		<u>(1,285,262)</u>	<u>(1,072,756)</u>
		2,343,540	2,280,621
Net fee and commission income	31		
Commission income		353,561	312,533
Commission expenses		<u>(149,613)</u>	<u>(152,820)</u>
		203,948	159,713
Gain on financial assets at fair value through profit or loss	32	44,432	15,014
Gain on financial assets at fair value through other comprehensive income	33	14,122	-
Gain on AFS financial assets	34	-	38,225
Loss on financial assets at amortized cost	35	(21)	-
Contribution to provision for credit loss	36	(462,600)	(619,466)
General and administrative expenses	37	(1,264,740)	(1,137,667)
Other operating income	17,38		
Gain on foreign currency transaction		27,497	60,632
Gain (loss) from derivatives		25,093	(21,733)
Other operating income		218,670	185,236
Other operating expenses		<u>(400,107)</u>	<u>(366,251)</u>
Operating profit		<u>749,834</u>	<u>594,324</u>
Non-operating income	39		
Share of profit (loss) of associates		5,680	(152)
Other income		27,467	17,600
Other expenses		<u>(64,343)</u>	<u>(54,022)</u>
		<u>(31,196)</u>	<u>(36,574)</u>
Profit before income tax		718,638	557,750
Income tax expense	40	<u>(180,497)</u>	<u>(132,786)</u>
Profit for the year	5,41	<u>538,141</u>	<u>424,964</u>
Profit is attributable to:			
Owners of the Parent Company		502,095	403,100
Non-controlling interest		36,046	21,864

The above consolidated statements of comprehensive income should be read in conjunction with the accompanying notes.

BNK FINANCIAL GROUP INC. and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2018 and 2017

<i>(in millions of Korean won, except per share amounts)</i>	Notes	2018¹	2017
Other comprehensive income, net of tax	29		
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of net defined benefit liabilities		(29,780)	(17,929)
Gain on valuation of equity instruments at fair value through other comprehensive income		13,437	-
<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		37,139	-
Changes in the fair value of AFS financial assets		-	(15,923)
Exchange differences on translation of foreign operations		1,615	(13,665)
Gain (loss) on valuation of hedges of net investments in foreign operations		(3,093)	9,270
Impairment loss of debt instruments at fair value through other comprehensive income		(54)	-
Other comprehensive income for the year, net of tax		19,264	(38,247)
Total comprehensive income for the year		₩ 557,405	₩ 386,717
Total comprehensive income for the year is attributable to:			
Owners of the Parent Company	₩	521,359	₩ 364,853
Non-controlling interests		36,046	21,864
Earnings per share (in Korean won)	41		
Basic and diluted earnings per share	₩	1,475	₩ 1,200

¹ The consolidated statement of comprehensive income for the year ended December 31, 2018, has been prepared in accordance with Korean IFRS 1109 and comparative figures for the year ended December 31, 2017, have not been restated.

BNK FINANCIAL GROUP INC. and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 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>								
Balance at January 1, 2017	₩ 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)
Issuance of hybrid equity securities	-	-	-	-	-	-	298,905	298,905
Dividends on hybrid equity securities	-	-	-	-	(11,930)	(11,930)	(21,497)	(33,427)
Acquisition of BNK Asset Management Co. Ltd's equity	-	-	(3,019)	-	-	(3,019)	(5,348)	(8,367)
Total comprehensive income								
Profit for the year	-	-	-	-	403,100	403,100	21,864	424,964
Other comprehensive income								
Remeasurements of net defined benefit liabilities	-	-	-	(17,929)	-	(17,929)	-	(17,929)
Changes in the fair value of AFS financial assets	-	-	-	(15,923)	-	(15,923)	-	(15,923)
Loss on overseas operations translation	-	-	-	(13,665)	-	(13,665)	-	(13,665)
Gain on valuation of hedges of net investments in foreign operations	-	-	-	9,270	-	9,270	-	9,270
Balance at December 31, 2017	₩ 1,629,676	₩ 259,277	₩ 786,783	₩ (36,056)	₩ 4,417,880	₩ 7,057,560	₩ 598,458	₩ 7,656,018
Balance at January 1, 2018	₩ 1,629,676	₩ 259,277	₩ 786,783	₩ (36,056)	₩ 4,417,880	₩ 7,057,560	₩ 598,458	₩ 7,656,018
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	-	-	-	-	(21,500)	(21,500)	(35,852)	(57,352)
Others	-	-	-	-	8	8	(8)	-
Total comprehensive income								
Profit for the year	-	-	-	-	502,095	502,095	36,046	538,141
Other comprehensive income								
Remeasurements of net defined benefit liabilities	-	-	-	(29,780)	-	(29,780)	-	(29,780)
Gain on valuation of financial assets at fair value through other comprehensive income	-	-	-	50,576	-	50,576	-	50,576
Loss on disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	(3,853)	(3,853)	-	(3,853)
Gain on overseas operations translation	-	-	-	1,615	-	1,615	-	1,615
Loss on valuation of hedges of net investments in foreign operations	-	-	-	(3,093)	-	(3,093)	-	(3,093)
Impairment loss of debt instruments at fair value through other comprehensive income	-	-	-	(54)	-	(54)	-	(54)
Balance at December 31, 2018¹	₩ 1,629,676	₩ 508,521	₩ 786,783	₩ (51,005)	₩ 4,753,002	₩ 7,626,977	₩ 797,983	₩ 8,424,960

¹ The consolidated statement of changes in equity for the year ended December 31, 2018, has been prepared in accordance with Korean IFRS 1109 and comparative figures for the year ended December 31, 2017, have not been restated.

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

BNK FINANCIAL GROUP INC. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

(in millions of Korean won)

	2018 ¹	2017
Cash flows from operating activities		
Profit for the year	₩ 538,141	₩ 424,964
Adjustments to profit for the year:		
Interest income	(3,628,803)	(3,353,377)
Interest expense	1,285,262	1,072,756
Loss (gain) on financial assets at fair value through profit or loss, net	5,048	(15,014)
Gain on financial assets at fair value through other comprehensive income, net	(14,122)	-
Changes in fair value of the AFS financial assets	-	(38,225)
Loss on financial assets at amortized cost, net	21	-
Contribution to provision for credit loss	502,248	549,026
Gain on foreign currency translation	(2,319)	(25,478)
Loss (gain) on valuation of derivatives, net	(8,043)	11,557
Depreciation	64,240	62,204
Amortization	74,047	75,079
Post-employment benefits	58,066	51,879
Other operating expenses, net	147,065	109,207
Share of loss (profit) of associates	(5,680)	152
Loss on property and equipment, and intangible assets	4,857	3,624
Income tax expense	180,497	132,786
	<u>(1,337,616)</u>	<u>(1,363,824)</u>
Changes in operating assets and liabilities:		
Decrease in due from banks	60,262	426,468
Decrease (increase) in financial assets at fair value through profit or loss	(1,004,132)	283,215
Increase in loans and receivables	(3,115,983)	(1,950,860)
Decrease (increase) in derivative assets and liabilities	(1,207)	27,987
Increase in other assets	(420,325)	(170,164)
Increase in deposit liabilities	3,550,906	2,298,832
Decrease in provisions	(539)	(315)
Decrease in other liabilities	(190,951)	(637,354)
Decrease in net defined benefit liabilities	(23,212)	(27,522)
Increase in plan assets	(34,761)	(26,370)
	<u>(1,179,942)</u>	<u>223,917</u>
Interest received	3,657,797	3,393,995
Dividend received	7,704	33,444
Interest paid	(1,206,923)	(998,335)
Income tax paid	<u>(124,727)</u>	<u>(183,909)</u>
Net cash inflow from operating activities	<u>354,434</u>	<u>1,530,252</u>

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

BNK FINANCIAL GROUP INC. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

(in millions of Korean won)

	2018 ¹	2017
Cash flows from investing activities		
Proceeds from disposal of financial assets at fair value through profit or loss	1,682,482	-
Payments for financial assets at fair value through profit or loss	(1,831,784)	-
Proceeds from disposal of financial assets at fair value through other comprehensive income	2,319,178	-
Payments for financial assets at fair value through other comprehensive income	(2,384,139)	-
Proceeds from disposal of AFS financial assets	-	3,439,327
Payments for AFS financial assets	-	(3,171,588)
Proceeds from disposal of financial assets at amortized cost	1,528,609	-
Payments for financial assets at amortized cost	(1,641,047)	-
Proceeds from disposal of HTM financial assets	-	1,163,334
Payments for HTM financial assets	-	(1,638,449)
Proceeds from disposal of investments in associates	141,511	75,456
Payments for investments in associates	(532,500)	(90,403)
Proceeds from disposal of property and equipment	8,225	4,189
Payments for property and equipment	(125,330)	(151,337)
Proceeds from disposal of intangible assets	3,018	457
Payments for intangible assets	(30,504)	(57,781)
Others	8,468	(510)
Net cash outflow from investing activities	(853,813)	(427,305)
Cash flows from financing activities		
Increase in borrowings	37,018,128	42,030,954
Decrease in borrowings	(36,420,488)	(43,232,016)
Issuance of debentures	2,687,661	2,982,579
Repayment of debentures	(2,917,368)	(2,895,620)
Dividends paid	(131,058)	(108,388)
Issuance of hybrid equity securities	448,579	298,905
Others	(49,075)	(8,367)
Net cash inflow (outflow) from financing activities	636,379	(931,953)
Net increase in cash and cash equivalents	137,000	170,994
Cash and cash equivalents at the beginning of the year	1,014,581	858,612
Effects of exchange rate changes on cash and cash equivalents	(5,952)	(15,025)
Cash and cash equivalents at the end of the year	₩ 1,145,629	₩ 1,014,581

¹ The consolidated statement of cash flows for the year ended December 31, 2018, has been prepared in accordance with Korean IFRS 1109 and comparative figures for the year ended December 31, 2017, has not been restated.

BNK FINANCIAL GROUP INC. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2018 and 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 Munhyeongeumyo-ro, 30. Meanwhile, the Parent Company's share capital as at December 31, 2018, amounts to ₩1,629,676 million with 325,935,246 outstanding shares.

1.2 Consolidated Subsidiaries

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

Name of subsidiary	Industry	Location	Closing month	Ownership interests (%)	
				2018	2017
BNK Financial Group:					
Busan Bank Co., Ltd.	Banking	Korea	December 31	100	100
Kyongnam Bank Co., Ltd.	Banking	Korea	December 31	100	100
BNK Capital Co., Ltd.	Specialized credit financial business	Korea	December 31	100	100
BNK Securities Co., Ltd.	Investment brokerage and trading	Korea	December 31	100	100
BNK Savings Bank Co., Ltd.	Saving bank services	Korea	December 31	100	100
BNK Asset Management Co., Ltd.	Financial advisory and collective investment	Korea	December 31	100	100
BNK Credit Information Co., Ltd.	Credit investigation and collection agency	Korea	December 31	100	100
BNK System Co., Ltd.	System software developing and supply	Korea	December 31	100	100
BNK 'Strong' Short-term Government Bond No. 1 ²	Beneficiary certificate	Korea	December 31	92.04	90.44
BNK REPO PLUS Private Investment Trust No. 1 ²	Beneficiary certificate	Korea	December 31	41.67	-

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Name of subsidiary	Industry	Location	Closing month	Ownership interests (%)	
				2018	2017
BNK KOSDAQ Venture Investment Trust No. 1 ²	Beneficiary certificate	Korea	December 31	36.62	-
Busan Bank:					
Non-restricted money trust account and eight other trust accounts ¹	Trust business	Korea	December 31	-	-
Kyongnam Bank Co., Ltd.:					
Non-restricted money trust account and nine other trust accounts ¹	Trust business	Korea	December 31	-	-
HDC Dual Private Securities Investment Trust 1 ^{st 2}	Beneficiary certificate	Korea	December 31	100	100
HDC Dual Private Securities Investment Trust 3 ^{rd 2}	Beneficiary certificate	Korea	December 31	100	100
BNK Capital Co., Ltd.:					
BNKC (Cambodia) MFI PLC	Specialized credit financial business	Cambodia	December 31	100	100
BNK Capital Myanmar Co., Ltd	Specialized credit financial business	Myanmar	March 31	99.99	99.99
BNK Capital Lao Leasing Co., Ltd	Specialized credit financial business	Laos	December 31	96.71	94.99
MFO BNK Finance Kazakhstan LLP	Specialized credit financial business	Kazakhstan	December 31	100	-
BNK Asset Management Co., Ltd.:					
BNK Brave New KOREA No.1 ²	Beneficiary certificate	Korea	December 31	67.64	-
BNK Global AI Securities Investments Turst H ²	Beneficiary certificate	Korea	December 31	83.81	-

¹ 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.

² 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 expose 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 and for the years ended December 31, 2018 and 2017, is as follows:

(in millions of Korean won)

Name of subsidiary	2018						
	Assets	Liabilities	Equity	Operating income	Operating profit (loss)	Profit (loss) for the year	Total comprehensive income (loss)
Busan Bank Co., Ltd. and its Subsidiaries	₩53,034,643	₩48,195,199	₩ 4,839,444	₩ 2,672,040	₩ 467,774	₩ 346,726	₩ 364,571
Kyongnam Bank Co., Ltd. and its Subsidiaries	37,936,971	34,660,326	3,276,645	1,618,518	230,881	168,976	173,033
BNK Capital Co., Ltd. and its Subsidiaries	5,067,528	4,423,114	644,414	553,583	94,689	71,140	68,678
BNK Securities Co., Ltd.	1,797,779	1,377,240	420,539	149,257	14,534	11,357	10,726
BNK Savings Bank Co., Ltd.	1,016,461	885,027	131,434	57,767	16,693	15,633	15,633
BNK Asset Management Co., Ltd. and its Subsidiaries	72,277	1,850	70,427	8,392	(399)	(424)	(424)
BNK Credit Information Co., Ltd.	10,192	564	9,628	5,340	1,009	776	776
BNK System Co., Ltd.	11,211	2,562	8,649	51,711	1,921	1,540	1,540

(in millions of Korean won)

Name of subsidiary	2017						
	Assets	Liabilities	Equity	Operating income	Operating profit	Profit for the year	Total comprehensive income
Busan Bank Co., Ltd. and its Subsidiaries	₩51,232,105	₩46,777,012	₩ 4,455,093	₩ 2,686,807	₩ 277,948	₩ 203,205	₩ 180,708
Kyongnam Bank Co., Ltd. and its Subsidiaries	36,683,540	33,574,450	3,109,090	1,489,862	288,459	221,542	204,781
BNK Capital Co., Ltd. and its Subsidiaries	4,812,026	4,201,734	610,292	488,024	84,555	62,638	57,964
BNK Securities Co., Ltd.	886,119	675,902	210,217	133,918	3,831	1,899	2,097
BNK Savings Bank Co., Ltd.	849,837	722,821	127,016	51,908	14,766	11,584	11,564
BNK Asset Management Co., Ltd.	41,753	887	40,866	5,565	829	708	713
BNK Credit Information Co., Ltd.	9,420	568	8,852	5,019	1,100	863	863
BNK System Co., Ltd.	9,831	2,721	7,110	57,933	969	768	768

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1.4 Changes in Scope for Consolidation

Subsidiaries newly included in the consolidation for the year ended December 31, 2018:

Subsidiary	Reason
HDC Dual Private Securities Investment Trust 3 rd	Transferred from Hanwha Private Securities Investment Trust 15 th
BNK Brave New KOREA No.1	Participated in BNK Asset Management Co., Ltd.'s investment when setting beneficiary certificate
MFO BNK Finance Kazakhstan LLP	Establishment of BNK Capital Co., Ltd.'s foreign subsidiary in Kazakhstan
BNK Global AI Securities Investments Turst H	Participated in BNK Asset Management Co., Ltd.'s investment when setting beneficiary certificate
BNK REPO PLUS Private Investment Trust No. 1	Participated in Busan Bank Co., Ltd. 's investment when setting beneficiary certificate
BNK KOSDAQ Venture Investment Trust No. 1	Participated in BNK Asset Management Co., Ltd.'s investment when setting beneficiary certificate

Subsidiaries excluded from the consolidation for the year ended December 31, 2018:

Subsidiary	Reason
Hanwha Private Securities Investment Trust 15 th	Transferred to HDC Dual Private Securities Investment Trust 3 rd
Daishin Balance Private Securities Investment Trust 51 st	Liquidation of Kyongnam Bank Co., Ltd.'s beneficiary certificate
Daishin Balance Private Securities Investment Trust 55 th	Liquidation of Kyongnam Bank Co., Ltd.'s beneficiary certificate
BNK Auto First Securitization Specialty Co., Ltd.	Liquidation of BNK Capital Co., Ltd.'s SPC
Consus 6 th LLC	Liquidation of Kyongnam Bank Co., Ltd.'s SPC

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 financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The 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

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

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

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

The preparation of financial statements requires the use of critical accounting estimates. Management also needs to exercise judgement in applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2.2 Changes in Accounting Policies and Disclosures

(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. The adoption of these amendments did not have any material impact on the financial statements.

- Amendment 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 each investment separately at fair value through profit or loss in accordance with Korean IFRS 1109. The amendment does not have a significant impact on the financial statements because the Group is not a venture capital organization.

- Amendment to Korean IFRS 1040 Transfers of Investment Property

The amendment to 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 the list of evidence for a change of use in the standard was re-characterized as a non-exclusive list of example.

- Amendment 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.

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- 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.

- 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 carrying amounts and carrying amounts at the date of initial application are recognized to retained earnings (or other comprehensive income). See Note 49 for further details on the impact of the application of the standard.

- Korean IFRS 1115 *Revenue from Contracts with Customers*

The Group has applied 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 49 for further details on the impact of the application of the standard.

(b) New 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*, Interpretation 2104 *Determining whether an Arrangement contains a Lease*, Interpretation 2015 *Operating Leases-Incentives*, and Interpretation 2027 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The Group will apply the standards for annual periods beginning on or after January 1, 2019.

At inception of a contract, the entity shall assess whether the contract is, or contains, a lease. Also, at the date of initial application, the entity shall assess whether the contract is, or contains, a lease in accordance with the standard. As practical expedient, the entity elected to apply Korean IFRS only to contracts entered into (or changed) on or after the date of initial application.

For a contract that is, or contains, a lease, the entity shall account for each lease component within the contract as a lease separately from non-lease components of the contract. A lessee is

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

The accounting treatment as a lessor did not change significantly from the one under IAS 1017 *Leases*.

① Lessee accounting

Method of Applying Korean IFRS 1116 Leases

A lessee shall apply this standard to its leases either:

- retrospectively to each prior reporting period presented applying Korean IFRS 1008 *Accounting Policies, Changes in Accounting Estimates and Errors* (Full retrospective application); or
- retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

The Group plans to apply Korean IFRS 1116 retrospectively with the cumulative effect of initially applying the standard as at January 1, 2019. The Group will not restate any comparative information. Instead, the cumulative effect of applying the standard will be recognized as an adjustment to the opening balance of retained earnings (or another component of equity, as appropriate) at the date of initial application.

Financial effects of Korean IFRS 1116 Leases

The total minimum lease payment expected to be paid by the Group in relation to operating leases before discounted to their present value is ₩ 49,520 million. When the payment is discounted at incremental borrowing rate of the lessee, the total minimum lease payment amounts to ₩ 44,997 million. For a contract that is, or contains, a lease, the Group plans to apply the practical expedient to account for each lease component and any associated non-lease components as a single lease component.

As a result of the financial effects on the financial statements analyzed, the Group expects the underlying leased asset and a lease liability as at January 1, 2019 to be increased by ₩ 44,991 million and ₩ 44,997 million, respectively. Comparing to 2019, operating lease expenses are expected to be decreased by ₩ 21,894 million while depreciation expenses for the underlying leased assets and interest expenses for the lease liability are expected to be increased by ₩ 21,529 million and ₩ 544 million, respectively. On the other hand, the results of the assessment may change due to additional information that the Group may obtain after the assessment.

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② Lessor Accounting

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

If the Group, as an intermediate lessor, classified the sublease as an operating lease before the date of initial application, the Group shall reclassify the sublease as a finance lease or an operating lease in accordance with Korean IFRS 1116. When the Group determines the sublease as a finance lease, the Group shall account for the lease as a new lease entered on the date of initial application. As at January 1, 2019, the sub-lease contract held by the Group, as an intermediate lessor, is not significant.

- Korean IFRS 1109 *Financial Instruments*

The narrow-scope amendments made to Korean IFRS 1109 *Financial Instruments* enable entities to measure certain prepayable financial assets with negative compensation at amortized cost. When a modification of a financial liability measured at amortized cost that does not result in the derecognition, a modification gain or loss shall be recognized in profit or loss. These amendments will be applied for annual periods beginning on or after January 1, 2019, with early adoption permitted.

- Amendments to Korean IFRS 1019 *Employee Benefits*

The amendments require that an entity shall calculate current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement based on updated actuarial assumptions from the date of the change. The amendments also require that a reduction in a surplus must be recognized in profit or loss even if that surplus was not previously recognized because of the impact of the asset ceiling. The amendments are effective for plan amendments, curtailments and settlements occurring in reporting periods that begin on or after 1 January 2019.

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

The amendments clarify that an entity shall apply Korean IFRS 1109 to financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. These amendments will be applied for annual periods beginning on or after January 1, 2019, with early adoption permitted. In accordance with the transitional provisions in Korean IFRS 1109, the restatement of the comparative information is not required and the cumulative effects of initially applying the amendments retrospectively should be recognized in the beginning balance of retained earnings (or other components of equity, as appropriate) at the date of initial application.

- Enactment to Interpretation of Korean IFRS 2123 *Uncertainty over Income Tax Treatments*

The Interpretation explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment, and includes guidance on how to determine whether each uncertain tax treatment is considered separately or together. It also

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presents examples of circumstances where a judgement or estimate is required to be reassessed. This Interpretation will be applied for annual periods beginning on or after January 1, 2019, and an entity can either restate the comparative financial statements retrospectively or recognize the cumulative effect of initially applying the Interpretation as an adjustment in the beginning balance at the date of initial application.

2.3 Consolidation

The consolidated financial statements incorporate the financial statements of the Parent Company and entities (including structured entities) controlled by the Parent Company (and its subsidiaries). Control is achieved where the Group 1) has the power over the investee; 2) is exposed, or has rights, to variable returns from its involvement with the investee; and 3) has the ability to use its power to affect its returns. The Parent Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Group and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup transactions and related assets and liabilities, income and expenses are eliminated in full on consolidation.

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Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Group.

When the Parent Company loses control of a subsidiary, a gain or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e., reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is recognized as the fair value on initial recognition for subsequent accounting under Korean IFRS 1109 *Financial Instruments* or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

2.4 Business Combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with Korean IFRS 1012 – *Income Taxes* and Korean IFRS 1019 – *Employee Benefits*, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with Korean IFRS 1102 – *Share-Based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with Korean IFRS 1105 – *Non-Current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree and c) the fair value of the acquirer's previously held equity interest in the acquiree (if any), over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the

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acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree and c) the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another Korean IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement-period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement-period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement-period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with Korean IFRS 1109 – *Financial Instruments* or Korean IFRS 1037 – *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

2.5 Investments in Associates and Joint Ventures

Associates are entities over which the Group has significant influence but not control or joint

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control. Investments in associates are accounted for using the equity method of accounting, after initially being recognized at cost. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. If there is an objective evidence of impairment for the investment in the associate, the Group recognizes the difference between the recoverable amount of the associate and its carrying amount as impairment loss

2.6 Goodwill

Goodwill resulting from an acquisition of a business is carried at cost as established at the date of acquisition of the business, less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs) (or groups of CGUs) that is expected to benefit from the synergies of the combination.

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently, when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statements of comprehensive income. An impairment loss recognized for goodwill is not reversed in the subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2.7 Foreign Currencies

The individual financial statements of each entity in the Group are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in currency units (KRW), which is the functional currency of the Parent Company and the presentation currency for the consolidated financial statements.

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

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

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

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

2.8 Cash and due from banks

Cash and due from banks consist of cash on hand, demand deposits and highly liquid investment assets that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

2.9 Financial Assets

(a) Classification

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

- those to be measured at fair value through profit or loss
- those to be measured at fair value through other comprehensive income, and
- those to be measured at amortized cost.

The classification depends on the Group'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 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.

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(b) Measurement

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

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

A. 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:** 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 (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:** 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.

B. 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, which held for long-term investment or strategic purpose, 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. Dividend income from such investments continue to be recognized in profit or loss when the right to receive payments is established.

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Changes in the fair value of financial assets at fair value through profit or loss are recognized in profit or loss in the statement of profit or loss as applicable. Impairment loss (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.

For debt securities at fair value through other comprehensive income and financial assets measured at amortized costs, expected credit losses are measured at estimation of probability weighted present value calculated as the difference between its cash flows which are contractually expected to receive during over the life of financial instruments and actually expected to receive discounted at the original effective interest rate.

Lifetime expected losses will be recognized on assets for which there is a significant increase in credit risk after initial recognition. The Group recognizes 12-month expected credit losses in profit or loss where credit risk did not increase significantly.

(d) Recognition and Derecognition

Regular way purchases and sales of financial assets are recognized or derecognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. If a transfer does not result in derecognition because the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received.

2.10 Financial Liabilities and Equity Instruments

(a) Classification as debt or equity

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of financial liability and an equity instrument.

(b) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

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Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

(c) Hybrid Capital Instruments

The Group classifies issued capital instrument, or its component parts, on initial recognition as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument. Hybrid capital instruments which the Bank has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation are classified as equity instruments and presented in equity.

(d) Financial liabilities

The Group's financial liabilities at fair value through profit or loss are financial instruments held for trading. A financial liability is held for trading if it is incurred principally for the purpose of repurchasing in the near term. A derivative that is not a designated as hedging instruments and an embedded derivative that is separated are also classified as held for trading.

The Group classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and present as 'deposit liabilities', 'borrowings', and 'other financial liabilities' in the statement of financial position.

(e) Financial guarantee contracts

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value, subsequently at the higher of following:

- the amount determined in accordance with the expected credit loss model under Korean IFRS 1109 *Financial Instruments* and
- the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with Korean IFRS 1115 *Revenue from Contracts with Customers*

(f) Derecognition of financial liabilities

Financial liabilities are removed from the statement of financial position when it is extinguished; for example, when the obligation specified in the contract is discharged or cancelled or expired or when the terms of an existing financial liability are substantially modified. The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

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(g) Offsetting of financial instruments

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

2.11 Derivative Instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross-currency swaps.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately, unless the derivative is designated and effective as a hedging instrument; in such case, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives either as hedges of recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges) or hedges of net investments in foreign operations (net investment hedges).

A derivative with a positive fair value is recognized as a financial asset; a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

(a) Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and it is not expected to be realized or settled within 12 months. Other embedded derivatives are presented as current assets or current liabilities.

(b) Hedge accounting

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

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At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions.

Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

(c) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line item of the consolidated statements of comprehensive income relating to the hedged item.

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.

(d) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss related to the ineffective portion is recognized immediately in profit or loss, and is included in the 'other non-operating income and expenses' line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the consolidated statements of comprehensive income as the recognized hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship; when the hedging instrument expires or is sold, terminated or exercised; or it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

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2.12 Property and Equipment

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

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

The Group does not depreciate land. Depreciation expense is computed using the straight-line method based on the estimated useful lives of the assets as follows:

	Useful life (Years)	Depreciation method
Construction	50	Straight line
Leasehold improvements	5	Straight line
Equipment	5	Straight line
Fixtures	5	Straight line
Vehicles	5	Straight line

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

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

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

2.13 Investment Property

Investment property is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

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

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period in which the property is derecognized.

While land is not depreciated, all other investment property is depreciated based on the respective assets' estimated useful lives ranging from 50 years using the straight-line method.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An investment property is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of investment property, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income in the period in which the asset is derecognized.

2.14 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(a) The Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

(b) The Group as lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which

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economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.15 Intangible Assets

(a) Intangible assets acquired separately

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

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

Expenditure on research activities is recognized as an expense in the period in which it is incurred. Expenditure arising from development (or from the development phase of an internal project) is recognized as an intangible asset if, only if, the development project is designed to produce new or substantially improved products, and the Group can demonstrate the technical and economical feasibility and measure reliably the resources attributable to the intangible asset during its development. The amount initially recognized for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

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

(c) Intangible assets acquired in a business combination

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

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The Group amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

	Useful life (Years)
Development costs	3~5
Software	3~5
Industrial property rights	5
Others	3~10

(d) Derecognition of intangible assets

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

2.16 Impairment of Property and Equipment and Intangible Assets Other Than Goodwill

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

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

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

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

2.17 Non-current Assets Held for Sale

Non-current assets (or disposal group) are classified as held for sale when their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a

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sale is considered highly probable. The assets are measured at the lower amount between their carrying amount and the fair value less costs to sell.

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

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

After the disposal takes place, the Group accounts for any retained interest in the associate or joint venture in accordance with Korean IFRS 1109 *Financial Instruments*, unless the retained interest continues to be an associate or a joint venture, in which case the Group uses the equity method.

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

2.18 Provisions

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

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

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

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

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(a) Onerous contracts

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

(b) Restructurings

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

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower one between the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it.

(c) Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of the subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognized in accordance with Korean IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*, and the amount initially recognized less, where applicable, the cumulative amount of income recognized in accordance with Korean IFRS 1115 *Revenue from Contracts with Customers*.

2.19 Post-employment Benefit Costs and Termination Benefits

Contributions to defined contribution plans are recognized as an expense when employees have rendered service entitling them to the contributions.

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

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current service cost, past service cost, as well as gains and losses on curtailments and settlements), net interest expense (income) and remeasurement.

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

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

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

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

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

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

2.20 Revenue and Expense Recognition

(a) Interest income and expense

Using the effective interest rate method, the Group recognizes interest income and expense on financial instruments at amortized cost and at fair value through other comprehensive income in the consolidated statements of comprehensive income. The amortized cost of financial assets or liabilities is calculated based on the effective interest rate method and the interest income and expenses are allocated over the relevant period.

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

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

In addition, interest income arising from debt instruments at fair value through profit or loss is classified as interest income in the consolidated statements of comprehensive income.

(b) Commission income

Financial service fees are recognized in accordance with the accounting standard of the financial instrument related to the fees earned, as followings:

① Fees that are a part of the financial instruments' effective yield

Fees that are a part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate. Such fees include compensation for activities, such as evaluating the borrower's financial condition; evaluating and recording guarantees, collateral and other security arrangements; negotiating the terms of the instrument; preparing and processing documents; and closing the transaction, as well as origination fees received on issuing financial liabilities measured at amortized cost. These fees are deferred and recognized as an adjustment to the effective interest rate. However, in case the financial instrument is classified as a financial asset at FVTPL, the relevant fee is recognized as revenue when the instrument is initially recognized.

② Commission from rendering services

Commission income from rendering services, such as asset management, trustee business and financial guarantee, is recognized as the services are provided. When it is not probable that specific loan agreement is contracted and agreed commission is not applied to Korean IFRS 1109, those services will be recognized on a straight-line basis as the work is performed.

③ Commission from significant act performed

The recognition of revenue is postponed until the significant act is executed. On performing significant transactions, the earned commissions are recognized as gains and losses at the time the transactions are completed.

The commissions and sales commissions that are paid for the participation in negotiations for the third party are recognized as gains and losses at the time the transactions of the third party are completed.

The Group arranges a syndicated loan, but does not participate in the syndicate or has the same effective gains and losses with other participants; fees on syndicated loan are recognized as gains and losses when the transactions of syndicated loan are completed.

④ Unearned revenue from point programs (customer loyalty program)

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The Group operates customer loyalty program to provide customers with incentives to buy their goods or services. If a customer buys goods or services, the entity grants the customer award credits (often described as 'points'). The customer can redeem the award credits for awards, such as free or discounted goods or services. The award credits are accounted separately as identifiable component of the sales transaction(s) in which they are granted (the 'initial sales'). The fair value of the consideration received or receivable with respect to the initial sale shall be allocated between the award credits and the other components of the sale. If the Group supplies the awards itself, it shall recognize the consideration allocated to award credits as revenue when award credits are redeemed and it fulfills its obligation to supply awards. The amount of revenue recognized shall be based on the number of award credits that have been redeemed in exchange for awards, related to the total number expected to be redeemed.

If the third party supplies the awards, the Group shall assess whether it is collecting the consideration allocated to the award credits on its own account (as the principal in the transaction) or on behalf of the third party (as agent for the third party). The amount of revenue recognized shall be net amount retained on its own account.

(c) Dividend income

Dividend income is recognized when the shareholders are entitled to receive dividends. According to the classification of equity securities, dividend income is indicated in the consolidated statements of comprehensive income.

2.21 Income Tax Expense

Income tax expense consists of current and deferred taxes.

In accordance with the Korean Corporate Tax Act, the Group and its 100%-owned domestic subsidiaries have filed a consolidated tax return. Accordingly, the Group recognizes total corporate income tax due as a current tax liability and the amounts due from subsidiaries as loans and receivables. The Group applies the consolidated taxation system, the way that the Group reports and pays income tax based on the total amount of income regarding the Group and all domestic subsidiaries on which the Group completely controls over as a single taxation unit. Deferred taxes are measured based on the future tax benefits expected to be realized in consideration of the expected combined profits or losses of eligible companies in accordance with the consolidated corporate tax system. The Group recognizes total amount of tax payables in accordance with the consolidated corporate tax system as a parent Group and recognizes receivables, which will be received from subsidiaries.

(a) Current tax

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

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(b) Deferred tax

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

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

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

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

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

If a deferred tax liability or asset arises from investment property that is measured using the fair value model in Korean IFRS 1040, *Investment Property*, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale. Accordingly, unless the presumption is rebutted, the measurement of the deferred tax liability or deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale. This presumption is rebutted if the investment property is depreciable and is held

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within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

(c) Current and deferred taxes for the year

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

2.22 Accounting for Trust Accounts

In accordance with the Financial Investment Services and Capital Market Act, the Group establishes savings accounts under trust agreements ("trust account") separately from its bank accounts and administers the funds for the benefit of one or more beneficiaries. Funds transferred between a bank account and trust account are recognized as due to/from trust accounts. The fees and commissions received from trust accounts are recognized when the Group provides services to the trust accounts.

With respect to certain trust account products, the Group guarantees the repayment of the principal of the trust accounts and, in certain cases, a fixed rate of return. If income from such trust accounts is insufficient to pay the guaranteed amount, such deficiency is satisfied by using special reserves maintained in the trust accounts, offsetting trust fee payable to the Group accounts and receiving compensating contributions from the Group accounts of the Group. If the Group pays compensating contributions to the trusts with the guaranteed return to cover such deficiencies, these contributions are reflected as operating expense of the Group accounts and as other income of the trust accounts.

2.23 Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of Korean IFRS 1102, *Share-Based Payment*, leasing transactions that are within the scope of Korean IFRS 1017, *Leases*, and measurements that have some similarities to fair value, but are not fair value, such as net realizable value in Korean IFRS 1002, *Inventories*, or value in use in Korean IFRS 1036, *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorized into Levels 1, 2 and 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

2.24 Operating Segments

The Group makes a decision about resources to be allocated within segments and divides segments based on internal reports for management to evaluate performances regularly. Each segment consists of the Group's own strategic business units. The segments provide their products and services and they are separately operated by their business units due to the difference between technical and marketing strategies.

2.25 Approval of Issuance of the Financial Statements

The consolidated financial statements 2018 were approved for issue by the Board of Directors on February 12, 2019 and are subject to change with the approval of shareholders at their Annual General Meeting on March 28, 2019.

3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Group to make estimates and assumptions concerning the future. Management also needs to exercise judgement in applying the Group's accounting policies. Estimates and assumptions 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. As the resulting accounting estimates will, by definition, seldom equal the related actual results, it can contain a significant risk of causing a material adjustment.

Significant accounting estimates and assumptions applied in the preparation of these consolidated 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 from adoption of Korean IFRS 1109 as discussed below.

(a) Estimated goodwill impairment

The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations

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(b) Income taxes

The Group's taxable income generated from these operations are subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain.

If certain portion of the taxable income is not used for investments or increase in wages or dividends in accordance with the *Tax System For Recirculation of Corporate Income*, the Group is liable to pay additional income tax calculated based on the tax laws. The new tax system is effective for three years from 2015. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new tax system. As the Group's income tax is dependent on the investments, increase in wages and dividends, there is an uncertainty measuring the final tax effects.

(c) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

(d) Impairment of financial assets

The provision for impairment for financial assets 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.

(e) Net defined benefit liability

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate.

4. Financial Risk Management

4.1 General

(a) General risk management policy

The Group is exposed to various financial risks, such as credit risk, liquidity risk, market risk and operational risk, associated with financial instruments. These risks are recognized, measured and reported in accordance with risk management guidelines established at the Parent Company level and implemented at the subsidiary level.

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

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The Group's risk management system has focused on increasing the transparency of risk and supporting the long-term strategy and management decision making to deal with rapid changes in the financial environment. The Group realizes the important risks, such as credit risk, market risk, operational risk, credit concentration risk, interest rate risk, liquidity risk, strategy risk and reputation risk. It measures and manages the quantitative economic capital or value at risk ("VaR") by using the statistical method.

(b) Organization of risk management

i) Risk management committee

The risk management committee establishes a risk management strategy in accordance with the strategic direction chosen by the Board of Directors, determines the possible level of risk and manages the level of risk that the Group faced and the condition of risk management activities as a top decision-making organization.

ii) Risk management council

Risk management council is responsible for coordinating with the risk management units of subsidiaries to ensure that they implement the policies, guidelines and limits established by the risk management committee. The Group's risk management council is composed of the Group's chief risk management officer and the chief risk management officers of subsidiaries.

iii) Risk management division

The Group's risk management division performs detailed risk policies, procedures and business processes of risk management, and is responsible for managing and monitoring the limit of the Group's economic capital.

4.2 Credit Risk

(a) General

The credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Group's loan, card assets and securities. The Group considers all the elements of individual borrower's credit risk exposure, including default and breach.

(b) Risk management framework

The Group assesses its required expected loss and economic capital by managing all credit exposures on or off balance sheet.

The Group establishes and manages total exposure limits for borrowers and industries in order to optimize the use of credit availability and avoid excessive risk concentration.

The credit management division and management planning division manage the credit risk by integrating and establishing credit policy, monitoring loan portfolios and restructuring the loans

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independently from the marketing division. The risk management division conducts the measurement of the economic capital, total exposure management, credit evaluation and approval and reviews the credit evaluation model.

(c) Maximum exposure to credit risk

The Group's maximum exposure of financial instruments except for equity securities to credit risk that does not consider value of collateral as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	2017
On balance		
Cash and due from banks	₩ 2,067,219	₩ 2,127,570
Financial assets at fair value through profit or loss	3,448,382	1,327,345
Financial assets at fair value through other comprehensive income	4,855,353	-
AFS financial assets	-	4,734,875
Financial assets at amortized cost	6,798,768	-
HTM financial assets	-	6,671,317
Loans	76,088,389	73,272,572
Receivables	1,541,418	2,019,310
Derivative assets	30,362	79,605
	<u>94,829,891</u>	<u>90,232,594</u>
Off balance		
Guarantees and acceptances	1,164,061	1,229,169
Loan commitments	17,667,195	11,148,925
	<u>18,831,256</u>	<u>12,378,094</u>
	<u>₩ 113,661,147</u>	<u>₩ 102,610,688</u>

(d) Analysis of credit quality of financial assets

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

	Household	Corporates, public sector and other
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, C-, D

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The gross carrying amount of loans, receivables and debt securities by credit risk grade as at December 31, 2018, is as follows:

(in millions of
Korean won)

2018													
Loans and receivables										Debt securities			
Loans					Receivables					Fair value through other comprehensive income		Amortized cost	
Expected lifetime credit losses					Expected lifetime credit losses								
12 months expected credit losses	Unrecognized impairment	Recognized impairment			12 months expected credit losses	Unrecognized impairment	Recognized impairment			12 months expected credit losses	12 months expected credit losses		
													Subtotal
Grade 1	₩ 2,985,286	₩ 2,961	₩ -	₩ 60,419	₩ 1,087	₩ -	₩ 3,049,753	₩ 3,760,400	₩ 5,567,484	₩ 9,327,884			
Grade 2	4,911,283	4,395	-	120,373	7	-	5,036,058	1,064,316	1,188,962	2,253,278			
Grade 3	7,136,450	44,078	-	9,993	54	-	7,190,575	10,024	-	10,024			
Grade 4	11,624,096	146,751	-	17,087	308	-	11,788,242	20,012	40,559	60,571			
Grade 5	21,783,671	1,698,619	-	38,554	2,745	-	23,523,589	-	-	-			
Grade 6	14,184,180	6,302,786	-	27,614	12,172	-	20,526,752	-	-	-			
Grade 7	1,507,658	2,290,827	934,393	1,745	5,399	2,217	4,742,239	-	-	-			
Non-graded	1,458,555	49,134	-	1,241,133	6,399	-	2,755,221	601	2,567	3,168			
	₩ 65,591,179	₩ 10,539,551	₩ 934,393	₩ 1,516,918	₩ 28,171	₩ 2,217	₩ 78,612,429	₩ 4,855,353	₩ 6,799,572	₩ 11,654,925			

Exposure to credit risk for loan commitments and guarantees and acceptances by credit risk grade as at December 31, 2018, is as follows:

(in millions of
Korean won)

2018									
Loan commitments					Guarantees and acceptances				
12 months expected credit losses	Expected lifetime credit losses				12 months expected credit losses	Expected lifetime credit losses			
	Unrecognized impairment	Recognized impairment	Subtotal		Unrecognized impairment	Recognized impairment	Subtotal		
Grade 1	₩ 1,279,390	₩ 1,796	₩ 1,281,186	₩ 1,313	₩ -	₩ -	₩ 1,313		
Grade 2	2,001,696	673	2,002,369	38,424	-	-	38,424		
Grade 3	2,195,596	10,065	2,205,661	34,796	508	-	35,304		
Grade 4	4,046,982	13,616	4,060,598	265,237	393	-	265,630		
Grade 5	4,249,613	183,110	4,432,723	468,145	41,586	-	509,731		
Grade 6	2,124,598	527,596	2,652,194	169,536	124,774	-	294,310		
Grade 7	229,059	236,388	4,080	469,527	130	9,225	19,349		
Non-graded	207,916	721	208,637	-	-	-	-		
	₩ 16,334,850	₩ 973,965	₩ 17,312,895	₩ 977,581	₩ 177,255	₩ 9,225	₩ 1,164,061		

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

(in millions of Korean won)	2017						
	Loans in Korean won				Other loans	Receivables	Total
	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 costs and fees	73,116	52,733	667	126,516	8,807	-	135,323
Provisions for impairment	(70,182)	(648,679)	(8,233)	(727,094)	(87,368)	(5,314)	(819,776)
Present value discount (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>

(e) Concentration analysis of credit risk

Details of loans and debt securities by borrower's country and industry as at December 31, 2018, are as follows:

(in millions of Korean won)	2018			
	Loans	Debt securities		
		FVTOCI	Amortized cost	Subtotal
Country:				
The Republic of Korea	₩ 76,435,438	₩ 4,760,435	₩ 6,730,073	₩ 11,490,508
China	93,630	-	-	-
Others	536,055	94,918	69,499	164,417
	<u>₩ 77,065,123</u>	<u>₩ 4,855,353</u>	<u>₩ 6,799,572</u>	<u>₩ 11,654,925</u>
Industry:				
Mining	₩ 40,755	₩ 49,541	₩ 30,070	₩ 79,611
Manufacturing	18,886,067	-	-	-
Electricity, gas, steam and water service	432,607	262,288	426,292	688,580
Construction	2,371,994	55,803	206,527	262,330
Wholesale and retail	6,042,551	-	-	-
Transportation	2,189,097	229,184	211,991	441,175
Lodging and restaurant business	2,206,995	-	-	-
Publishing, visual	279,099	-	-	-

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entertainment, broadcasting and information				
Financial and insurance business	1,267,154	1,647,212	1,883,869	3,531,081
Real estates and lease business	11,632,234	320,296	190,027	510,323
Business facility management and business support services	393,339	29,911	90,182	120,093
Public, national defense and social security system	1,478,922	2,201,221	3,638,006	5,839,227
Associations, organizations and household	995,139	59,897	120,042	179,939
Others	28,849,170	-	2,566	2,566
	<u>₩ 77,065,123</u>	<u>₩ 4,855,353</u>	<u>₩ 6,799,572</u>	<u>₩ 11,654,925</u>

4.3 Liquidity Risk

(a) General

Liquidity risk is the risk that the Group is unable to meet its payment obligations arising from financial liabilities as they fall due. The Group classifies and discloses contractual maturity of all financial liabilities into six categories in relation to liquidity risk, such as immediately payable, less than one month, one month to three months, three months to one year, less than one year, one year to five years and more than five years. Although off-balance-sheet items, such as loan commitment and financial guarantees, have contractual maturities, they are separately disclosed as the Group will pay them immediately upon counterparty's request for payment.

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

(b) Liquidity risk management

General principles and the overall framework for managing liquidity risk across the Group are defined in the liquidity risk policy by risk management regulation, risk management instruction and liquidity risk manual.

All transactions that affect inflows and outflows of Korean/foreign currency funds across the Group are subject to the liquidity risk management. Liquidity risk is centrally managed and controlled by the Financial Planning Department, which reports its analysis and statics of the liquidity, including liquidity gap, liquidity ratio, maturity mismatch ratio and liquidity risk situation, to the asset-liability management committee ("ALCO"). The financial strategies that are required to achieve the Group's risk management goal, including liquidity risk management, are set out and overseen by the ALCO.

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(c) Remaining contractual maturity analysis of non-derivative and derivative financial liabilities

The Group's non-derivative financial liabilities as at December 31, 2018, are summarized by remaining contractual maturity as follows:

(in millions of Korean won)

	2018					
	Less than one month	1-3 months	3-12 months	1-5 years	More than five years	Total
Financial liabilities ¹:						
Deposits	₩31,468,479	₩ 8,864,229	₩30,785,336	₩ 2,184,081	₩ 663,305	₩73,965,430
Borrowings	2,031,716	614,442	1,259,931	1,478,899	360,878	5,745,866
Debentures	172,481	576,460	1,404,482	5,507,828	1,567,668	9,228,919
Other financial liabilities ²	1,779,861	18,255	61,059	171,473	386,177	2,416,825
	<u>₩35,452,537</u>	<u>₩10,073,386</u>	<u>₩33,510,808</u>	<u>₩ 9,342,281</u>	<u>₩ 2,978,028</u>	<u>₩91,357,040</u>
Derivative liabilities:						
Derivatives for hedging	₩ -	₩ -	₩ -	₩ -	₩ 30,695	₩ 30,695
Derivatives for trading	8,513	4,644	8,613	4,810	-	26,580
	<u>₩ 8,513</u>	<u>₩ 4,644</u>	<u>₩ 8,613</u>	<u>₩ 4,810</u>	<u>₩ 30,695</u>	<u>₩ 57,275</u>

¹ Principal and interest are included in financial liabilities.

² Consist of other payables, accrued expenses and leasehold deposits received and others.

(d) Marginal residual maturity (payment guarantee, commitments and others)

Guarantees, loan commitments and other credit facilities provided by the Group have maturities. However, if the counterparty requests the payment immediately, the payment must be fulfilled. The off balance sheet items as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Guarantees	₩ 1,164,061	₩ 1,229,169
Loan commitments	17,667,195	11,148,925
	<u>₩ 18,831,256</u>	<u>₩ 12,378,094</u>

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4.4 Market Risk

(a) General

Market risk is the risk to the Group's earnings arising from changes in interest rates, stock price, currency exchange rates and commodity prices. It is derived from loans, deposits, securities and derivatives and generated through both trading and non-trading positions. The trading market risk that the Group is mainly exposed to is the interest rate risk arising from the change in the value of debt instruments and interest rate-embedded securities due to changes in market interest rate. The Group is additionally exposed to stock price and foreign exchange rate fluctuation risk arising from loans, receivables, deposits, securities and financial derivatives.

(b) Market risk management

The Group monitors and sets up the economic capital limit of market risk and interest rate risk to manage trading and non-trading positions. To manage market risk effectively, trading position enforces trading policy regulation and market risk manual, while non-trading position enforces interest rate risk manual, risk management system and procedure. All such processes are approved by the Group's ALCO and risk management council.

The Group's risk management council establishes overall market risk management principles. It has delegated the responsibility of the market risk management for trading activities to the Market Risk Management Subcommittee of the Group. Based on the policies approved by the Group's risk management council, the Market Risk Management Subcommittee reviews and approves reports as required that include trading profits and losses, position reports, limit utilization, sensitivity analysis and VaR results from the trading activities.

Determination of interest rate and commission rate, enactment and amendment of asset-liability management ("ALM") risk management policy and interest rate and commission rate guidelines and analysis of monthly ALM risks are the responsibilities of the ALCO. Interest rate risk limits are determined based on asset-liability position and expected interest rate volatility considering annual operational planning, and are centrally measured and monitored by the financial planning team. Responsibility for management of interest rate risks, such as interest rate gap, duration gap, sensitivity and compliance, with interest rate risk limits policy resides with the Risk Management department, which reports the results to the ALCO on a monthly basis.

(c) Market risk management for trading activities

a. Definition of trading position

The trading position in accordance with 'Regulation of Trading Policy' is subject to the trading market management. The basic requirements of the trading position are as follows:

- The target position is not restricted to the sale. It is daily evaluated at fair value and should be a hedge against important risks in the market.
- The trading position should be controlled by the instruction of the trading policy and

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managed by a separate trading department.

- The target position is operated in accordance with a documented trading strategy and the limit of trading should be controlled.
- Without the prior approval, a professional dealer or an operation division for the target position should be authorized to handle transactions within the predetermined limit.
- The target position to control risk should be periodically reported to management.

b. Measurement of market risk occurring at trading position

The Group measures market risk as VaR that is calculated by market risk management system. It generally manages market risk arising from the trading position at the level of the portfolio.

To manage the market risk, the Group monitors and sets up the economic capital limit based on VaR. It sets up and monitors the economic capital limit, position limit and loss cut within the economic capital limit. According to the regulations and rules of the Financial Supervisory Service, the Group controls and manages risks of derivative transactions.

c. VaR

① VaR measurement

The Group uses daily VaR to measure market risk. Daily VaR is a statistically estimated maximum amount of loss that could occur in one day under normal distribution of financial variables. The Group uses a 99% single-tail confidence level, based on past 250 business days, to measure daily VaR, which means the actual amount of loss may exceed the VaR, on average, once out of 100 business days. VaR is a commonly used market risk management technique; however, this approach does have some shortcomings.

The VaR measures the potential loss in value of a risky asset or portfolio based on historical market movements over a defined period for a given confidence interval. However, it is not always possible in practice that the historical market movements reflect all future conditions and circumstances, which results in variance in actual loss timing and size due to the changes in assumptions used in the calculation. In addition, the time periods used for the model, generally one day or 10 days, are assumed to be sufficient holding periods before liquidating the relevant underlying positions. If these holding periods are not sufficient, or too long, the VaR results may understate or overstate the potential loss.

② Back testing

The Group conducts back testing on a daily basis to validate the adequacy of market risk. In back testing, the Group compares both the actual and hypothetical profit and loss with the VaR calculations, and analyzes any results that fall outside its predetermined confidence interval of 99%.

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③ Stress testing

The Group uses stress testing to assess market risk exposure to abnormal market fluctuations, such as interest rate, equity price, exchange rate and implied volatility of derivatives. The Group uses not only historical scenarios as a main scenario, but also hypothetical scenarios as a supplementary analysis. Stress testing projects the anticipated change in value of holding positions under certain scenarios assuming that no action is taken during a stress event to change the risk profile of a portfolio. Stress testing is conducted at least more than once within a quarter.

i) Busan Bank

The following table shows VaR as at December 31, 2018 and 2017, at 99% confidence level for a one-day holding period, for interest rate risk, equity price risk and foreign exchange rate risk related to trading activities.

(in millions of Korean won)	2018			
	Maximum	Minimum	Average	Ending
Interest rate risk	₩ 381	₩ 41	₩ 220	₩ 185
Equity price risk	173	-	-	-
Foreign exchange rate risk	884	25	174	61
Diversification	(629)	45	(95)	(35)
Total VaR	₩ 809	₩ 111	₩ 320	₩ 211

(in millions of Korean won)	2017			
	Maximum	Minimum	Average	Ending
Interest rate risk	₩ 191	₩ 55	₩ 96	₩ 98
Equity price risk	120	-	17	1
Foreign exchange rate risk	716	173	226	182
Diversification	(318)	(36)	(72)	(66)
Total VaR	₩ 709	₩ 192	₩ 267	₩ 215

ii) Kyongnam Bank

The following table shows VaR as at December 31, 2018 and 2017, at 99% confidence level for a one-day holding period, for interest rate risk, equity price risk and foreign exchange rate risk related to trading activities.

(in millions of Korean won)	2018			
	Maximum	Minimum	Average	Ending
Interest rate risk	₩ 1,307	₩ 4	₩ 102	₩ 64
Equity price risk	424	-	207	46
Foreign exchange rate risk	10	7	10	4
Diversification	(184)	(4)	(58)	(7)
Total VaR	₩ 1,588	₩ 7	₩ 260	₩ 107

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(in millions of Korean won)	2017			
	Maximum	Minimum	Average	Ending
Interest rate risk	₩ 107	₩ 55	₩ 64	₩ 31
Equity price risk	228	46	192	267
Foreign exchange rate risk	36	20	20	6
Diversification	(53)	(35)	(38)	(23)
Total VaR	₩ 318	₩ 86	₩ 238	₩ 281

The total VaR becomes smaller than the total of interest rate risk, equity price risk and foreign exchange rate risk due to diversification effect.

d. Details by risk factors

① Interest rate risk

Interest rate risk from trading activities arises mainly from the Group's trading of Korean won denominated debt securities. The Group's trading strategy is to benefit from short-term movements in the prices of debt securities arising from changes in interest rates. As the Group's trading accounts are marked to market daily, it manages the interest risk related to its trading accounts using market value-based tools, such as VaR and sensitivity analysis.

② Equity price risk

Equity price risk results from the Group's equity trading portfolio in Korean won since it does not have any trading exposure to shares denominated in foreign currencies. The equity trading portfolio in Korean won consists of exchange-traded stocks and nearest-month or second-nearest-month futures contracts under the strict diversified investment limits. The Group's risk management council sets annual and monthly stop-loss limits, position limits and sensitivity limits that are daily monitored by its Risk Management department.

③ Foreign exchange rate risk

Foreign exchange rate risk arises because the Group has assets and liabilities that are denominated in currencies other than Korean won, as well as off-balance-sheet items, such as foreign exchange forwards and currency swaps. Assets and liabilities denominated in U.S. dollars, Japanese yen and Euro are typically accounted for the majority of the Group's foreign currency assets and liabilities. The Group oversees its foreign exchange rate exposure for both trading and non-trading purposes by establishing a limit for net foreign currency open position, together with stop-loss limits.

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		2018									
		USD		JPY		EUR		CNY		Others	
(in millions of USD, JPY, EUR, CNY and in millions of Korean won)		Foreign currency	Korean won equivalent	Foreign currency	Korean won equivalent	Foreign currency	Korean won equivalent	Foreign currency	Korean won equivalent	Korean won equivalent	
Assets	Cash and due from banks	271	₩ 302,259	13,310	₩ 134,855	29	₩ 38,099	162	₩ 26,399	₩ 36,091	
	Financial assets at fair value through profit or loss	21	23,243	2	3	4	5	6	7	8	
	Financial assets at fair value through other comprehensive income	97	108,609	-	-	-	-	-	-	-	
	Financial assets at amortized cost	65	72,557	-	-	-	-	-	-	-	
	Loans and receivables	1,401	1,566,664	21,538	218,212	57	71,849	318	51,619	19,962	
		1,855	₩ 2,073,332	34,850	₩ 353,070	90	₩ 109,953	486	₩ 78,025	₩ 56,061	
Liabilities	Deposit liabilities	782	₩ 874,476	9,569	₩ 96,942	42	₩ 53,589	96	₩ 15,629	₩ 20,722	
	Borrowings	591	661,526	15,727	159,342	14	18,899	190	30,847	20,312	
	Other liabilities	494	552,813	1,487	15,058	6	6,991	511	83,048	213,049	
		1,867	₩ 2,088,815	26,783	₩ 271,342	62	₩ 79,479	797	₩ 129,524	₩ 254,083	
		2017									
		USD		JPY		EUR		CNY		Others	
(in millions of USD, JPY, EUR, CNY and in millions of Korean won)		Foreign currency	Korean won equivalent	Foreign currency	Korean won equivalent	Foreign currency	Korean won equivalent	Foreign currency	Korean won equivalent	Korean won equivalent	
Assets	Cash and due from banks	157	₩ 169,086	10,095	₩ 95,815	20	₩ 25,890	132	₩ 21,655	₩ 31,669	
	Available-for-sale ("AFS") financial assets	74	78,830	-	-	-	-	-	-	4	
	Held-to-maturity ("HTM") financial assets	12	12,971	2	3	4	5	6	7	8	
	Loans and receivables	1,595	1,708,925	35,143	333,549	55	69,966	274	44,773	21,236	
		1,838	₩ 1,969,812	45,240	₩ 429,367	79	₩ 95,861	412	₩ 66,435	₩ 52,917	
Liabilities	Deposit liabilities	935	₩ 1,001,643	15,873	₩ 150,645	27	₩ 34,146	64	₩ 10,561	₩ 30,200	
	Borrowings	475	508,233	10,631	100,903	16	21,726	129	21,125	17,386	
	Other liabilities	741	793,904	21,986	208,665	11	14,909	28	4,632	1,240	
		2,151	₩ 2,303,780	48,940	₩ 460,213	54	₩ 70,781	221	₩ 36,318	₩ 48,826	

(d) Market risk management for non-trading activities

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a. Definition of non-trading position

The Group's principal market risk from non-trading activities is interest rate risk. Interest rate risk arises due to mismatches in the maturities or repricing periods of the rate-sensitive assets and liabilities. The Group measures interest rate risk for Korean won and foreign currency assets and liabilities in its bank accounts (including derivatives) and its principal-guaranteed trust accounts. Most of its interest-earning assets and interest-bearing liabilities are denominated in Korean won, and its foreign currency-denominated assets and liabilities are mostly denominated in U.S. dollars.

b. Measurement of market risk occurring at non-trading position

The Group's principal interest rate risk management objectives are to generate stable net interest income and to protect its asset value against interest rate fluctuations. The Group principally manages this risk for its non-trading activities by analyzing and managing maturity and duration gaps between its interest-earning assets and interest-bearing liabilities.

4.5 Operational Risk

(a) General

The Group defines operational risk broadly to include all financial and non-financial risks that may arise from its operations that could negatively affect its capital.

(b) Operational risk management

The Group's operational risk management objectives include not only satisfying regulatory requirements, but also providing internal support through the encouragement of a strong risk management culture, reinforcement of internal controls, improvement of work processes and provision of timely feedback to management members and staff throughout the Group.

4.6 Capital Management

In accordance with financial holding Group regulations, the Group is required to maintain a minimum 8% of the capital adequacy ratio. The capital adequacy ratio must correspond to the standard of capital regulation of the Bank for International Settlements (BIS), and is calculated by dividing own capital by asset (weighted with a risk premium – risk-weighted assets) based on the consolidated financial statements of a holding group. The Group calculates its capital adequacy ratio under Basel I, according to the Regulation on the Supervision of Financial Holding Companies.

In accordance with financial holding Group regulations, the Group must maintain the share capital-common ratio of 6.375%, Tier 1 capital ratio of 7.875% and total capital ratio of 9.875% as at December 31, 2018.

The risk-weighted asset includes intrinsic risks in total assets, errors of internal operation processes and loss risk from external events. It indicates a size of assets reflecting the level of risks that the Group bears. The Group computes the risk-weighted asset by risk (credit risk, market

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risk and operational risk) and uses it for calculation of BIS capital ratio.

The Group's BIS capital ratios as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Share capital - common (A)	₩	6,749,028	₩	6,408,895
Other basic capital (B)		1,016,115		674,003
Tier 2 capital (C)		1,530,316		1,639,930
Total capital (D)	₩	9,295,459	₩	8,722,828
Credit risk-weighted assets	₩	65,540,331	₩	61,892,421
Market risk-weighted assets		459,250		401,182
Operational risk-weighted assets		4,694,986		4,430,299
Total risk-weighted assets (E)	₩	70,694,567	₩	66,723,902
Share capital - common ratio (A/E) (%)		9.55		9.61
Tier 1 capital ratio ((A+B)/E) (%)		10.98		10.62
Total capital ratio (D/E) (%)		13.15		13.07

5. Operating Segment Information

(a) Segment report and division information

Segment information indicates details of the Group's divisions. Main divisions of business are based on the Group's internal report. The Group consists of six business divisions: two divisions of bank, securities, capital, savings bank and other. Such business divisions are divided by products, characteristics of services, customers and organization of the Group. Based on these categories, the main information by divisions is disclosed as follows:

Operations by divisions for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018								Consolidated financial statements
	Busan Bank	Kyongnam Bank	BNK Capital Co., Ltd.	BNK Securities Co., Ltd.	BNK Savings Bank	Others	Total	Adjustment	
Net interest income (expenses)	₩ 1,224,186	₩ 865,601	₩ 232,637	₩ 14,056	₩ 37,595	₩ (30,604)	₩ 2,343,471	₩ 70	₩ 2,343,541
Net commission income	75,575	39,914	20,113	48,575	1,583	20,383	206,143	(2,196)	203,947
Net gain (loss) on financial assets at fair value through profit or loss	21,417	13,572	-	9,093	80	(1,568)	42,594	1,838	44,432
Net gain (loss) on financial assets at fair value through other comprehensive income	6,451	7,532	-	136	-	-	14,119	3	14,122
Net gain (loss) on financial assets at amortized cost	(4)	(17)	-	-	-	-	(21)	-	(21)

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(in millions of Korean won)	2018								Consolidated financial statements
	Busan Bank	Kyongnam Bank	BNK Capital Co., Ltd.	BNK Securities Co., Ltd.	BNK Savings Bank	Others	Total	Adjustment	
Provision for credit loss and others	(169,677)	(193,041)	(98,126)	147	(1,981)	-	(462,678)	78	(462,600)
General and administrative expenses	(631,372)	(429,587)	(72,793)	(58,588)	(16,735)	(56,968)	(1,266,043)	1,303	(1,264,740)
Other operating income (expenses), net	(58,802)	(73,093)	12,858	1,115	(3,849)	104,503	(17,268)	(111,580)	(128,848)
Non-operating income (expenses), net	(16,298)	(9,790)	38	135	851	(4,049)	(29,113)	(2,082)	(31,195)
Profit (loss) before income tax	451,476	221,091	94,727	14,669	17,544	31,697	831,204	(112,566)	718,638
Income tax expense	(104,750)	(52,115)	(23,587)	(3,312)	(1,912)	(732)	(186,408)	5,911	(180,497)
Profit (loss) for the year	₩ 346,726	₩ 168,976	₩ 71,140	₩ 11,357	₩ 15,632	₩ 30,965	₩ 644,796	₩ (106,655)	₩ 538,141
Total assets	₩53,034,643	₩37,936,971	₩5,067,528	₩1,797,779	₩1,016,461	₩ 6,174,413	₩105,027,795	₩(6,234,213)	₩98,793,582
Total liabilities	₩48,195,199	₩34,660,326	₩4,423,114	₩1,377,240	₩ 885,027	₩ 1,281,743	₩ 90,822,649	₩ (454,029)	₩90,368,620

(in millions of Korean won)	2017								Consolidated financial statements
	Busan Bank	Kyongnam Bank	BNK Capital Co., Ltd.	BNK Securities Co., Ltd.	BNK Savings Bank	Others	Total	Adjustment	
Net interest income (expenses)	₩1,201,950	₩847,461	₩222,738	₩10,494	₩35,840	₩ (30,828)	₩2,287,655	₩ (7,034)	₩2,280,621
Net commission income	70,857	35,551	12,757	24,367	257	18,038	161,827	(2,114)	159,713
Net gain (loss) on financial assets at FVTPL	(2,105)	5,771	-	11,530	-	-	15,196	(182)	15,014
Net gain (loss) on AFS financial assets	16,001	30,365	16	(1,127)	(2)	-	45,253	(7,028)	38,225
Provision for credit loss and others	(380,161)	(143,512)	(86,994)	(5,457)	(3,298)	-	(619,422)	(44)	(619,466)
General and administrative expenses	(566,749)	(420,599)	(63,512)	(37,369)	(14,928)	(36,825)	(1,139,982)	2,315	(1,137,667)
Other operating income (expenses), net	(61,845)	(66,784)	(434)	1,393	(3,103)	186,762	55,989	(198,105)	(142,116)
Non-operating income (expenses), net	(16,689)	(12,698)	(1,791)	(851)	612	(3,354)	(34,771)	(1,803)	(36,574)
Profit (loss) before income tax	261,259	275,555	82,780	2,980	15,378	133,793	771,745	(213,995)	557,750
Income tax expense	(58,054)	(54,013)	(20,142)	(1,081)	(3,794)	(252)	(137,336)	4,550	(132,786)

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(in millions of Korean won)	2017							Consolidated financial statements	
	Busan Bank	Kyongnam Bank	BNK Capital Co., Ltd.	BNK Securities Co., Ltd.	BNK Savings Bank	Others	Total		Adjustment
Profit (loss) for the year	₩203,205	₩221,542	₩62,638	₩1,899	₩11,584	₩133,541	₩634,409	₩ (209,445)	₩424,964
Total assets	₩51,232,105	₩36,683,540	₩4,812,026	₩886,119	₩849,837	₩5,929,333	₩100,392,960	₩(6,042,983)	₩94,349,977
Total liabilities	₩46,777,012	₩33,574,450	₩4,201,735	₩675,903	₩722,822	₩1,250,274	₩87,202,196	₩ (508,238)	₩86,693,958

(b) Information on financial services and geographical areas

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

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6. Financial Assets and Financial Liabilities

During the current year, there are no significant changes in business or economic circumstances that may influence fair value of the Group's financial assets and liabilities.

(a) The Carrying Amount of Financial Instruments by Category

The carrying amounts and fair value of financial assets and financial liabilities by each category as at December 31, 2018 and 2017, are as follows:

(in millions of Korean won)	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and due from bank	₩ 3,212,849	₩ 3,212,849	₩ 3,142,147	₩ 3,142,147
Financial assets at fair value through profit or loss	3,471,853	3,471,853	1,400,100	1,400,100
Financial assets at fair value through other comprehensive income	5,030,992	5,030,992	-	-
AFS financial assets	-	-	5,822,007	5,822,007
Financial assets at amortized cost	6,798,768	6,830,477	-	-
HTM financial assets	-	-	6,671,317	6,611,223
Loans and receivables	77,629,807	78,276,719	75,291,882	74,835,634
Derivative assets	30,362	30,362	79,605	79,605
	<u>₩ 96,174,631</u>	<u>₩ 96,853,252</u>	<u>₩ 92,407,058</u>	<u>₩ 91,890,716</u>
Financial liabilities:				
Deposits	₩ 73,380,110	₩ 73,390,600	₩ 69,824,592	₩ 70,124,191
Borrowings	5,615,889	5,605,300	5,116,421	5,112,838
Debentures	8,590,658	8,658,686	8,807,408	8,837,866
Derivative liabilities	57,275	57,275	115,823	115,823
Other financial liabilities ¹	2,325,771	2,330,349	2,557,644	2,557,644
	<u>₩ 89,969,703</u>	<u>₩ 90,042,210</u>	<u>₩ 86,421,888</u>	<u>₩ 86,748,362</u>

¹ Other financial liabilities consist of accounts payables and accrued expenses.

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(b) Fair value measurement method and assumptions by financial instruments

Fair value assessment method and assumptions are as follows:

Classification	Fair value measurement technique
Cash and due from banks	The carrying amounts of cash are assumed to be, and demand due from banks and payment due from banks are reasonable approximation of fair values. These financial instruments do not have a fixed maturity and are receivable on demand. Fair value of ordinary due from banks is measured using DCF model (Discounted Cash Flow Model). However, if the contractual maturity and the interest resetting period from the settlement date are within 3 months, the carrying amounts are assumed to be the 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"), Imputed Market Value Model ("IMV"), Free Cash Flow to Equity Model, Dividend Discount Model, Risk-Adjusted Discount Rate Method, Net Asset Value Method.
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 Consolidated Entity uses internally developed valuation models that are widely used by market participants to determine fair value of plain OTC derivatives, including options, 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 its valuation are valued using appropriate model. Complex derivative instruments where its 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. When DCF Model is applied, the expected cash flow is calculated by applying the early redemption risk rate to the contractual cash flow calculated according to the contract terms, and discounted at appropriate discount rate to calculate fair value. For those loans and receivables with the residual maturities of less than three months as of the closing date and the ones with reset period of less than three months, the carrying amount is regarded as fair value.
Deposit liabilities	The carrying amount of demand deposit is regarded as fair value as it does not have maturity and the amount approximates the fair value. Fair value of time deposit is determined using DCF. Fair value is determined 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 those 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.

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(c) *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 December 31, 2018 and 2017, are as follows:

(in millions of Korean won)	2018			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value through profit or loss	₩ 205,780	₩ 2,462,851	₩ 803,222	₩ 3,471,853
Financial assets at fair value through other comprehensive income	1,574,356	3,290,634	166,002	5,030,992
Loans receivables at fair value through profit or loss	-	-	3,279	3,279
Derivative assets	-	29,290	1,072	30,362
	<u>₩ 1,780,136</u>	<u>₩ 5,782,775</u>	<u>₩ 973,575</u>	<u>₩ 8,536,486</u>
Financial liabilities:				
Borrowings liabilities	₩ 29,810	₩ -	₩ -	₩ 29,810
Derivative liabilities	-	54,406	2,869	57,275
	<u>29,810</u>	<u>54,406</u>	<u>2,869</u>	<u>87,085</u>

(in millions of Korean won)	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
	<u>₩ 1,351,671</u>	<u>₩ 5,068,916</u>	<u>₩ 866,434</u>	<u>₩ 7,287,021</u>
Financial liabilities:				
Borrowings liabilities	₩ 14,832	₩ -	₩ -	₩ 14,832
Derivative liabilities	-	105,894	9,929	115,823
	<u>14,832</u>	<u>105,894</u>	<u>9,929</u>	<u>130,655</u>

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

(in millions of Korean won)	2018		
	Fair value	Valuation techniques	Input variables

Financial assets:

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Financial assets at fair value through profit or loss				
Debt securities	₩	1,521,335	DCF Model	Discount rate
Beneficiary certificates		334,342	Net Asset Value Method	Value of underlying assets
Other securities		607,174	DCF Model	Discount rate
Financial assets at fair value through other comprehensive income				
Debt securities		3,290,634	DCF Model	Discount rate
Derivative assets		29,290	DCF Model	Discount rate
Financial liabilities:				
Derivative liabilities	₩	54,406	DCF Model	Discount rate

2017

<i>(in millions of Korean won)</i>	Fair value	Valuation techniques	Input variables
Financial assets:			
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
Financial liabilities:			
Derivative liabilities	₩ 105,894	DCF Model	Discount rate

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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 December 31, 2018 and 2017, are as follows:

(in millions of Korean won)		Fair value	Valuation techniques	Range of significant unobservable inputs	Relationship between significant unobservable inputs and fair value
2018					
Financial assets					
Financial assets at fair value through profit or loss	₩	803,222			
Equity securities		10,279	Free Cash Flow Equity Model, Dividend Discount Model and others	Discount rate: 4.61%-18.34% 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)
Debt securities		322,887	DCF Model and others	Discount rate: 2.26%-18.34% 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)
Beneficiary certificates		456,966	Net Asset Value Method	Value of underlying assets	Fair value increases (decreases) when value of underlying assets increases (decreases)
Other securities		13,090	Net Asset Value Method and others	Value of underlying assets	Fair value increases (decreases) when value of underlying assets increases (decreases)
Financial assets at fair value through other comprehensive income		166,002			
Equity securities		166,002	Free Cash Flow Equity Model, Dividend Discount Model and others	Discount rate: 3.39%-19.47% 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 receivables at fair value through profit or loss		3,279			
Hybrid (combined) instruments		3,279	Binomial Trees	Volatility: 0.05%-41.54% Discount rate: 1.66%-11.30%	Fair value increases (decreases) when volatility increases (decreases) or discount rate decreases (increases)
Derivative assets		1,072	Binomial Trees	Volatility: 0.05%-17.12%	Fair value increases

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<i>(in millions of Korean won)</i>	Fair value	Valuation techniques	Range of significant unobservable inputs	Relationship between significant unobservable inputs and fair value
	2018			
			Discount rate: 1.66%-11.30%	(decreases) when volatility increases (decreases) or discount rate decreases (increases)
Financial liability				
Derivative liabilities	2,869	Binomial Trees	Volatility: 0.51% Discount rate: 1.38%-1.94%	Fair value increases (decreases) when volatility increases (decreases) or discount rate decreases (increases)

<i>(in millions of Korean won)</i>	Fair value	Valuation techniques	Range of significant unobservable inputs	Relationship between significant unobservable inputs and fair value
	2017			
Financial assets				
Financial assets designated as at FVTPL	₩ 61,828	Net Asset Value Method	Volatility: 5.10%	Fair value increases (decreases) when value of underlying assets 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)
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)
Financial liability				
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)

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The following table shows the sensitivity analysis to disclose the effect of reasonably possible alternative assumptions on the fair value of Level 3 financial instruments for the years ended December 31, 2018 and 2017:

(in millions of Korean won)

	2018			
	Profit (loss) for the year		Other comprehensive income	
	Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
Financial assets				
Financial assets at fair value through profit or loss ¹	₩ 1,755	₩ (1,477)	₩ -	₩ -
Financial assets at fair value through other comprehensive income ¹	-	-	32,721	(15,238)
Loans receivables at fair value through profit or loss ²	750	(521)	-	-
Derivative assets ³	3,797	(15,753)	-	-
Financial liabilities				
Derivative liabilities ³	13,340	(36,420)	-	-
	₩ 19,642	₩ (54,171)	₩ 32,721	₩ (15,238)

¹ Fair value changes of securities are calculated by increasing or decreasing growth rate (0% - 1%) and discount rate (-1% - 1%) or liquidation value (-1% - 1%) and discount rate (-1% - 1%). The growth rate, discount rate and liquidation value are major unobservable inputs

² For convertible private bonds, changes in their fair value are calculated by decreasing the stock price (-20% - 20%), product price and others (-20% - 20%), and increasing or decreasing the interest rate (-2%p - 2%p), value of Korean won (-10% - 10%) and credit premium (additional interest rate) (-5%p - 5%p).

³ Changes in the fair value are calculated by increasing or decreasing 10% of KRW Swaption volatility that is a significant unobservable input variable related to Callable IRS.

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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.

(in millions of Korean won)

	2017			
	Profit (loss) for the year		Other comprehensive income	
	Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
Financial assets				
AFS financial assets ¹	₩ -	₩ (8)	₩ 17,355	₩ (9,129)
Derivative assets ²	29,462	(63,425)	-	-
Financial liabilities				
Derivative liabilities ³	29,421	(63,401)	-	-
	<u>₩ 58,883</u>	<u>₩ (126,834)</u>	<u>₩ 17,355</u>	<u>₩ (9,129)</u>

¹ Fair value changes of securities are calculated by increasing or decreasing growth rate (0% - 1%) and discount rate or liquidation value (-1% - 1%) and discount rate. The growth rate, discount rate and liquidation value are major unobservable inputs

² 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.

³ Changes in the fair value are calculated by increasing or decreasing 2% of interest rate volatility that is a significant unobservable input variable related to derivative instruments.

Changes in Level 3 financial instruments subsequently measured at fair value for the years ended December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

	2018					
	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income		Loans receivables at fair value through profit or loss	
					Derivative assets	Derivative liabilities
Beginning balance	₩ 674,523	₩ 159,478	₩ 10,877	₩ 82	₩ 10,011	
Total profit or loss						
Amount recognized in profit or loss ¹	6,949		1,034	990	(7,142)	
Amount recognized in other comprehensive income	-	9,302	-	-	-	-
Purchases	153,949	-	-	-	-	-
Sales	(53,249)	-	(8,632)	-	-	-
Other changes						

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Transfer into level 3 ²	21,050	2,427	-	-	-
Transfer into other levels ²	-	(5,205)	-	-	-
Reclassification	-	-	-	-	-
Ending balance	₩ 803,222	₩ 166,002	₩ 3,279	₩ 1,072	₩ 2,869

¹ 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, 2018, are as follows:

² It moved from Level 3 to Level 1 due to listing of equity securities during the year ended December 31, 2018.

<i>(in millions of Korean won)</i>	Financial assets designated at FVTPL	AFS financial assets	Derivatives	Total
Profit for the year	₩ 6,949	₩ 1,034	₩ 8,132	₩ 16,115
Change in unrealized loss	7,751	621	(19,350)	(10,978)

(in millions of Korean won)

	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 ¹	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	-	2,437	(354)	986
Transfer into other levels ²	-	(44)	-	-
Reclassification	59,700	-	-	-
Ending balance	₩ 61,827	₩ 804,530	₩ 76	₩ 9,929

¹ 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:

² It moved from Level 3 to Level 1 due to listing of equity securities during the year ended December 31, 2017.

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<i>(in millions of Korean won)</i>		Financial assets designated at FVTPL		AFS financial assets		Derivatives		Total
Profit for the year	₩	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 hence disabling reliable measurement of fair value. Therefore, financial instruments accounted for using cost basis are as follows:

<i>(in millions of Korean won)</i>	Type	2018	2017
Financial asset			
AFS financial assets	Unlisted equity securities	₩ -	₩ 14,691

(d) 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 December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and deposits	₩ 1,145,630	₩ 2,067,219	₩ -	₩ 3,212,849
Loans and receivables	-	-	78,273,440	78,273,440
Financial assets at amortized cost	68,588	6,761,889	-	6,830,477
	<u>₩ 1,214,218</u>	<u>₩ 8,829,108</u>	<u>₩ 78,273,440</u>	<u>₩ 88,316,766</u>
Financial liabilities:				
Deposit liabilities	₩ -	₩ 8,694,004	₩ 64,696,596	₩ 73,390,600
Borrowings	683,938	483,542	4,408,010	5,575,490
Debentures	-	8,658,686	-	8,658,686
Other financial liabilities	-	-	2,330,349	2,330,349
	<u>₩ 683,938</u>	<u>₩ 17,836,232</u>	<u>₩ 71,434,955</u>	<u>₩ 89,955,125</u>

<i>(in millions of Korean won)</i>	2017			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and deposits	₩ 1,014,577	₩ 2,127,570	₩ -	₩ 3,142,147
Loans and receivables	-	-	74,835,634	74,835,634
HTM financial assets	58,172	6,553,051	-	6,611,223
	<u>₩ 1,072,749</u>	<u>₩ 8,680,621</u>	<u>₩ 74,835,634</u>	<u>₩ 84,589,004</u>
Financial liabilities:				
Deposit liabilities	₩ -	₩ 8,924,151	₩ 61,200,040	₩ 70,124,191
Borrowings	449,058	102,345	4,546,603	5,098,006
Debentures	-	8,837,866	-	8,837,866
Other financial liabilities	-	-	2,557,644	2,557,644
	<u>₩ 449,058</u>	<u>₩ 17,864,362</u>	<u>₩ 68,304,287</u>	<u>₩ 86,617,707</u>

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The valuation techniques and input variables of Level 2 financial instruments, subsequently not measured at fair value as at December 31, 2018 and 2017, are as follows. The valuation techniques and inputs variables are not disclosed for the items that the carrying amounts are disclosed at fair value as the carrying amounts are considered to be the reasonable approximation of the fair value.

<i>(in millions of Korean won)</i>		2018		
		Fair value	Valuation techniques	Input variables
Financial assets:				
Financial assets at amortized cost				
Debt securities	₩	6,761,889	DCF Model	Discount rate
Financial liabilities:				
Deposit liabilities	₩	8,694,004	DCF Model	Discount rate
Borrowings		483,542	DCF Model	Discount rate
Debentures		8,658,686	DCF Model	Discount rate

<i>(in millions of Korean won)</i>		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	₩	8,924,151	DCF Model	Discount rate
Borrowings		102,345	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 December 31, 2018 and 2017, are as follows:

(in millions of Korean won)	Fair value		Valuation techniques	Input variables
	2018	2017		
Financial assets:				
Financial assets at amortized cost				
Loans and receivables	₩ 78,273,440	₩ 74,835,634	DCF Model	Discount rate
Financial liabilities:				
Deposit liabilities	₩ 64,696,596	₩ 61,200,040	DCF Model	Discount rate
Borrowings	4,408,010	4,546,603	DCF Model	Discount rate
Other financial liabilities	2,330,349	2,557,644	DCF Model	Discount rate

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(e) 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 carrying amounts of transferred assets and relevant liabilities at the reporting date are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
	Carrying amount of transferred assets	Carrying amount of related liabilities	Carrying amount of transferred assets	Carrying amounts of related liabilities
Securities sold under repurchase agreement	₩ 1,639,964	₩ (1,483,604)	₩ 1,289,308	₩ (1,108,219)
Loaned securities	696,359	-	198,028	-
	<u>₩ 2,336,323</u>	<u>₩ (1,483,604)</u>	<u>₩ 1,487,336</u>	<u>₩ (1,108,219)</u>

(f) Offsetting financial instruments:

Details of financial instruments that are set off and subject to an enforceable master netting arrangement or similar agreement as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018					
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities to be set off	Net amounts of financial assets presented in the consolidated statement of financial position	Non-offsetting amount		Net amount
				Financial instruments	Cash collateral received	
Derivatives assets	₩ 30,362	₩ -	₩ 30,362	₩ 272,060	₩ 813	₩ 19,410
Receivable spot exchanges	261,921	-	261,921			
Bonds purchased under resale agreement	152,200	-	152,200	152,200	-	-
Domestic exchange uncollected	2,288,145	1,785,879	502,267	-	-	502,267
Securities-related receivable	252	-	252	252	-	-
	<u>₩ 2,732,880</u>	<u>₩ 1,785,879</u>	<u>₩ 947,002</u>	<u>₩ 424,512</u>	<u>₩ 813</u>	<u>₩ 521,677</u>

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(in millions of Korean won)

					2018							
	Gross amounts of recognized financial liabilities		Gross amounts of recognized financial assets to be set off		Net amounts of financial liabilities presented in the consolidated statement of financial position	Non-offsetting amount						
						Financial instruments	Cash collateral received		Net amount			
Derivatives liabilities	₩	57,275	₩	-	₩	57,275	₩	272,060	₩	158	₩	12,484
Payable spot exchanges		227,427		-		227,427						
Bonds sold under repurchase agreement		1,483,604		-		1,483,604		1,483,604		-		-
Securities sold		29,810		-		29,810		29,810		-		-
Domestic currency exchange payables		1,846,454		1,785,879		60,576		-		-		60,576
Securities-related payables		839		-		839		252		-		587
	₩	3,645,409	₩	1,785,879	₩	1,859,531	₩	1,785,726	₩	158	₩	73,647

(in millions of Korean won)

(in millions of Korean won)		2017											
		Gross amounts of recognized financial assets		Gross amounts of recognized financial liabilities to be set off		Net amounts of financial assets presented in the consolidated statement of financial position		Non-offsetting amount		Cash collateral received		Net amount	
Derivatives assets	₩	79,569	₩	-	₩	79,569	₩	772,741	₩	-	₩	63,307	
Receivable spot exchanges		756,479		-		756,479							
Bonds purchased under resale agreement		470,000		-		470,000		470,000		-		-	
Domestic exchange uncollected		1,910,130		1,460,395		449,735		-		-		449,735	
Securities-related receivable		1,050		-		1,050		688		-		362	
	₩	3,217,228	₩	1,460,395	₩	1,756,833	₩	1,243,429	₩	-	₩	513,404	

(in millions of Korean won)

(in millions of Korean won)		2017											
		Gross amounts of recognized financial liabilities		Gross amounts of recognized financial assets to be set off		Net amounts of financial liabilities presented in the consolidated statement of financial position		Non-offsetting amount		Cash collateral received		Net amount	
								Financial instruments					
Derivatives liabilities	₩	115,823	₩	-	₩	115,823	₩	781,897	₩	2,900	₩	49,468	
Payable spot exchanges		718,442		-		718,442							
Bonds sold under repurchase agreement		1,108,219		-		1,108,219		1,108,219		-		-	
Securities sold		14,832		-		14,832		14,832		-		-	
Domestic currency exchange payables		1,587,420		1,460,395		127,025		-		-		127,025	
Securities-related payables		688		-		688		688		-		-	
	₩	3,545,424	₩	1,460,395	₩	2,085,029	₩	1,905,636	₩	2,900	₩	176,493	

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7. Cash and Due from banks

Cash and due from banks as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>		2018		2017
Cash and due from banks :				
Cash	₩	574,564	₩	636,164
Foreign currencies		105,694		79,645
Time deposits and others		110,191		71,530
Other deposits		159,651		50,824
Deposits in foreign currencies		195,530		176,414
		<u>1,145,630</u>		<u>1,014,577</u>
Due from banks ¹ :				
Due from banks in local currency		1,952,375		2,011,612
Due from banks in foreign currencies		114,844		115,958
		<u>2,067,219</u>		<u>2,127,570</u>
	₩	<u>3,212,849</u>	₩	<u>3,142,147</u>

¹ The maturity is more than three months.

Due from banks in local currency and foreign currencies as at December 31, 2018 and 2017, consists of the following:

<i>(in millions of Korean won)</i>	Financial institution		2018		2017
Due from banks in local currency:					
Due from domestic banks	The Bank of Korea (BOK)	₩	1,811,940	₩	1,805,688
Due from consigned transaction	Korea Exchange (KRX)		5,147		-
Others	Woori bank and others		135,288		205,924
			<u>1,952,375</u>		<u>2,011,612</u>
Due from banks in foreign currencies:					
Due from domestic banks	The BOK		66,463		75,671
Offshore due from banks	Bank of China		38,740		20,717
Others	The People's Bank of China and others		9,641		19,570
			<u>114,844</u>		<u>115,958</u>
		₩	<u>2,067,219</u>	₩	<u>2,127,570</u>

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

<i>(in millions of Korean won)</i>	Financial institution	2018	2017	Reason for restriction
Due from banks in Korean won	The BOK	₩ 1,811,940	₩ 1,805,687	The BOK Act
	The Korea Securities Finance Corporation	41,141	-	Deposits from investors and others
	Korea Federation of Savings Banks and others	34,308	77,170	Reserve deposits and others
	Korea Securities Depository and others	23,093	-	Deposits from investors and others
	Securities Companies	4,310	-	Subscription deposits
	KRX and others	7,044	33,713	Collective fund for default losses and others
	Busan Bank	2	-	Consignment transaction deposits
		<u>1,921,838</u>	<u>1,916,570</u>	
Due from banks in foreign currencies	The BOK	66,463	75,671	Reserve deposits
	The People's Bank of China and others	8,825	31,490	Reserve deposits for overseas affiliates and others
	KRX and others	39,556	-	Reserve deposits and others
		<u>114,844</u>	<u>107,161</u>	
		<u>₩ 2,036,682</u>	<u>₩ 2,023,731</u>	

8. Financial Assets at fair value through profit or loss

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

<i>(in millions of Korean won)</i>	2018	2017
Financial assets at fair value through profit or loss		
Equity securities	₩ 23,471	₩ 24,193
Government and public bonds	278,824	63,469
Finance bonds	855,805	310,170
Corporate bonds	485,378	657,726
Other debt securities	312,449	-
Beneficiary certificates	876,756	37,971
Corporate papers	639,170	243,064
	<u>₩ 3,471,853</u>	<u>₩ 1,336,593</u>

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<i>(in millions of Korean won)</i>	2018	2017
Financial assets designated at FVTPL		
Debt securities	₩ -	₩ 63,507
	₩ 3,471,853	₩ 1,400,100

9. Financial Assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income as at December 31, 2018, consist of the following:

<i>(in millions of Korean won)</i>	2018
Equity securities	
Equity securities	₩ 174,658
Equity investments	981
	175,639
Debt securities	
Government and public bonds	1,048,475
Finance bonds	819,204
Corporate bonds	2,291,315
Loans in securities	696,359
	4,855,353
	₩ 5,030,992

Changes in the carrying amounts of debt securities among financial assets at fair value through other comprehensive income for the year ended December 31, 2018, are as follows:

<i>(in millions of Korean won)</i>	2018			
	Lifetime expected credit losses			
	12 months expected credit losses	Unrecognized impairment	Recognized impairment	Total
Beginning balance	₩ 4,734,875	₩ -	₩ -	₩ 4,734,875
Changes in financial instruments recognized at the beginning	-	-	-	-
Transfer to 12 months expected credit losses	-	-	-	-
Transfer to lifetime expected credit losses	-	-	-	-
Transfer to credit-impaired financial assets	-	-	-	-
Acquisition	2,085,345	-	-	2,085,345
Repayment / Disposal	(2,011,764)	-	-	(2,011,764)
Gain on valuation of fair value	48,665	-	-	48,665
Amortization of effective interest	(4,897)	-	-	(4,897)

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Others	3,129	-	-	3,129
Ending balance	₩ 4,855,353	₩ -	₩ -	₩ 4,855,353

Dividend income recognized from equity securities designated as an item measured at fair value through other comprehensive income for the year ended December 31, 2018, is as follows:

(in millions of Korean won)

	2018	
	<u>Derecognized equity securities</u>	<u>Equity securities on hand</u>
General stocks		
Marketable stocks	-	25
Non-marketable stocks	15	6,423
Equity investments	-	19
	<u>15</u>	<u>6,467</u>

Derecognized equity securities at fair value through other comprehensive income for the year ended December 31, 2018, are as follows:

(in millions of Korean won)

	2018	
	<u>Disposal</u>	<u>Accumulated loss on valuation at disposal date</u>
General stocks		
Marketable stocks	411	(365)
Non-marketable stocks	188	(4,967)
	<u>599</u>	<u>(5,332)</u>

10. AFS Financial Assets

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

(in millions of Korean won)

	2017
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

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(in millions of Korean won)

2017

Others	151,502
	634,563
₩	5,822,006

11. Financial Assets at amortized cost

Financial assets at amortized cost as at December 31, 2018, are as follows:

(in millions of Korean won)

2018

Debt securities

Government and public bonds	3,397,844
Finance bonds	307,306
Corporate bonds	3,094,421
Provision for impairment	(803)
₩	6,798,768

Changes in the carrying amounts of financial assets at amortized cost for the year ended December 31, 2018, are as follows:

(in millions of Korean won)

2018

	12 months expected credit losses	Lifetime expected credit losses		Total
		Unrecognized impairment	Recognized impairment	
Beginning balance	₩ 6,671,317	₩ -	₩ -	₩ 6,671,317
Changes in financial instruments recognized at the beginning	-	-	-	-
Transfer to 12 months expected credit losses	-	-	-	-
Transfer to lifetime expected credit losses	-	-	-	-
Transfer to credit-impaired financial assets	-	-	-	-
Acquisition	1,641,921	-	-	1,641,921
Repayment / Disposal	(1,524,393)	-	-	(1,524,393)
Gain on valuation of fair value	-	-	-	-
Amortization of effective interest	13,167	-	-	13,167
Others	(2,440)	-	-	(2,440)
Ending balance	₩ 6,799,572	₩ -	₩ -	₩ 6,799,572

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12. HTM Financial Assets

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

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

13. Assets Provided as Collateral

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

(in millions of Korean won)		Face value		Reason
	Provided to	2018		
Financial assets at fair value through profit or loss	KSD	₩	748,246	Sold under repurchase agreements
	KRX		2,005	CCP, settlement agreements and others
	Samsung Futures Inc.		21,035	Margin for futures and others
	Standard Chartered Bank Korea Ltd		27,001	Collateral for Credit Support Annex
	KSFC and others		24,533	Lending transaction
Financial assets at fair value through other comprehensive income			269,707	Sold under repurchase agreements
	Nomura Finance		31,565	Sold under repurchase agreements
	Investment and others		597,448	Borrowing collateral and overdraft and settlement
	The BOK		502,036	Financing transaction
	KSFC		70,118	Foreign borrowings
	Sumitomo Mitsui Banking Corporation		21,947	Collateral for Credit Support Annex
	Standard Chartered Bank Korea Ltd and others			
Financial assets at amortized cost	KSD		590,446	Sold under repurchase agreements
	The BOK		1,065,090	Borrowing collateral and overdraft and settlement
	KSD		85	Borrowing collateral and overdraft and settlement
	KRX		2,025	Collective funds for OTC derivatives
	Industrial Bank of Korea		57,101	Foreign borrowings and

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	and others			Collateral for Credit Support Annex
	Futures Companies		42,952	Margin for futures and others
			<u>₩ 4,073,340</u>	
<i>(in millions of Korean won)</i>		Face value		
	Provided to	2017		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
	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
	Standard Chartered Bank Korea Ltd. and others	1,479		Collateral for Credit Support Annex, securities borrowings and others
	Futures Companies and others	50,005		Margin for futures and others
		<u>₩ 3,122,471</u>		

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14. Loans and Receivables

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

(in millions of Korean won)

	2018			2017	
	Amortized cost	Fair value	Total	Amortized cost	
Loans receivable:					
Loans in Korean won					
Corporates	₩ 46,648,573	₩ -	₩ 46,648,573	₩ 45,289,339	
Household	24,248,521	-	24,248,521	22,731,698	
Public sector and others	1,737,837	-	1,737,837	1,469,797	
Interbank loans	221,640	-	221,640	214,333	
	<u>72,856,571</u>	<u>-</u>	<u>72,856,571</u>	<u>69,705,167</u>	
Loans in foreign currencies	1,214,636	-	1,214,636	1,149,540	
Call loans	346,297	-	346,297	240,322	
Bills bought in local currency	11,645	-	11,645	10,014	
Bills bought in foreign currencies	248,636	-	248,636	256,417	
Advances for customers	4,241	-	4,241	6,522	
Credit card receivables	972,964	-	972,964	917,755	
Bonds purchased under repurchase agreement	152,200	-	152,200	470,000	
Privately placed bonds	40,242	3,279	43,521	36,819	
Finance lease receivables	569,241	-	569,241	425,282	
Installment financing receivables	510,069	-	510,069	733,873	
	<u>76,926,742</u>	<u>3,279</u>	<u>76,930,021</u>	<u>73,951,711</u>	
Provision for impairment of loans receivable ¹	(980,013)	-	(980,013)	(814,462)	
Deferred loan origination fees	(10,369)	-	(10,369)	(18,784)	
Deferred loan origination costs	148,750	-	148,750	154,107	
	<u>₩ 76,085,110</u>	<u>₩ 3,279</u>	<u>₩ 76,088,389</u>	<u>₩ 73,272,572</u>	
Receivables:					
Suspense payments	₩ 3,008	₩ -	₩ 3,008	₩ 2,664	
Non-trade receivable	342,847	-	342,847	850,273	
Domestic exchange settlement debits	502,267	-	502,267	449,735	
Guarantee deposits provided	317,105	-	317,105	335,363	
Accrued income	390,532	-	390,532	393,571	
Deposits under regulation	818	-	818	1,717	
Bills unsettled	1,833	-	1,833	540	
Other	15	-	15	133	
	<u>1,558,425</u>	<u>-</u>	<u>1,558,425</u>	<u>2,033,996</u>	
Provision for impairment of receivables	(5,888)	-	(5,888)	(5,314)	
Present value discounts (leasehold deposits provided)	(11,119)	-	(11,119)	(9,372)	

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	1,541,418	-	1,541,418	2,019,310
Loans and receivables	₩ 77,626,528	₩ 3,279	₩ 77,629,807	₩ 75,291,882

¹ Present value discounts of loans receivables of ₩3,254 million and ₩8,387 million are included as at December 31, 2018 and present value discounts of ₩3,573 million and ₩5,579 million are included as at December 31, 2017.

The changes in the carrying amounts of loans and receivables for the year ended December 31, 2018, are as follows:

(in millions of Korean won)

	2018			
	12 months expected credit losses	Lifetime expected credit losses		Total
		Unrecognized impairment	Recognized impairment	
Beginning balance	₩ 66,350,603	₩ 9,019,126	₩ 936,471	₩ 76,306,200
Changes in financial instruments recognized at the beginning	(2,779,103)	2,222,901	556,202	-
Transfer to 12 months expected credit losses of financial assets	2,486,106	(2,427,527)	(58,579)	-
Transfer to credit-unimpaired financial assets	(4,983,701)	4,988,991	(5,290)	-
Transfer to credit-impaired financial assets	(281,508)	(338,563)	620,071	-
Amortization	-	-	(236,369)	(236,369)
Disposal	(75,750)	(242,651)	(586,883)	(905,284)
Net increase (decrease)	3,612,347	(431,655)	267,190	3,447,882
Ending balance	₩ 67,108,097	₩ 10,567,721	₩ 936,611	₩ 78,612,429

The changes in deferred loan origination fees and costs for the years ended December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

	2018			
	Beginning balance	Increase	Decrease	Ending balance
Deferred loan origination fees	₩ (18,784)	(4,270)	12,685	(10,369)
Deferred loan origination costs	154,107	97,740	(103,097)	148,750
	₩ 135,323	93,470	(90,412)	138,381

(in millions of Korean won)

	2017			
	Beginning balance	Increase	Decrease	Ending balance
Deferred loan origination fees	₩ (33,191)	(8,541)	22,948	(18,784)
Deferred loan origination costs	159,060	80,584	(85,537)	154,107

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₩	125,869	72,043	(62,589)	135,323
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15. Provision For Impairment

Changes in provision for impairment of loans and receivables for years ended December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

	2018			
	12 months expected credit losses	Lifetime expected credit losses		Total
		Unrecognized impairment	Recognized impairment	
Beginning balance ¹	₩ 261,265	₩ 271,788	₩ 410,613	₩ 943,666
Changes in financial instruments recognized at the beginning	(27,442)	(109,584)	137,026	-
Transfer to 12 months expected credit losses of financial assets	32,211	(31,344)	(867)	-
Transfer to credit- unimpaired financial assets	(31,505)	38,563	(7,058)	-
Transfer to credit- impaired financial assets	(28,148)	(116,803)	144,951	-
Written off during the period as uncollectible	-	(148)	(363,831)	(363,979)
Decrease in provision due to sales of loans	(1,078)	(38,768)	(157,642)	(197,488)
Collection of previously written off loans	-	2	103,223	103,225
Issued or acquired financial assets	-	-	-	-
Changes from adjustments to receivables and payables	-	-	(2,019)	(2,019)
Exchange differences	113	98	14	225
Other	(3,089)	(2)	(10,391)	(13,482)
	<u>229,769</u>	<u>123,386</u>	<u>116,993</u>	<u>470,148</u>
Additional provision (reversal) for impaired receivables during the year	1,351	159,140	355,262	515,753
Ending balance	₩ 231,120	₩ 282,526	₩ 472,255	₩ 985,901

¹ Provision for impairment as at December 31, 2017 under Korean IFRS 1039 is recorded in beginning balance of retained earnings as at January 1, 2018 with adoption of Korean IFRS 1109 (Note 49).

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	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	(411,867)	(2,283)	(36,771)	(27,159)	(478,080)
Decrease in provision due to sales of loans	(49,045)	(87)	(257)	(216)	(49,605)
Collection of previously written off loans	115,679	2,835	7,498	18,369	144,381
Exchange differences	-	(309)	(1)	(38)	(348)
Other	(16,847)	(8)	(14)	(1,429)	(18,298)
	<u>229,197</u>	<u>18,060</u>	<u>3,366</u>	<u>22,891</u>	<u>273,514</u>
Additional provision (reversal) for impaired receivables during the year	<u>502,343</u>	<u>(2,155)</u>	<u>35,518</u>	<u>10,556</u>	<u>546,262</u>
Ending balance	₩ 731,540	₩ 15,905	₩ 38,884	₩ 33,447	₩ 819,776

The percentage of provision for impairment of loans and receivables as at December 31, 2018 and 2017, is as follows:

(in millions of Korean won)

	2018	2017
Loans and receivables	₩ 78,485,167	₩ 75,985,707
Provision for impairment	<u>985,901</u>	<u>819,776</u>
Percentage of provision for impairment (%)	<u>1.26</u>	<u>1.08</u>

Changes in provision for impairment for financial assets at fair value through other comprehensive income for the year ended December 31, 2018, are as follows:

(in millions of Korean won)

	2018			
	12 months expected credit losses	Lifetime expected credit losses		Total
		Unrecognized impairment	Recognized impairment	
Beginning balance	₩ 1,028	₩ -	₩ -	₩ 1,028
Decrease in provision from sales	(103)	-	-	(103)
Reversal of provision for impairment	(125)	-	-	(125)
Ending balance	<u>₩ 800</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 800</u>

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Changes in provision for impairment for securities at amortized cost for the year ended December 31, 2018, are as follows:

(in millions of Korean won)

	2018			
	12 months expected credit losses	Lifetime expected credit losses		Total
		Unrecognized impairment	Recognized impairment	
Beginning balance	₩ 771	₩ -	₩ -	₩ 771
Contribution to provision for impairment	32	-	-	32
Ending balance	₩ 803	₩ -	₩ -	₩ 803

16. Financial Lease Receivables

Financial lease receivables as at December 31, 2018 and 2017, consist of the following:

(in millions of Korean won)

	2018	2017
Lease receivables	₩ 569,241	₩ 425,282
Provision for impairment	(10,765)	(11,420)
Deferred origination fees	(1,012)	(1,082)
Deferred origination costs	1,299	1,004
	₩ 558,763	₩ 413,784

The total investment of finance leases and present value of minimum lease payments as at December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

	2018		2017	
	Total investment of finance leases	Present value of minimum lease payments	Total investment of finance leases	Present value of minimum lease payments
One year or less	₩ 264,546	₩ 248,680	₩ 207,106	₩ 195,266
1-5 years	343,890	320,561	245,581	230,016
	₩ 608,436	₩ 569,241	₩ 452,687	₩ 425,282

The difference between net investment in finance leases and total investment as at December 31, 2018 and 2017, is as follows:

(in millions of Korean won)

	2018	2017
Total investment of leases	₩ 608,436	₩ 452,687
Net investment in finance leases		
Present value of minimum lease payments	569,241	425,282

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(in millions of Korean won)

	2018	2017
Unrealized interest	₩ 39,195	₩ 27,405

17. Derivative Instruments and Hedge Accounting

The notional amounts outstanding for derivative contracts as at December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

	2018			2017		
	Trading	Hedging	Total	Trading	Hedging	Total
Currency:						
Currency forwards ¹	₩3,878,680	₩ -	₩3,878,680	₩4,053,622	₩ -	₩4,053,622
Long currency swaps	27,570	84,806	112,376	32,892	-	32,892
Short currency swaps	117,565	-	117,565	33,535	-	33,535
Long currency futures ²	34,314	-	34,314	315,109	-	315,109
Short currency futures ²	7,827	-	7,827	3,653	-	3,653
Long currency options	1,279,330	-	1,279,330	595,509	-	595,509
Short currency options	1,279,330	-	1,279,330	595,509	-	595,509
	<u>6,624,616</u>	<u>84,806</u>	<u>6,709,422</u>	<u>5,629,829</u>	<u>-</u>	<u>5,629,829</u>
Interest rate:						
Long interest rate swaps ¹	731,928	279,525	1,011,453	628,852	267,851	896,703
Short interest rate swaps ¹	500,157	-	500,157	466,135	-	466,135
Long interest rate futures	-	-	-	10,789	-	10,789
Short interest rate futures	32,861	-	32,861	14,885	-	14,885
	<u>1,264,946</u>	<u>279,525</u>	<u>1,544,471</u>	<u>1,120,661</u>	<u>267,851</u>	<u>1,388,512</u>
Stock:						
Stock futures purchased	-	-	-	-	-	-
Stock futures sold	-	-	-	217	-	217
Stock options purchased	157	-	157	9,498	-	9,498
Stock options sold	158	-	158	-	-	-
	<u>315</u>	<u>-</u>	<u>315</u>	<u>9,715</u>	<u>-</u>	<u>9,715</u>
	<u>₩7,889,877</u>	<u>₩ 364,331</u>	<u>₩ 8,254,208</u>	<u>₩6,760,205</u>	<u>₩ 267,851</u>	<u>₩7,028,056</u>

¹ For transactions between local currency and foreign currencies, unsettled amount of transaction is presented using the basic foreign exchange rate on the contract amount in foreign currencies. For transactions between foreign currencies and foreign currencies, unsettled amount is presented using the basic foreign exchange rate on the contract amount in foreign currencies purchased.

² Daily settlement of futures transactions is reflected in due from banks.

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

(in millions of Korean won)

	2018			
	Valuation gain	Valuation loss	Assets	Liabilities
Currency:				
Currency forwards	₩ 24,386	₩ 22,059	₩ 21,196	₩ 20,603
Currency swaps	2,238	2,320	1,784	1,966
Currency options	2,048	1,189	3,850	3,905
	<u>28,672</u>	<u>25,568</u>	<u>26,830</u>	<u>26,474</u>
Interest rate:				
Interest rate forwards	15	23	-	-
Interest rate swaps	3,365	346	2,460	449
	<u>3,380</u>	<u>369</u>	<u>2,460</u>	<u>449</u>
Stock:				
Stock forwards	1	1	-	-
Stock options	-	-	-	-
	<u>1</u>	<u>1</u>	<u>-</u>	<u>-</u>
	<u>₩ 32,053</u>	<u>₩ 25,938</u>	<u>₩ 29,290</u>	<u>₩ 26,923</u>

(in millions of Korean won)

	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>
	<u>₩ 73,725</u>	<u>₩ 77,500</u>	<u>₩ 79,523</u>	<u>₩ 84,523</u>

Hedge

In order to hedge fluctuation risks of fair value due to changes in interest rate and foreign currency of structured deposits and issued financial bonds, a hedge accounting of fair value risk is applied that interest rate swaps and currency swaps are designated as a hedging instrument. In order to hedge currency fluctuation risks of net investments in foreign operations, a hedge accounting of net investments in foreign operations is applied that non-derivative financial instruments are

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designated as a hedging instrument.

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

<i>(in millions of Korean won)</i>		2018			
		Valuation gain	Valuation loss	Assets	Liabilities
Interest rate:					
Interest rate swaps	₩	8,132	3,370	1,072	27,517
Currency rate:					
Currency rate swaps		343	3,178	343	3,178
	₩	8,475	6,548	1,415	30,695

<i>(in millions of Korean won)</i>		2017			
		Valuation gain	Valuation loss	Assets	Liabilities
Interest rate:					
Interest rate swaps	₩	889	₩ 8,671	₩ 82	₩ 31,300

Gain (loss) on valuation of hedged items and hedging instrument for the years ended December 31, 2018 and 2017, are as follows

<i>(in millions of Korean won)</i>		2018		2017	
Loss on valuation of hedging instrument		₩	1,927	₩	(7,782)
Gain on valuation of hedged items			(2,735)		6,300
		₩	(808)	₩	(1,482)

Amount, timing and uncertainty of future cash flows for the year ended December 31, 2018, are as follows:

<i>(in millions of Korean won)</i>	2018						
	Less than 1 year	Between 1 - 2 years	Between 2 - 3 years	Between 3 - 4 years	Between 4 - 5 year	More than 5 years	Total
Fair value risk hedges							
Nominal amount of risk hedge instrument	₩ -	₩ -	₩ 84,806	₩ -	₩ -	₩ 629,525	₩ 714,331
Average hedge ratio (%)	-	-	100	-	-	100	100
Risk hedges for net investments in foreign operation							
Nominal amount of risk hedge instrument	-	100,700	-	-	-	-	100,700
Average hedge ratio (%)	-	100	-	-	-	-	100

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Impacts of hedge accountings on the statements of financial position, the statements of comprehensive income and the statements of changes in equity

Impacts of risk hedge instruments on the statements of financial position, the statements of comprehensive income and the statements of changes in equity as at December 31, 2018, are as follows:

(in millions of Korean won)	2018									
	Statements of financial position						Statements of comprehensive income and statements of changes in equity			
	Nominal amount	Changes in fair value	Derivative assets	Derivative liabilities	Debts		Profit or loss	Other Comprehensive income		
Fair value risk hedges										
Currency risk hedge	₩ 84,806	₩ (2,835)	₩ 343	₩ 3,178	₩ -		₩ (2,835)	₩ -		
Interest rate risk hedge	629,525	4,762	1,072	27,517	-		4,762	-		
Hedges for net investments in foreign operations										
Currency risk hedge	100,070	(4,180)	-	-	100,070		-	(3,093)		
	₩ 814,401	₩ (2,253)	₩ 1,415	₩ 30,695	₩ 100,070		₩ 1,927	₩ (3,093)		

Impacts of the hedged items on the statements of financial position, the statements of comprehensive income and the statements of changes in equity as at December 31, 2018, are as follows:

(in millions of Korean won)	2018									
	Statements of financial position					Statements of comprehensive income and statements of changes in equity				
	Nominal amount	Changes in fair value	Deposits received	Bonds		Profit or loss	Other Comprehensive income	Reserve for foreign currency translation		
Fair value risk hedges										
Currency risk hedge	₩ 84,806	₩ 2,834	₩ -	₩ 81,972	₩ 2,834	₩ -	₩ -	₩ -		
Interest rate risk hedge	629,525	(5,569)	348,459	254,842	(5,569)	-	-	-		
Hedges for net investments in foreign operations										
Currency risk hedge	100,070	4,585	-	-	-	3,408	575			
	₩ 814,401	₩ 1,850	₩ 348,459	₩ 336,814	₩ (2,735)	₩ 3,408	₩ 575			

The amounts and items recognized as profit or loss due to ineffective portion in fair value risk hedges for the year ended December 31, 2018, are as follows:

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<i>(in millions of Korean won)</i>	Ineffective portion of risk hedges recognized as profit or loss	Items
Fair value risk hedges		
Interest rate risk hedge	(807)	Loss on valuation of derivatives
Currency risk hedge	(1)	Loss on valuation of derivatives

There is no amount recognized in profit or loss and other comprehensive income as an ineffective portion of cash flow hedges and hedges for net investments in foreign operations for the year ended December 31, 2018.

18. Investments in Associates and Joint Venture

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

<i>(in millions of Korean won)</i>	2018					
	Main business	Location	Closing month	Percentage of ownership (%)	Acquisition cost	Carrying amount
Investments in associates:						
BNK 'Strong' Korea Securities Investment Trust-1	Financial investment	The Republic of Korea	December	-	₩ -	₩ -
BNK Winning Securities Investment Trust 1	Financial investment	The Republic of Korea	December	31.35	11,363	9,871
BNK 'Strong' Dividend Securities Investment Trust-1	Financial investment	The Republic of Korea	December	31.70	9,988	10,229
Hanhwa Private Securities Investment Trust 102 nd	Financial investment	The Republic of Korea	December	-	-	-
Hanhwa Private Securities Investment Trust 104 th	Financial investment	The Republic of Korea	December	23.08	30,000	30,050
Shinhan BNPP Private Securities Investment Trust 6th	Financial investment	The Republic of Korea	December	23.08	30,000	30,807
HDC Presto Private Securities Investment Trust 8th	Financial investment	The Republic of Korea	December	42.87	30,000	30,784
IBK Private Securities Investment Trust RP2	Financial investment	The Republic of Korea	December	23.08	30,000	30,581
Samsung Repo Professional Connection Private Securities Investment Trust 1st	Financial investment	The Republic of Korea	December	50.00	50,000	50,838
Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 1st	Financial investment	The Republic of Korea	December	27.27	30,000	30,278
Kyobo-Axa Investment Alpha Plus Private	Financial investment	The Republic of Korea	December	30.00	30,000	30,120

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Securities Investment Trust - J 3rd						
Consus Clean Water Private Special Asset Fund-1	Financial investment	The Republic of Korea	December	50.00	13,114	13,275
Shinhan BNPP Private Securities Investment Trust for Corporates 8th	Financial investment	The Republic of Korea	December	50.00	50,000	51,231
Yuri Repo Alpha Private Securities Investment Trust 1st	Financial investment	The Republic of Korea	December	44.71	40,000	40,705
Kiwoom Frontier Private Securities Investment Trust 11th	Financial investment	The Republic of Korea	December	50.00	50,000	51,027
Kiwoom Frontier Private Securities Investment Trust 12th	Financial investment	The Republic of Korea	December	49.90	50,000	50,212
BNK Stocks for Public Subscription Plus 10	Financial investment	The Republic of Korea	December	24.67	2,000	2,008
KC Co., Ltd.	Manufacture	The Republic of Korea	December	41.69	-	-
Investments in joint venture:						
Mpark Capital (formerly, Dongwha Capital ¹)	Specialized credit financial business	The Republic of Korea	December	30.00	6,000	3,083
					<u>462,465</u>	<u>465,099</u>

(in millions of Korean won)

2017						
	Main business	Location	Closing month	Percentage of ownership (%)	Acquisition cost	Carrying 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 nd	Financial investment	The Republic of Korea	December	30.00	30,000	30,031
Investments in joint venture:						
Dongwha Capital ¹	Specialized credit financial business	The Republic of Korea	December	30.00	6,000	3,923
					<u>₩ 62,325</u>	<u>₩ 62,998</u>

¹ 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

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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 venture are incorporated in the Group's financial statements using the equity method of accounting.

Changes in investments in associates and joint venture for the years ended December 31, 2018 and 2017, are as follows:

		2018						
		Beginning balance	Acquisition/disposal	Share of profit or loss of associates and joint venture	Dividends received	Others	Ending balance	
<i>(in millions of Korean won)</i>								
Investments in associates:								
BNK 'Strong' Korea Securities Investment Trust-1	₩	9,342	₩ (4,197)	₩ (1,123)	₩ -	₩ (4,022)	₩	-
BNK Winning Securities Investment Trust 1		-	11,363	(1,492)	-	-		9,871
BNK 'Strong' Dividend Securities Investment Trust-1		5,996	3,992	486	-	(245)		10,229
Hanhwa Private Securities Investment Trust 102 nd		30,031	(30,748)	717	-	-		-
Hanhwa Private Securities Investment Trust 104 th		-	30,000	50	-	-		30,050
Shinhan BNPP Private Securities Investment Trust 6 th		-	30,000	807	-	-		30,807
HDC Presto Private Securities Investment Trust 8 th		-	30,000	784	-	-		30,784
IBK Private Securities Investment Trust RP2		-	30,000	581	-	-		30,581
Samsung Repo Professional Connection Private Securities Investment Trust 1 st		-	50,000	838	-	-		50,838
Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 1 st		-	30,000	278	-	-		30,278
Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 3 rd		-	30,000	120	-	-		30,120
Consus Clean Water Private Special Asset Fund-1		13,706	(6,483)	619	5,433	-		13,275
Shinhan BNPP Private Securities Investment Trust for Corporates 8 th		-	50,000	1,231	-	-		51,231
Mirae Asset Smart Q		-	(672)	672	-	-		-

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Income Plus Private Securities Investment Trust 1 st						
Yuri Repo Alpha Private Securities Investment Trust 1 st	-	40,000	705	-	-	40,705
Kiwoom Frontier Private Securities Investment Trust 11 th	-	50,000	1,027	-	-	51,027
Kiwoom Frontier Private Securities Investment Trust 12 th	-	50,000	212	-	-	50,212
BNK Stocks for Public Subscription Plus 10 KC Co., Ltd.	-	2,000	8	-	-	2,008
	-	-	-	-	-	-
Investments in joint venture:						
Dongwha Capital	3,923	-	(840)	-	-	3,083
	<u>₩ 62,998</u>	<u>₩ 395,255</u>	<u>₩ 5,680</u>	<u>₩ 5,433</u>	<u>₩ (4,267)</u>	<u>₩ 465,099</u>

(in millions of Korean won)

2017							
	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	₩ 9,233	₩ 4,403	₩ 472	₩ (402)	₩ -	₩ 13,706	
BNK 'Strong' Dividend Securities Investment Trust-1	10,290	(4,290)	282	-	(286)	5,996	
BNK 'Strong' Korea Securities Investment Trust-1	6,982	3,018	(290)	-	(368)	9,342	
Hanhwa Private Securities Investment Trust 102 nd	-	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 December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

2018					
Current assets	Current liabilities	Equity	Operating income	Operating profit (loss) from continuing operations	Total comprehensive income (loss)

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Investments in associates:

BNK Winning Securities Investment Trust 1	₩	32,128	₩	642	₩	31,486	₩	6,056	₩	(4,760)	₩	(4,760)
BNK 'Strong' Dividend Securities Investment Trust-1		32,401		127		32,274		-		-		-
Hanhwa Private Securities Investment Trust 104 th		371,644		241,426		130,218		527		527		218
Shinhan BNPP Private Securities Investment Trust 6 th		260,827		127,330		133,497		5,529		5,529		3,497
HDC Presto Private Securities Investment Trust 8 th		120,833		49,022		71,811		2,842		2,842		1,828
IBK Private Securities Investment Trust RP2		251,143		118,624		132,519		3,834		3,834		2,519
Samsung Repo Professional Connection Private Securities Investment Trust 1 st		240,892		139,216		101,676		2,762		2,762		1,676
Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 1 st		261,195		150,175		111,020		2,143		2,143		1,020
Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 3 rd		195,618		95,219		100,399		598		598		399
Consus Clean Water Private Special Asset Fund-1		26,579		30		26,549		335		305		305
Shinhan BNPP Private Securities Investment Trust for Corporates 8 th		160,573		58,111		102,462		3,887		2,462		2,462
Yuri Repo Alpha Private Securities Investment Trust 1 st		195,358		104,319		91,039		4,198		1,577		1,577
Kiwoom Frontier Private Securities Investment Trust 11 th		200,975		98,921		102,054		3,339		2,054		2,054
Kiwoom Frontier Private Securities Investment Trust 12 th		291,360		190,735		100,625		825		425		425
BNK Stocks for Public Subscription Plus 10		8,470		80		8,390		241		41		41
KC Co., Ltd.		2,084		1,839		(2,282)		6,151		(368)		(712)
Investments in joint venture:												
Dongwha Capital		19,829		1,261		18,568		10,482		(91)		(91)
	₩	2,671,909	₩	1,377,077	₩	1,292,305	₩	53,749	₩	19,880	₩	12,458

(in millions of Korean won)

2017

Current assets	Current liabilities	Equity	Operating income	Operating profit (loss) from continuing	Total comprehensive income (loss)
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	operations					
Investments in associates:						
Consus Clean Water Private Special Asset Fund-1	27,440	27	27,413	303	276	276
BNK 'Strong' Dividend Securities Investment Trust-1	19,628	100	19,528	9,084	3,239	3,239
BNK 'Strong' Korea Securities Investment Trust-1	25,477	67	25,410	14,894	4,989	4,989
Hanhwa Private Securities Investment Trust 102 nd	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 Carrying amount of investments in associates and joint venture as at December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

		2018			
		Net assets of associates and joint venture (A)	The Group's ownership (B) (%)	Net assets owned (AXB)	Carrying amount
Investments in associates:					
BNK Winning Securities Investment Trust 1	₩	31,486	31.35	₩ 9,871	₩ 9,871
BNK 'Strong' Dividend Securities Investment Trust-1		32,274	31.70	10,229	10,229
Hanhwa Private Securities Investment Trust 104 th		130,218	23.08	30,050	30,050
Shinhan BNPP Private Securities Investment Trust 6 th		133,497	23.08	30,807	30,807
HDC Presto Private Securities Investment Trust 8 th		71,811	42.87	30,784	30,784
IBK Private Securities Investment Trust RP2		132,519	23.08	30,581	30,581
Samsung Repo Professional Connection Private Securities Investment Trust 1 st		101,676	50.00	50,838	50,838
Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 1 st		111,020	27.27	30,278	30,278
Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 3 rd		100,399	30.00	30,120	30,120
Consus Clean Water Private Special Asset Fund-1		26,549	50.00	13,275	13,275
Shinhan BNPP Private		102,462	50.00	51,231	51,231

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Securities Investment Trust for Corporates 8 th				
Yuri Repo Alpha Private Securities Investment Trust 1 st	91,039	44.71	40,705	40,705
Kiwoom Frontier Private Securities Investment Trust 11 th	102,054	50.00	51,027	51,027
Kiwoom Frontier Private Securities Investment Trust 12 th	100,625	49.90	50,212	50,212
BNK Stocks for Public Subscription Plus 10	8,390	24.67	2,070	2,008
KC Co., Ltd.	(2,282)	41.69	-	-
Investments in joint venture:				
Dongwha Capital	18,568	30.00	5,570	3,083

(in millions of Korean won)

		2017			
		Net assets of associates and joint venture (A)	The Group's ownership (B) (%)	Net assets owned (AXB)	Carrying amount
Investments in associates:					
Consus Clean Water Private Special Asset Fund-1	₩	27,413	50.00	₩ 13,706	₩ 13,706
BNK 'Strong' Dividend Securities Investment Trust-1		19,528	30.70	5,996	5,996
BNK 'Strong' Korea Securities Investment Trust-1		25,410	36.76	9,342	9,342
Hanhwa Private Securities Investment Trust 102nd		100,104	30.00	30,031	30,031
Investments in joint venture:					
Dongwha Capital		18,656	30.00	5,597	3,923

19. Property and Equipment

Property and equipment as at December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

		2018			
		Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book amount
Land	₩	272,724	₩ -	₩ -	₩ 272,724
Building		525,769	(75,814)	-	449,955
Leasehold improvements		119,651	(89,939)	-	29,712
Equipment and vehicles		458,547	(365,408)	-	93,139
Construction in progress		22,755	-	-	22,755
Others		26,172	-	(6,912)	19,260
	₩	1,425,618	₩ (531,161)	₩ (6,912)	₩ 887,545

(in millions of Korean won)

		2017			
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	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book amount
Land	₩ 269,849	₩ -	₩ -	₩ 269,849
Building	458,822	(65,557)	-	393,265
Leasehold improvements	115,074	(83,323)	(60)	31,691
Equipment and vehicles	439,161	(343,702)	(213)	95,246
Construction in progress	39,421	-	-	39,421
Others	26,172	-	-	26,172
	<u>₩ 1,348,499</u>	<u>₩ (492,582)</u>	<u>₩ (273)</u>	<u>₩ 855,644</u>

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Changes in property and equipment for the years ended December 31, 2018 and 2017, are as follows:

(in millions or Korean won)

	2018							
	Beginning balance	Acquisition	Disposal	Reclassifi- cation	Depreciation	Impairment loss	Others	Ending Balance
Land	₩ 269,849	₩ 1,040	₩ (4,261)	₩ 6,096	₩ -	₩ -	₩ -	₩ 272,724
Building	393,265	7,105	(1,330)	61,493	(10,578)	-	-	449,955
Leasehold improvements	31,691	8,958	(608)	3,980	(11,972)	-	(2,337)	29,712
Equipment and vehicles	95,246	24,805	(225)	11,025	(39,498)	-	1,786	93,139
Construction in progress	39,421	83,422	7	(101,581)	-	-	1,486	22,755
Others	26,172	-	-	-	-	(6,912)	-	19,260
	<u>855,644</u>	<u>125,330</u>	<u>(6,417)</u>	<u>(18,987)</u>	<u>(62,048)</u>	<u>(6,912)</u>	<u>935</u>	<u>887,545</u>

(in millions or Korean won)

	2017							
	Beginning balance	Acquisition	Disposal	Reclassifi- cation	Depreciation	Impairment loss	Others	Ending Balance
Land	₩ 281,417	₩ 2,732	₩ (2,205)	₩ (12,095)	₩ -	₩ -	₩ -	₩ 269,849
Building	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
	<u>₩ 801,045</u>	<u>₩ 151,337</u>	<u>₩ (7,410)</u>	<u>₩ (27,944)</u>	<u>₩ (60,741)</u>	<u>₩ (273)</u>	<u>₩ (370)</u>	<u>₩ 855,644</u>

20. Intangible Assets

Intangible assets as of December 31, 2018 and 2017, consisted of the following:

(in millions of Korean won)

	2018			
	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Book amount
Software	₩ 188,777	₩ (146,151)	₩ -	₩ 42,626
Goodwill	48,082	-	(22,057)	26,025
Core deposits	177,470	(77,020)	(1,891)	98,559
Others	233,924	(129,307)	(175)	104,442
	<u>₩ 648,253</u>	<u>₩ (352,478)</u>	<u>₩ (24,123)</u>	<u>₩ 271,652</u>

(in millions of Korean won)

	2017			
	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Book amount
Software	₩ 184,714	₩ (130,129)	₩ -	₩ 54,585

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Goodwill	48,082	-	(22,057)	26,025
Core deposits	177,470	(59,502)	(1,891)	116,077
Others	188,492	(71,213)	(1,197)	116,082
	<u>₩ 598,758</u>	<u>₩ (260,844)</u>	<u>₩ (25,145)</u>	<u>₩ 312,769</u>

Changes in intangible assets for the years ended December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

(in millions of Korean won)	2018															
	Beginning balance		Acquisition		Disposal		Reclassification ¹		Amortization		Impairment loss		Others		Ending Balance	
Software	₩	54,585	₩	5,927	₩	(14)	₩	4,541	₩	(22,400)	₩	-	₩	(13)	₩	42,626
Goodwill		26,025		-		-		-		-		-		-		26,025
Core deposits		116,077		-		-		-		(17,518)		-		-		98,559
Others		116,082		24,577		(2,917)		497		(34,129)		(54)		386		104,442
	₩	312,769	₩	30,504	₩	(2,931)	₩	5,038	₩	(74,047)	₩	(54)	₩	373	₩	271,652

(in millions of Korean won)

(in millions of Korean won)

	2017															
	Beginning balance		Acquisition		Disposal		Reclassification ¹		Amortization		Impairment loss		Others		Ending Balance	
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

¹ Transferred from construction in progress.

Impairment test on goodwill is based on value-in-use calculated by the recoverable amount of a cash-generating unit, and these calculations use pre-tax cash flow projections based on financial budgets covering a five-year period. The cost of capital reflected in discounting estimated cash flows is determined as follows:

Input	Applied rate	Basis
Risk free interest rate	2.11%	Average of one year from the valuation date
Corporate Beta	0.514	Reflecting capital structure of similar companies
Market rate premium (MRP)	10.01%	Average MRP of one year from the valuation date
Cost of capital	7.25%	

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21. Investment Properties

Investment properties as at December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

	2018			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book amount
Land	₩ 99,857	₩ -	₩ -	₩ 99,857
Building	114,089	15,773	-	98,316
	<u>₩ 213,946</u>	<u>₩ 15,773</u>	<u>₩ -</u>	<u>₩ 198,173</u>

(in millions of Korean won)

	2017			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book amount
Land	₩ 103,703	₩ -	₩ -	₩ 103,703
Building	96,444	13,732	-	82,712
	<u>₩ 200,147</u>	<u>₩ 13,732</u>	<u>₩ -</u>	<u>₩ 186,415</u>

Rental income from investment properties is ₩ 2,856 million and ₩2,415 million for the years ended December 31, 2018 and 2017, respectively.

There are no expenses (including repairs and maintenance) directly related to the investment properties of which rental income was generated and no rental income was generated.

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

(in millions of Korean won)

	2018	2017	Valuation techniques	Input variables
Land	₩ 119,953	₩ 125,555	- The evaluation method of using officially assessed land pricing - Sales comparison approach	- Officially assessed land pricing - Sales history
Building	98,739	85,201	- Evaluation by the prime cost	- Repurchase cost - Durable years
	<u>₩ 218,692</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 of investment properties located recently.

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Changes in investment properties for the years ended December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

	2018					
	Beginning balance	Reclassification ¹	Depreciation	Disposal	Others	Ending Balance
Land	₩ 103,703	₩ (3,846)	₩ -	₩ -	₩ -	₩ 99,857
Building	82,712	17,795	(2,192)	-	-	98,315
	<u>₩ 186,415</u>	<u>₩ 13,949</u>	<u>₩ (2,192)</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 198,172</u>

(in millions of Korean won)

	2017					
	Beginning balance	Reclassification ¹	Depreciation	Disposal	Others	Ending Balance
Land	₩ 94,846	₩ 9,496	₩ -	₩ (639)	₩ -	₩ 103,703
Building	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>

¹ Reclassifications as at December 31, 2017, are due to change in lease ratio for investment in real properties.

Operating lease

The Group entered in to various operating lease agreements for land and buildings which are classified as investment properties. The remaining periods of non-cancellable operating lease are within five years. The lease payments can be increased annually depending on the market condition under all operating lease agreements. The future minimum lease payments expected to be received in relation to the non-cancellable operating lease agreement for investment properties as at December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

	2018	2017
Within one year	₩ 1,143	₩ 880
Later than one year but not later than five years	1,008	236
Later than five years	-	-
	<u>₩ 2,151</u>	<u>₩ 1,116</u>

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22. Other assets

Other assets as at December 31, December 31, 2018 and 2017, consist of:

<i>(in millions of Korean won)</i>	2018		2017	
Guarantee deposits	₩	1,072	₩	3,410
Articles for consumption		1,216		985
Prepaid expenses		36,586		19,778
Operating lease assets		724,753		468,940
Prepaid lease assets		10,334		9,647
Others		22,522		20,676
	₩	<u>796,483</u>	₩	<u>523,436</u>

Details of prepaid lease assets as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Operating lease assets:				
Operating lease assets	₩	958,137	₩	660,758
Accumulated depreciation		(260,058)		(208,267)
Accumulated impairment loss		(4,615)		(4,991)
		<u>693,464</u>		<u>447,500</u>
Hedge lease assets:				
Hedge lease assets		12,412		12,412
Accumulated depreciation		(1,471)		(1,471)
Accumulated impairment loss		(10,941)		(10,941)
		<u>-</u>		<u>-</u>
Initial direct costs		31,289		21,440
Prepaid lease assets		<u>10,334</u>		<u>9,647</u>
	₩	<u>735,087</u>	₩	<u>478,587</u>

Operating lease assets

Lessee of operating lease assets by industry based on the acquisition cost as at December 31, 2018 and 2017, is as follows:

<i>(in millions of Korean won)</i>	2018			2017		
	Transport equipment	General industrial equipment	Total	Transport equipment	General industrial equipment	Total
Cost	₩ 884,909	85,640	970,549	₩ 561,320	₩ 111,849	₩ 673,169
Accumulated depreciation	210,817	50,712	261,529	150,859	58,879	209,738
Accumulated impairment	-	15,556	15,556	-	15,931	15,931

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losses						
Carrying amount	₩ 674,092	19,372	693,464	₩ 410,461	₩ 37,039	₩ 447,500

The total of future minimum lease payments to the lessor at the end of the reporting period are as follows:

<i>(in millions of Korean won)</i>	December 31, 2018	December 31, 2017
Within one year	₩ 229,132	₩ 166,898
Later than one year but not later than five years	622,298	383,109
	<u>₩ 851,430</u>	<u>₩ 550,007</u>

Details of operating lease as at December 31, 2018 and 2017, are as follows:

The Group leases buildings, vehicles and others under non-cancellable operating lease agreements. The lease payments recognized as expenses for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Within one year	₩ 20,040	₩ 5,933
Later than one year but not later than five years	29,305	10,972
Later than five years	3,181	44
	<u>₩ 52,526</u>	<u>₩ 16,949</u>

23. Deposits

Deposits as at December 31, 2018 and 2017, consist of the followings:

<i>(in millions of Korean won)</i>	2018	2017
Deposits in Korean won:		
Demand deposits	₩ 7,836,648	₩ 7,699,044
Term deposits	62,125,119	59,702,211
Mutual installment deposits	2,766	7,209
Mutual installment for housing	8,823	14,785
Others	238	199
	<u>69,973,594</u>	<u>67,423,448</u>
Deposits in foreign currencies	1,061,359	1,227,482
Negotiable certificates of deposit	2,345,157	1,173,662
	<u>₩ 73,380,110</u>	<u>₩ 69,824,592</u>

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24. Borrowings

Borrowings at amortized cost as at December 31, 2018 and 2017, consist of:

<i>(in millions of Korean won)</i>	Annual interest rate (%)			2018	2017
	Minimum	Maximum			
Borrowings in Korean won:					
The BOK	0.50	0.75	₩	624,579	₩ 935,775
Others	0.90	3.68		2,388,002	2,401,754
				<u>3,012,581</u>	<u>3,337,529</u>
Borrowings in foreign currencies:					
Overdraft on our account	2.05	6.75		70,469	2,458
Banks	1.08	3.68		394,362	267,297
Relending loans	2.71	3.12		50,002	61,841
Others	4.19	4.39		313,342	276,607
				<u>828,175</u>	<u>608,203</u>
Call money	1.73	4.80		231,132	17,683
Bonds sold under repurchase agreement:					
Korean won	0.80	2.70		1,457,262	1,064,560
Foreign currencies	0.47	0.47		26,342	43,659
				<u>1,483,604</u>	<u>1,108,219</u>
Bills sold	0.70	1.36		30,962	30,095
Deferred expenses from borrowings				(375)	(140)
			₩	<u>5,586,079</u>	₩ <u>5,101,589</u>

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Borrowings at fair value through profit or loss as at December 31, 2018 and 2017, consist of:

<i>(in millions of Korean won)</i>	<u>Annual interest rate (%)</u>			2018		2017
	Minimum	Maximum				
Securities sold	2.00	2.00	₩	29,810	₩	14,832

Details of borrowings of financial institution as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018			
	The BOK	Other banks	Others	Total
Borrowings in Korean won	₩ 624,579	₩ 976,199	₩ 215,000	₩ 1,815,778
Borrowings in foreign currencies	-	740,437	50,002	790,439
Call money	-	231,132	-	231,132
Bonds sold under repurchase agreement	-	-	668,381	668,381
	<u>₩ 624,579</u>	<u>₩ 1,947,768</u>	<u>₩ 933,383</u>	<u>₩ 3,505,730</u>

<i>(in millions of Korean won)</i>	2017			
	The BOK	Other banks	Others	Total
Borrowings in Korean won	₩ 935,775	₩ 918,195	₩ -	₩ 1,853,970
Borrowings in foreign currencies	-	546,362	61,841	608,203
Call money	-	17,683	-	17,683
Bonds sold under repurchase agreement	-	-	499,932	499,932
	<u>₩ 935,775</u>	<u>₩ 1,482,240</u>	<u>₩ 561,773</u>	<u>₩ 2,979,788</u>

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25. Debentures

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

<i>(in millions of Korean won)</i>	Annual interest rate (%)			2018		2017
	Minimum	Maximum				
Debentures in Korean won:						
Unsecured coupon bond	1.36	3.43	₩	5,542,144	₩	6,093,328
Subordinated bond	3.05	4.40		2,610,000		2,290,000
Present value discounts				(9,658)		(9,883)
				<u>8,142,486</u>		<u>8,373,445</u>
Debentures in foreign currencies:						
Senior bond	3.32	4.85		198,668		189,822
Subordinated bond	3.63	3.63		279,525		244,601
Gain on fair value hedge				(27,517)		1,889
Present value discounts				(2,504)		(2,349)
				<u>448,172</u>		<u>433,963</u>
			₩	<u>8,590,658</u>	₩	<u>8,807,408</u>

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26. Net Defined Benefit Liabilities

Defined benefit plan

The Group operates a retirement benefit plan, which is an arrangement whereby the Group provides benefits as a lump sum, based on current salary and tenure of employment provided to employees on or after termination of their service. The retirement benefit plan is normally described as a defined benefit plan and its own characteristics are as follows:

- The obligation of the Group is to pay existing and previous employees promised retirement benefits.
- The Group will have the actuarial risk due to the fact that actual retirement benefits exceed expected retirement benefits and investment risk.

The defined benefit liabilities recognized in the consolidated financial statements is measured by an independent actuary. The Group uses the projected unit credit method in order to determine defined benefit liabilities.

Actuarial assumptions and variables, such as market rate risk, wage rate risk, death rate risk, consumer price index, expected rate of return and others, are based on market information and historical data and are renewed annually. Profit or loss incurred from the change in actuarial assumptions and the difference between assumptions and actual results are recognized for the year.

As at December 31, 2018 and 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>	2018		2017	
Present value of funded defined benefit liabilities	₩	525,328	₩	445,125
Fair value of plan assets		(453,328)		(413,396)
Net defined benefit liabilities	₩	<u>72,000</u>	₩	<u>31,729</u>

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Movements in the net defined benefit liabilities for the years ended December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

	2018		
	Present value of defined benefit liability	Plan assets	Total
Beginning balance	₩ 445,126	₩ (413,397)	₩ 31,729
Current service cost	57,002	-	57,002
Interest expenses (interest income)	15,192	(14,190)	1,002
	<u>517,320</u>	<u>(427,587)</u>	<u>89,733</u>
Remeasurements:			
Expected return on plan assets	-	8,958	8,958
Actuarial losses arising from changes in demographic assumptions	603	-	603
Actuarial losses arising from changes in financial assumptions	34,688	-	34,688
Others	(4,072)	-	(4,072)
	<u>31,220</u>	<u>8,958</u>	<u>40,178</u>
Contributions from the employer	-	(55,351)	(55,351)
Benefits paid	(22,453)	20,457	(1,996)
Effect of business combination and business disposal	(762)	197	(565)
Ending balance	<u>₩ 525,328</u>	<u>₩ (453,328)</u>	<u>₩ 72,000</u>

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(in millions of Korean won)

	2017		
	Present value of defined benefit liability	Plan assets	Total
Beginning balance	₩ 390,607	₩ (383,069)	₩ 7,538
Current service cost	51,859	-	51,859
Interest expenses (interest income)	12,511	(12,495)	16
	<u>454,977</u>	<u>(395,564)</u>	<u>59,413</u>
Remeasurements:			
Expected return on plan assets	-	8,534	8,534
Actuarial losses arising from changes in demographic assumptions	276	-	276
Actuarial losses arising from changes in financial assumptions	6,345	-	6,345
Others	11,049	-	11,049
	<u>17,670</u>	<u>8,534</u>	<u>26,204</u>
Contributions from the employer	-	(50,447)	(50,447)
Benefits paid	(28,386)	24,945	(3,441)
Effect of business combination and business disposal	864	(864)	-
Ending balance	<u>₩ 445,125</u>	<u>₩ (413,396)</u>	<u>₩ 31,729</u>

Details of fair values of plan assets as at December 31, 2018 and 2017, are as follows:

(in millions of Korean won,
in percentage, %)

	2018		2017	
	Amount	Ratio (%)	Amount	Ratio (%)
Time deposits	₩ 451,908	99.69	₩ 412,356	99.75
Others	1,421	0.31	1,040	0.25
	<u>₩ 453,328</u>	<u>100.00</u>	<u>₩ 413,396</u>	<u>100.00</u>

The significant actuarial assumptions as at December 31, 2018 and 2017, are as follows:

(in percentage, %)

	2018	2017
Discount rate	2.22 ~ 3.10	2.67 ~ 3.50
Salary growth rate (including Inflation)	1.20 ~ 6.06	2.00 ~ 6.06

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Assuming that all the other assumptions remain as they are at the end of the reporting period, the effect of the defined benefit liabilities to changes in the principal assumptions, is as follows:

<i>(in millions of Korean won)</i>	1% increase		1% decrease	
Change in discount rate	₩	(50,310)	₩	59,358
Change in salary growth rate		59,523		(51,345)

27. Provisions

Details of provisions for other liabilities and charges for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Provision for acceptances and guarantees	₩	6,487	₩	10,778
Provision for unused credit limit		27,433		24,549
Provision for restoration costs		6,791		6,617
Provision for credit card point		1,774		2,033
Provision for litigation		-		440
Others		171		555
	₩	<u>42,656</u>	₩	<u>44,972</u>

Changes in provision for acceptances and guarantees and provision for unused credit limit for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018			
	12 months expected credit losses	Expected lifetime credit losses		Total
		Unrecognized impairment	Recognized impairment	
Beginning balance	₩ 28,566	₩ 9,998	₩ 8,534	₩ 47,098
Changes in financial instruments recognized at the beginning balance	1,685	(1,730)	45	-
Transfer to 12-months expected loss	3,234	(3,230)	(4)	-
Transfer to credit-unimpaired financial liabilities	(1,524)	1,527	(3)	-
Transfer to credit-impaired financial liabilities	(25)	(27)	52	-
Foreign currency translation and others	16	3	78	97
	<u>30,267</u>	<u>8,271</u>	<u>8,657</u>	<u>47,195</u>
Provision (reversal)	<u>(11,439)</u>	<u>2,290</u>	<u>(4,126)</u>	<u>(13,275)</u>
Ending balance	₩ <u>18,828</u>	₩ <u>10,561</u>	₩ <u>4,531</u>	₩ <u>33,920</u>

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(in millions of Korean won)

	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 years ended December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

	2018					
	Beginning balance	Increase	Decrease	Others	Ending balance	
Provision for restoration costs	₩ 6,617	₩ 60	₩ (273)	₩ 387	₩ 6,791	
Provision for credit card point	2,033	59	(318)	-	1,774	
Provision for litigation	440	-	(66)	(374)	-	
Others	555	8	(109)	(283)	171	
	₩ 9,645	₩ 127	₩ (766)	₩ (270)	₩ 8,736	

(in millions of Korean won)

	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 December 31, 2018 and 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, and average lease period of leasehold stores terminated within three years is used for estimation. Actual average restoration costs of leasehold stores for the past seven years and average inflation rate for the past three years are used for estimating the expected settlement cost.

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28. Other Liabilities

Other liabilities as at December 31, 2018 and 2017, consist of the followings:

<i>(in millions of Korean won)</i>	2018	2017
Other financial liabilities:		
Due to trust accounts	₩ 377,096	₩ 460,051
Due to fund accounts	(274)	223
Foreign exchange remittances pending	44,303	45,355
Prepaid card liabilities	10,996	11,367
Debit card liabilities	24,020	15,542
Deposits for letter of guarantees and others	269,357	227,326
Present value discounts	(16,847)	(10,329)
Accounts payable	464,662	937,174
Accrued expenses	686,562	553,618
Financial guarantee contract liabilities	3,896	3,671
Agency business accounts	205,023	96,068
Unsettled domestic exchange liabilities	60,576	127,026
Deposits held by agency relationship	156,366	86,293
Guarantee deposits for securities subscription	39,514	4,260
Remittance pending	521	-
	<u>2,325,771</u>	<u>2,557,645</u>
Other non-financial liabilities:		
Withholding taxes	17,651	14,968
Unearned revenues	41,836	35,593
Others	142,617	89,950
	<u>202,104</u>	<u>140,511</u>
	<u>₩ 2,527,875</u>	<u>₩ 2,698,156</u>

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29. Equity

(a) Share capital

As at December 31, 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 December 31, 2018, amounts to ₩ 1,629,676 million.

(b) Other paid-in capital

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

<i>(in millions of Korean won)</i>	2018		2017	
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 December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	Issue date	Maturity	Interest rate (%)	2018		2017	
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					<u>(1,479)</u>		<u>(723)</u>
				₩	<u>508,521</u>	₩	<u>259,277</u>

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

<i>(in millions of Korean won)</i>	Issue date	Maturity	Interest rate (%)	2018		2017	
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
	2017.07.24	-	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)
				₩	<u>797,790</u>	₩	<u>598,455</u>

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

(d) Other components of equity

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

<i>(in millions of Korean won)</i>	2018		2017	
Gain on valuation of financial instruments at fair value through other comprehensive income	₩	90,233	₩	-
Gain on valuation of AFS financial assets		-		70,486
Exchange differences on translation of foreign operations		(5,013)		(7,804)
Remeasurements of net defined benefit liabilities		(155,859)		(115,681)
Gain on valuation of hedges of net investments in foreign operations		659		4,839
Share of other comprehensive income of associates		(87)		(87)
Tax effects		19,062		12,191
	₩	<u>(51,005)</u>	₩	<u>(36,056)</u>

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Changes in accumulated other comprehensive income for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)

	2018					
	Beginning balance	Changes (excluded from reclassification)	Reclassification	Tax effects	Ending balance	
Gain on valuation of financial instruments at fair value through other comprehensive income	₩ 15,101	₩ 64,015	₩ 4,259	₩ (17,752)	₩ 65,623	
Exchange differences on translation of foreign operations	(6,839)	2,791	-	(1,176)	(5,224)	
Remeasurements of net defined benefit liabilities	(82,133)	(40,178)	-	10,398	(111,913)	
Gain on valuation of hedges of net investments in foreign operations	3,668	(4,180)	-	1,087	575	
Share of other comprehensive income of associates	(66)	-	-	-	(66)	
	₩ (70,269)	₩ 22,448	₩ 4,259	₩ (7,443)	₩ (51,005)	

(in millions of Korean won)

	2017					
	Beginning balance	Changes (excluded from reclassification)	Reclassification	Tax effects	Ending balance	
Gain on valuation of AFS financial assets	₩ 65,237	₩ (6,216)	₩ (14,855)	₩ 5,148	₩ 49,314	
Exchange differences on translation of foreign operations	6,826	(16,758)	-	3,093	(6,839)	
Remeasurements of net defined benefit liabilities	(64,204)	(26,204)	-	8,275	(82,133)	
Gain on valuation of hedges of net investments in foreign operations	(5,602)	12,230	-	(2,960)	3,668	
Share of other comprehensive income of associates	(66)	-	-	-	(66)	
	₩ 2,191	₩ (36,948)	₩ (14,855)	₩ 13,556	₩ (36,056)	

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(e) Retained earnings

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

<i>(in millions of Korean won)</i>	2018	2017
Reserve:		
Earned profit reserves ¹	₩ 539,559	₩ 481,671
Regulatory reserve for credit loss	548,168	490,391
Discretionary reserves	2,254,884	2,125,577
	<u>3,342,611</u>	<u>3,097,639</u>
Retained earnings before appropriation	<u>1,410,392</u>	<u>1,320,242</u>
	<u>₩ 4,753,003</u>	<u>₩ 4,417,881</u>

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

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 December 31, 2018 and 2017, is as follows:

<i>(in millions of Korean won)</i>	2018	2017
Provided reserve for credit loss ¹	₩ 548,168	₩ 490,391
Changes in accounting policy	(67,122)	-
Expected provision of reserve for credit loss	9,028	57,777
Regulatory reserve for credit loss	<u>₩ 490,074</u>	<u>₩ 548,168</u>
Owners of the Parent Company	₩ 490,074	₩ 548,168
Non-controlling interests	-	-

¹ Provided reserve for credit loss as at December 31, 2018 and 2017, is the amount after appropriations of retained earnings.

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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 years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Profit for the year of owners of the Parent Company	₩	502,095	₩	403,100
Provision of reserve for credit losses		<u>9,028</u>		<u>57,777</u>
Adjusted profit after the provision of regulatory reserve ¹	₩	<u>493,067</u>	₩	<u>345,323</u>
Adjusted earnings per share after the provision of regulatory reserve ¹ <i>(in Korean won)</i>	₩	1,447	₩	1,023

¹ 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 year of owners of the Parent Company. Earnings per share after provision of reserve for credit loss are presented net of dividends on hybrid equity securities.

30. Net Interest Income

Net interest income, interest income and expenses for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Interest income				
Due from banks	₩	8,048	₩	8,178
Financial instruments at fair value through profit or loss		44,474		32,385
Financial instruments at fair value through other comprehensive income		80,481		-
AFS financial assets		-		78,961
Financial instruments at amortized cost		159,647		-
HTM financial assets		-		151,455
Loans receivable		3,139,847		2,886,575
Others		<u>196,306</u>		<u>195,823</u>
		<u>3,628,803</u>		<u>3,353,377</u>
Interest expense:				
Deposit liabilities		(941,040)		(747,820)
Borrowings		(87,659)		(74,062)
Debentures		(241,634)		(238,887)
Others		<u>(14,929)</u>		<u>(11,987)</u>
		<u>(1,285,262)</u>		<u>(1,072,756)</u>
Net interest income	₩	<u>2,343,541</u>	₩	<u>2,280,621</u>

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31. Net Commission Income

Net commission income, commission income and expenses for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Commission income:		
Commission received	₩ 332,054	₩ 290,686
Guarantees	14,854	15,292
Credit card	6,349	6,096
Others	303	459
	<u>353,560</u>	<u>312,533</u>
Commission expenses:		
Commission	(63,184)	(68,442)
Credit card	(86,429)	(84,378)
	<u>(149,613)</u>	<u>(152,820)</u>
Net commission income	<u>₩ 203,947</u>	<u>₩ 159,713</u>

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32. 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 years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Gain on financial assets at fair value through profit or loss:		
Gain on disposal of financial assets at fair value through profit or loss	₩ 267	₩ 2,365
Gain on sale of financial assets at fair value through profit or loss	49,086	40,172
Gain on valuation of financial assets at fair value through profit or loss	24,319	7,999
Dividend income of shares and beneficiary certificate	31,421	266
Gain on financial assets designated as at FVTPL:		
Gain on sale of financial assets designated as at FVTPL	-	619
Gain on valuation of financial assets designated as at FVTPL	-	1,210
	<u>105,093</u>	<u>52,631</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	(532)	(652)
Loss on sale of financial assets at fair value through profit or loss	(33,165)	(31,303)
Loss on valuation of financial assets at fair value through profit or loss	(26,962)	(4,918)
Purchase expenses of financial assets at fair value through profit or loss	(2)	-
Loss on financial assets designated as at FVTPL:		
Loss on valuation of financial assets designated at FVTPL	-	(5)
Loss on sale of financial assets designated at FVTPL	-	(739)
	<u>(60,661)</u>	<u>(37,617)</u>
Net gain on financial assets at fair value through profit or loss	<u>₩ 44,432</u>	<u>₩ 15,014</u>

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33. 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 year ended December 31, 2018, are as follows:

<i>(in millions of Korean won)</i>		2018
Gain on financial assets at fair value through other comprehensive income:		
Gain on sale of financial assets at fair value through other comprehensive income	₩	7,748
Reversal of impairment loss		182
Dividend income		6,486
		<u>14,416</u>
Loss on financial assets at fair value through other comprehensive income:		
Loss on sale of financial assets at fair value through other comprehensive income		(82)
Impairment loss on financial assets at fair value through other comprehensive income		(212)
		<u>(294)</u>
Net gain on financial assets at fair value through other comprehensive income	₩	<u>14,122</u>

34. Gain or Loss on AFS Financial Assets

Gain or loss on AFS financial assets for the year ended December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>		2017
Gain on AFS financial assets:		
Gain on sale of AFS financial assets	₩	14,693
Dividend income		27,096
		<u>41,789</u>
Loss on AFS financial assets:		
Loss on sale of AFS financial assets		(1,271)
Impairment loss on AFS financial assets		(70)
		<u>(1,341)</u>
Net gain on AFS financial assets	₩	<u>40,448</u>

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35. Gain or Loss on Financial Assets at Amortized Cost

Gain or loss on financial assets at amortized cost for the year ended December 31, 2018, are as follows:

(in millions of Korean won)

2018

Gain on financial assets at amortized cost:

Gain on sale of financial assets at amortized cost	₩	10
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Reversal of impairment loss on financial assets at amortized cost		145
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		<u>155</u>
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Loss on financial assets at amortized cost:

Impairment loss on financial assets at amortized cost		(176)
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		<u>(176)</u>
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Net loss on financial assets at amortized cost	₩	<u>(21)</u>
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36. Provision For Credit Loss

Provision for credit loss for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Reversal of provision for credit loss and others:		
Reversal of provisions:		
Reversal of provision for impairment	₩ 151	₩ -
Reversal of provision for credit loss on acceptances and guarantees	4,782	783
Reversal of provision for credit loss on financial guarantee contract	-	469
Reversal of provision for credit loss on unused credit limits	8,581	1,192
	<u>13,514</u>	<u>2,444</u>
Gain on disposal of loans receivable	154,114	37,769
Gain on loans receivable at fair value through profit or loss	1,034	-
	<u>168,662</u>	<u>40,213</u>
Contribution to provision for credit loss and others:		
Contribution to provisions:		
Impairment loss	(515,905)	(546,262)
Contribution to provision for credit loss on acceptances and guarantees	-	(2,106)
Contribution to provision for credit loss on unused credit limits	(88)	(3,101)
Contribution to provision for credit loss on financial guarantee contract	(390)	-
	<u>(516,383)</u>	<u>(551,469)</u>
Loss on disposal of loans receivable	<u>(114,879)</u>	<u>(108,210)</u>
	<u>(631,262)</u>	<u>(659,679)</u>
Contribution to provision for credit loss	₩ <u>(462,600)</u>	₩ <u>(619,466)</u>

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37. General and Administrative Expenses

General and administrative expenses for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Employee benefits:		
Salaries	₩ 550,073	₩ 483,431
Employee benefit expenses	153,587	155,527
Post-employment benefits	58,200	51,985
Severance pay	56,103	30,442
	<u>817,963</u>	<u>721,385</u>
Rent	42,260	39,079
Business promotion expenses	20,418	15,915
Depreciation	64,240	62,140
Amortization	74,047	75,065
Taxes and dues	41,495	40,025
Other administrative expenses	204,317	184,058
	<u>₩ 1,264,740</u>	<u>₩ 1,137,667</u>

(a) Share-based Payments

The Group has granted share-based payments to its executives and employees, and measured the cost of the share options by a fair value approach. The share-based payments is an incentive plan that sets, on grant date, the maximum number of shares that can be awarded. Actual shares to be granted is determined and paid in cash in accordance with achievement of performance targets over the vesting period.

The performance compensation shall be paid in cash of 40% by the chairman, the executive director, the bank president, and 60% by the other executives and the business executive, and the remaining compensations shall be deferred in connection with the share price for three years.

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The terms and conditions of granted share options as at December 31, 2018, are as follows:

i) Linked to short-term performance

	2015	2016	2017	2018
Number of shares granted	63,195	142,247	271,387	248,706
Residual shares	7,243	57,070	199,172	248,706
Date of granted	2015-03-02	2016-03-03	2017-03-03	2018-02-28
Grant method	Cash-settled share-based payment	Cash-settled share-based payment	Cash-settled share-based payment	Cash-settled share-based payment
Exercise price	₩0	₩0	₩0	₩0
Vesting conditions	Service period / Non-market performance / Market performance	Service period / Non-market performance / Market performance	Service period / Non-market performance / Market performance	Service period / Non-market performance / Market performance
Settlement method	Cash	Cash	Cash	Cash
Service period	1 year	1 year	1 year	1 year

ii) Linked to long-term performance

	2014	2015	2016	2017	2018
Number of shares granted	21,256	79,803	57,721	143,406	103,075
Residual shares	8,727	43,281	28,682	130,605	86,856
Date of granted	2014-03-28	2015-03-02	2016-03-03	2017-03-03	2018-02-28
Grant method	Cash-settled share-based payment	Cash-settled share-based payment	Cash-settled share-based payment	Cash-settled share-based payment	Cash-settled share-based payment
Exercise price	₩0	₩0	₩0	₩0	₩0
Vesting conditions	Service period / Non-market performance	Service period / Non-market performance	Service period / Non-market performance	Service period / Non-market performance	Service period / Non-market performance
Settlement method	Cash	Cash	Cash	Cash	Cash
Service period	3 years	3 years	3 years	3 years	3 years

	Deferred grant in 2019	Deferred grant in 2020	Deferred grant in 2021
Residual shares ¹	22,088	29,958	26,267
Grant method	Cash-settled share-based payment	Cash-settled share-based payment	Cash-settled share-based payment
Exercise price	₩0	₩0	₩0
Settlement method	Cash	Cash	Cash
Vesting conditions	Vested	Vested	Vested

¹ The number of deferred grants is less the granted shares after meeting the vesting conditions at the end of reporting period.

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Changes in granted number of share options for the years ended December 31, 2018 and 2017, are as follows:

i) Linked to short-term performance

<i>(in shares)</i>	2018	2017
Beginning balance	412,614	251,820
Granted	248,706	271,387
Exercised	149,129	110,593
Ending balance	<u>512,191</u>	<u>412,614</u>

ii) Linked to long-term performance

<i>(in shares)</i>	2018	2017
Beginning balance	324,775	180,023
Granted	86,856	134,568
Exercised	7,411	6,949
Others	(106,069)	17,133
Ending balance	<u>298,151</u>	<u>324,775</u>

<i>(in shares)</i>	Deferred grant	
	2018	2017
Beginning balance	81,908	50,568
Granted	6,603	34,035
Exercised	10,198	2,695
Ending balance	<u>78,313</u>	<u>81,908</u>

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The fair value of share options and the significant inputs into the option pricing model as at December 31, 2018, are as follows:

<i>(in Korean won)</i>		2018							
		Option pricing model	Share price	Exercise price	Price volatility	Expected option life	Risk-free interest rate	Fair value	
Grant expected in 2019	Black-Scholes Model	₩	7,330	-	0.00%	0 year	0.00%	₩	7,576
Grant expected in 2020	Black-Scholes Model		7,330	-	21.55%	1 year	1.76%		7,167
Grant expected in 2021	Black-Scholes Model		7,330	-	20.02%	2 years	1.84%		7,006
Linked to short-term performance									
Share granted in 2016	Black-Scholes Model		7,330	-	0.00%	0 year	0.00%		7,576
Share granted in 2017	Black-Scholes Model		7,330	-	21.55%	1 year	1.76%		7,167
Share granted in 2018	Black-Scholes Model		7,330	-	20.02%	2 years	1.84%		7,006

Expenses recognized related to the share option granted for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Linked to short-term performance	₩ 3,315	₩ 5,179
Linked to long-term performance	872	759

Liabilities recognized related to the share option granted for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Accrued expenses (short-term performance)	₩ 7,559	₩ 7,479
Accrued expenses (long-term performance)	2,368	1,717

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38. Other Operating Income and Expenses

Gains and losses on foreign currency transactions for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Gains on foreign currency transactions:		
Gain on foreign currency transactions	₩ 240,326	₩ 283,780
Foreign currency translation gains	86,078	65,286
	<u>326,404</u>	<u>349,066</u>
Losses on foreign currency transactions:		
Loss on foreign currency transactions	(215,147)	(248,626)
Foreign currency translation losses	(83,760)	(39,808)
	<u>(298,907)</u>	<u>(288,434)</u>
	<u>₩ 27,497</u>	<u>₩ 60,632</u>

Net income and loss related to derivatives for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Gains on financial derivatives:		
Gains on derivative transactions	₩ 199,478	₩ 402,550
Gains on valuation of derivatives	40,185	74,614
	<u>239,663</u>	<u>477,164</u>
Losses on financial derivatives:		
Losses on derivative transactions	(182,424)	(412,726)
Losses on valuation of derivatives	(32,143)	(86,171)
Losses on settlement of derivatives	(3)	-
	<u>(214,570)</u>	<u>(498,897)</u>
	<u>₩ 25,093</u>	<u>₩ (21,733)</u>

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Other operating income and expenses for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Other operating revenue:		
Gain on fair value hedged items	₩ 5,570	₩ 8,264
Trust fees and commissions received from trust account	32,626	28,649
Reversal of other provisions	766	5,763
Operating lease income	178,138	142,004
Others	1,570	556
	<u>218,670</u>	<u>185,236</u>
Other operating expenses:		
Loss on fair value hedged items	(8,305)	(1,964)
Trust management fees	(91)	(87)
Credit card charges	(22)	(15)
Contribution to credit guarantee fund	(86,386)	(83,171)
Contribution to housing credit guarantee fund	(31,434)	(33,529)
Insurance fees on deposits	(97,892)	(92,076)
Other provisions	(127)	(333)
Operating lease expense	(159,147)	(135,377)
Others	(16,704)	(19,699)
	<u>(400,108)</u>	<u>(366,251)</u>
	<u>₩ (181,438)</u>	<u>₩ (181,015)</u>

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39. Non-operating Income and Expenses

Non-operating income and expenses for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Income from investments in associates		
Share of profit of associates	₩ 7,868	₩ 805
Gain on disposal of investments in associates	785	1,275
Share of loss of associates	(2,973)	(2,232)
	<u>5,680</u>	<u>(152)</u>
Non-operating income:		
Gain on disposal of property and equipment	3,171	846
Gain on disposal of intangible assets	239	-
Reversal of impairment loss on intangible assets	37	-
Rental income	2,856	2,415
Restoration income	163	113
Gain on collection of charge-offs	1,049	1,048
Other interest income	19,233	13,064
Other non-operating income	719	114
	<u>27,467</u>	<u>17,600</u>
Non-operating expenses:		
Expenses on collection of charge-offs	(517)	(518)
Loss on disposal of property and equipment	(1,274)	(4,028)
Loss on retirement of property and equipment	(92)	(40)
Impairment loss on property and equipment	-	(273)
Impairment loss on investment properties	(6,912)	-
Loss on disposal of intangible assets	(152)	(129)
Donations	(36,676)	(23,918)
Other interest expenses	(18,042)	(24,667)
Regulation penalty	(41)	(14)
Restoration loss	(636)	(435)
	<u>(64,342)</u>	<u>(54,022)</u>
	<u>₩ (31,195)</u>	<u>₩ (36,574)</u>

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40. Income Tax Expense

Income tax expense for the years ended December 31, 2018 and 2017, consists of:

<i>(in millions of Korean won)</i>	2018		2017	
Current tax:	₩	128,066	₩	136,357
Changes in deferred tax liabilities by temporary difference:				
Opening balance of deferred tax liabilities		59,874		(17,127)
Ending balance of deferred tax liabilities		12,786		(36,446)
		<u>(47,088)</u>		<u>(19,319)</u>
Tax effect		187,940		119,230
Changes in deferred tax liabilities reflected directly in equity:		<u>(7,443)</u>		<u>13,556</u>
Income tax expense	₩	<u>180,497</u>	₩	<u>132,786</u>

Changes in accumulated temporary differences as at December 31, 2018 and 2017, is as follows:

<i>(in millions of Korean won)</i>	2018		2017	
	Accumulated temporary difference	Deferred tax assets (liabilities)	Accumulated temporary difference	Deferred tax assets (liabilities)
Temporary difference to be deducted:				
Loss on valuation of financial assets	₩ 115,146	₩ 29,938	₩ 87,269	₩ 22,690
Accrued expenses	49,283	12,814	61,516	15,994
Adjustment of acquisition value for debt-to-equity swap	71,505	18,591	71,201	18,512
Deferred loan origination fees	9,280	2,413	14,218	3,697
Provision for losses on unused credit limits	26,950	7,007	24,756	6,437
Honorary retirement benefits	56,103	14,587	18,535	4,819
Loss on valuation of derivative instruments	52,268	13,590	100,866	26,225
Deposits that the statute of limitation expired	8,094	2,105	7,505	1,951
Guarantee deposits for leases (discounted present value)	4,932	1,282	4,245	1,104
Unearned point revenues	12,751	3,315	12,448	3,236
Other provision	7,752	2,016	6,941	1,805
Loss on valuation of unsettled spot transactions	183	48	502	131
Provision for possible losses on acceptances and guarantees	7,626	1,983	11,274	2,931
Provision for retirement benefits disallowance	376,804	97,841	404,202	105,092
Unearned revenues (leasehold	14,541	3,781	9,794	2,546

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(in millions of Korean won)

	2018		2017	
	Accumulated temporary difference	Deferred tax assets (liabilities)	Accumulated temporary difference	Deferred tax assets (liabilities)
deposits provided)				
Impairment of AFS financial assets	12,185	3,168	36,751	9,555
Claim for reimbursement	117,604	30,577	164,217	42,696
Others	128,524	33,245	112,799	29,328
Tax deficit	17,575	4,569	23,708	6,164
	<u>1,089,106</u>	<u>282,870</u>	<u>1,172,747</u>	<u>304,913</u>
Temporary difference to be added:				
Interest receivables on securities	(135,069)	(35,132)	(184,387)	(47,941)
Revaluation of excess of land	(50,210)	(13,055)	(50,222)	(13,058)
Gain on valuation of debentures invested (adjustment of Carrying amount)	(129,291)	(33,616)	(138,021)	(35,885)
Gain on valuation of derivative instruments	(27,337)	(7,108)	(63,848)	(16,600)
Investments in credit rehabilitation fund	(23,721)	(6,167)	(17,075)	(4,439)
Deferred loan origination costs	(149,089)	(38,763)	(150,513)	(39,133)
Guarantee deposits for leases (prepaid rent)	(5,002)	(1,301)	(4,577)	(1,190)
Discounted present value	(107,833)	(28,037)	(9,825)	(2,554)
Initial direct costs of lease	(31,289)	(8,135)	(21,440)	(5,574)
Remeasurements of defined benefit plan	(242,642)	(63,087)	(371,977)	(96,714)
Fair value adjustment by business combination	(143,988)	(37,437)	(154,725)	(40,228)
Others	(224,081)	(58,120)	(80,445)	(20,916)
	<u>(1,269,552)</u>	<u>(329,958)</u>	<u>(1,247,055)</u>	<u>(324,232)</u>
Net of temporary difference	₩ <u>(180,446)</u>	₩ <u>(47,088)</u>	₩ <u>(74,308)</u>	₩ <u>(19,319)</u>

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Details of temporary difference reflected directly in equity as at December 31, 2018 and 2017, is as follows:

(in millions of Korean won)	2018		2017	
	Other comprehensive income	Tax effect	Other comprehensive income	Tax effect
Temporary difference reflected directly in equity:				
Loss on valuation of AFS financial assets	₩ -	₩ -	₩ (70,486)	₩ (21,172)
Loss on valuation of debt instruments at fair value through other comprehensive income	(90,233)	(24,610)	-	-
Foreign currency translation gains (losses) on overseas operations	5,013	(211)	7,804	965
Remeasurements of defined benefit plan	155,859	43,946	115,681	33,548
Loss on valuation of hedges of net investments in foreign operations	(659)	(84)	(4,839)	(1,171)
Share of other comprehensive income of associates	87	21	87	21
	₩ 70,067	₩ 19,062	₩ 48,247	₩ 12,191

Reconciliation between profit before income tax and income tax expense for the years ended December 31, 2018 and 2017, is as follows:

(in millions of Korean won)	2018	2017
Profit before income tax	₩ 718,638	₩ 557,750
Taxes payable ¹	187,263	134,514
Tax effect of:		
Non-taxable income (₩ 65,222 million in 2018, ₩ 34,567 million in 2017)	(16,996)	(8,337)
Non-deductible expenses (₩ 37,289 million in 2018, ₩ 19,121 million in 2017)	9,717	4,612
Consolidated tax	(17,054)	(12,270)
Others	17,567	14,267
Income tax expense	₩ 180,497	₩ 132,786
Effective tax rate (income tax expense/profit before income tax)	25.12%	23.81%

¹ 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 ₩20 billion to ₩300 billion, and 27.5% for more than

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₩300 billion) to profit before income tax.

As at the current reporting date, the tax offset period for future taxable income (due to tax net operating loss carried forward and net operating loss for the current period) is as follows:

(in millions of Korean won)

Year incurred	Loss incurred	Lapse amount	December 31, 2018	Offset period
2011	₩ 4,620	₩ -	₩ 4,620	Until the end of 2021

Details of current tax liabilities (income tax payable) and current tax assets (income tax refundable) before offsetting as at December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

	2018	2017
Income tax refundable prior to offsetting	₩ 83,721	₩ 101,493
Tax payables prior to offsetting	118,791	135,372
Deferred tax liabilities	₩ 35,069	₩ 33,879

41. 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 years ended December 31, 2018 and 2017.

Weighted average number of ordinary shares for the years ended December 31, 2018 and 2017, are as follows:

(in shares)

	2018		
	Number of ordinary shares	Days	Weighted average number of shares
Beginning	325,920,391	365	118,960,942,715
Weighted average number of ordinary shares			325,920,391

(in shares)

	2017		
	Number of ordinary shares	Days	Weighted average number of shares
Beginning	325,920,391	365	118,960,942,715
Weighted average number of ordinary shares			325,920,391

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Basic earnings per share attributable to owners of the Parent Company for the years ended December 31, 2018 and 2017, are as follows:

<i>(in Korean won and in shares)</i>	2018	2017
Profit for the year attributable to owners of the Parent Company	₩ 502,094,859,921	₩ 403,100,234,100
Dividends on hybrid equity securities	<u>(21,499,628,995)</u>	<u>(11,930,000,000)</u>
Profit attributable to the ordinary equity holders	480,595,230,926	391,170,234,100
Weighted average number of ordinary shares outstanding	<u>325,920,391</u>	<u>325,920,391</u>
Basic earnings per share	<u>₩ 1,475</u>	<u>₩ 1,200</u>

Diluted earnings per share for the years ended December 31, 2018 and 2017, are equal to the basic earnings per share because the Group did not have any potentially dilutive ordinary shares during the year.

42. Contingencies and Commitments

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

<i>(in millions of Korean won)</i>	Type	2018	2017
Confirmed acceptances and guarantees:			
Confirmed acceptances and guarantees in Korean won	Payment guarantee for loans	₩ 121,982	₩ 122,396
	Payment guarantee for debentures issued	-	59,281
	Others	<u>504,710</u>	<u>510,439</u>
		<u>626,692</u>	<u>692,116</u>
Confirmed acceptances and guarantees in foreign currencies	Acceptances on letters of credit	7,180	8,875
	Acceptances on letters of guarantee for importers	24,109	27,050
	Others	<u>240,012</u>	<u>219,973</u>
		<u>271,301</u>	<u>255,898</u>
		<u>897,993</u>	<u>948,014</u>
Unconfirmed acceptances and guarantees:	Letters of credit	255,923	270,906
	Others	<u>10,126</u>	<u>10,249</u>
		<u>266,049</u>	<u>281,155</u>
Others:	Endorsed bill	<u>19</u>	<u>-</u>
		<u>₩ 1,164,061</u>	<u>₩ 1,229,169</u>

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Confirmed and unconfirmed acceptances and guarantees by customer as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Confirmed acceptances and guarantees:				
Large corporate	₩ 311,043	34.64	₩ 66,351	7.00
Small- and middle-sized corporate ¹	552,170	61.49	312,534	32.97
Household	34,780	3.87	569,129	60.03
	<u>₩ 897,993</u>	100.00	<u>₩ 948,014</u>	100.00
Unconfirmed acceptances and guarantees:				
Large corporate	₩ 64,982	24.42	₩ 69,994	24.90
Small- and middle-sized corporate ¹	201,067	75.58	211,161	75.10
Households	-	-	-	-
	<u>₩ 266,049</u>	100.00	<u>₩ 281,155</u>	100.00

¹ Small- and middle-sized corporate indicates SME in Article 2, Section 1, of small- and medium-sized Enterprise Basic Law.

Confirmed and unconfirmed acceptances and guarantees by country as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Confirmed acceptances and guarantees:				
Korea	₩ 897,963	99.90	₩ 947,984	99.99
Others	30	0.10	30	0.01
	<u>₩ 897,993</u>	100.00	<u>₩ 948,014</u>	100.00
Unconfirmed acceptances and guarantees:				
Korea	₩ 263,415	99.01	₩ 278,670	99.12
China	134	0.05	54	0.02
Others	2,500	0.94	2,431	0.86
	<u>₩ 266,049</u>	100.00	<u>₩ 281,155</u>	100.00

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

<i>(in millions of Korean won)</i>	2018		2017	
Corporates	₩	7,757,830	₩	7,162,738
Households		5,201,707		1,063,448
Credit card		4,353,358		2,536,297
Securities purchase agreement		354,300		386,442
	₩	<u>17,667,195</u>	₩	<u>11,148,925</u>

Lawsuits

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

<i>(in millions of Korean won)</i>	2018		2017	
	As a plaintiff	As a defendant	As a plaintiff	As a defendant
Number (case)	44 cases	67 cases	35 cases	62 cases
Amount	₩ 177,383	₩ 31,094	₩ 94,316	₩ 86,367
Provisions related to these lawsuits		₩ -		₩ 440

The Group filed a lawsuit against Korea Deposit Insurance Corporation to seek compensation for loss (litigation value: ₩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 the second trial held on January 24, 2019, the Group has decided to returned back certain amount to Korea Deposit Insurance Corporation, which is the case after the reporting period that requires amendment, and the amount of the liability has been revised including the interest paid after the end of the reporting period. In addition, although the Group returned the loss and filed an appeal for the final judgement in the Supreme Court on February 13, 2019, and the ultimate outcome of the appeal cannot be reasonably estimated, the management judges that the outcome of the suit does not exceed the amount of the liability recognized at the end of the reporting period.

Others

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

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A former executive of Busan Bank was filed in a lawsuit with violation of the Act on the Specified Economic Crime, Severe Punishment, etc. such as misappropriation during establishing the credit lines for BL Co., Ltd. related to the project of Haeundae LCT., by Busan District Public Prosecutor's Office on February 8, 2019. The ultimate outcome of this case and its financial effect cannot be predicted at the end of the reporting period.

After the end of the reporting period, Busan Bank has been involved in a lawsuit as a defendant amounting to ₩44,250 million. The ultimate outcome of this case and its financial effect cannot be predicted at the end of the reporting period.

43. Trust Account (Not Audited by Independent Auditor):

Financial information of trust account is prepared in accordance with Korean IFRS 5004 'Trust Account of Trust Vendor' based on the Financial Investment Services and Capital Markets Act and Financial Industry Detailed Regulatory.

Financial summary of trust accounts for which the Group provides the guarantees for a fixed rate of return and the repayment of principal as at December 31, 2018 and 2017, is as follows:

(in millions of Korean won)	2018		2017	
	Total assets	Operating income	Total assets	Operating income
Trust accounts guaranteeing a fixed rate of return and the repayment of principal	₩ 2,219	₩ 55	₩ 2,207	₩ 88
Trust accounts guaranteeing the repayment of principal	513,444	19,363	486,920	21,015
Mixed trust accounts	4,478	156	4,692	175
Performance-based trust Account	20,489,872	163,779	13,362,368	154,495
	<u>₩ 21,010,013</u>	<u>₩ 183,353</u>	<u>₩ 13,856,187</u>	<u>₩ 175,773</u>

The transactions between the Group and trust accounts for the years ended December 31, 2018 and 2017, are as follows:

(in millions of Korean won)	2018	2017
Revenues:		
Gain on trust account	₩ 32,623	₩ 28,649
Retirement pension management fee	6,421	5,871
	<u>39,044</u>	<u>34,520</u>
Expenses:		
Interest expense related to borrowings from trust account	6,451	5,091

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<i>(in millions of Korean won)</i>	2018	2017
Trust management fee	91	87
	<u>₩ 6,542</u>	<u>₩ 5,178</u>

Assets and liabilities of trust accounts as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Assets:		
Accrued income	₩ 8,354	₩ 7,448
Retirement pension management fee	3,171	2,921
	<u>11,525</u>	<u>10,369</u>
Liabilities:		
Borrowings from trust account	377,096	460,051
Accrued expenses	593	274
Unearned revenue	326	159
	<u>₩ 378,015</u>	<u>₩ 460,484</u>

Details of trust accounts for which the Group provides the guarantees for a fixed rate of return and the repayment of principal as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Trust accounts guaranteeing the repayment of principal:		
Elderly living pension trust	₩ 844	₩ 845
Personnel pension trust	176,202	174,416
Retirement trust	3,801	4,280
New personnel pension trust	5,097	5,225
Pension trust	315,988	293,343
	<u>501,932</u>	<u>478,109</u>
Trust accounts guaranteeing a fixed rate of return and the repayment of principal:		
Unspecified monetary trust	35	33
Borrowings from trust account	35	23
Interest payable - borrowings from trust account	1	153
	<u>₩ 71</u>	<u>₩ 209</u>

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44. Transactions with Related Parties

All intercompany transactions, including intercompany receivables and payables, are eliminated while preparing consolidated financial statements.

Outstanding balances arising from sales/purchases of goods and services as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>		2018	2017
Associate			
BNK Stocks for Public Subscription Plus 10	Other assets	₩ 3	₩ 2
BNK 'Winning' Securities Investment Trust 1 st	Other assets	16	-
BNK 'Strong' Dividend Securities Investment Trust 1 st	Other assets	31	13
BNK 'Strong' Korea Securities Investment Trust 1 st	Other assets	4	2
IBK Private Securities Investment Trust RP 2 nd	Other assets	1	-
Key management	Loans receivable	-	100
	Credit card receivable	4	3
	Deposit liabilities	325	193
	Other liabilities	262	250

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Transactions with related parties for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>		2018	2017
Associate			
BNK Stocks for Public Subscription Plus 10	Commission income	₩ 15	₩ 17
BNK 'Winning' Securities Investment Trust 1 st	Commission income	79	-
BNK 'Strong' Dividend Securities Investment Trust 1 st	Commission income	107	45
BNK 'Strong' Korea Securities Investment Trust 1 st	Commission income	63	25
HDC Presto Private Securities Investment Trust 8 th	Commission income	3	-
IBK Private Securities Investment Trust RP 2 nd	Commission income	3	-
Key management	Interest income	1	3
	Interest expenses	1	1
	Commission income	2	-
	Commission expenses	1	-

Fund transactions with related parties for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>		2018			
		Beginning balance	Increase	Decrease	Ending balance
Key management	Loans receivable	₩ 100	₩ -	₩ 100	₩ -
	Deposit liabilities	193	238	107	325

<i>(in millions of Korean won)</i>		2017			
		Beginning balance	Increase	Decrease	Ending balance
Key management	Loans receivable	₩ -	₩ 100	₩ -	₩ 100
	Deposit liabilities	82	152	40	193

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Details of payment guarantees provided by the Group to the related parties as at December 31, 2018 and 2017, are as follows

(in millions of Korean won)

Provided by	Provided to	2018	2017	Remark
BNK Capital	M-park Capital Co., Ltd.	₩ 5,000	₩ 5,000	General loan, credit grants

BNK Capital, a subsidiary of the Group, grants general loan limits amounting to ₩ 5,000 million to its joint venture, M-park Capital Co., Ltd. (formerly, Dongwha Capital), for the years ended December 31, 2018 and 2017.

Compensation for key management for the years ended December 31, 2018 and 2017, is as follows:

(in millions of Korean won)

	2018	2017
Short-term employee benefits	₩ 2,080	₩ 1,455
Share-based payment	761	731
	<u>₩ 2,841</u>	<u>₩ 2,186</u>

The Group purchased loans receivable ₩ 140,084 million (2017: ₩ 80,881 million) from M-park Capital Co., Ltd., a joint venture, for the years ended December 31, 2018 and 2017.

45. Statements of Cash Flows

The Group's Cash and due from banks in the consolidated statements of cash flows as at December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

	2018	2017
Cash on hand	₩ 574,564	₩ 636,164
Foreign currencies	105,694	79,645
Deposits in local currency	2,100,581	2,133,966
Deposits in foreign currencies	<u>432,010</u>	<u>292,372</u>
	<u>3,212,849</u>	<u>3,142,147</u>
Due from banks (Note 7)	<u>(2,067,219)</u>	<u>(2,127,569)</u>
	<u>₩ 1,145,630</u>	<u>₩ 1,014,578</u>

Cash and due from banks in the consolidated statements of cash flows include cash, cash in other branches, deposits in the BOK and deposits in other financial institutions, and are subtracted from deposits with maturity within three months at acquisition and restricted deposits.

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Details of material transactions without cash inflows and outflows as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Reclassification of construction in process	₩ -	₩ 5,727
Reclassification between property and equipment, investment properties and assets held for sale	13,758	29,820
Changes in accumulated other comprehensive income from valuation of AFS financial assets	(68,295)	21,017
Remeasurements of net defined benefit liabilities	40,178	26,204

Changes in liabilities arising from financial activities

Changes in net debt for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	At January 1, 2018	Cash flows	Exchange differences	Fair value hedge	Others	At December 31, 2018
Borrowings	₩ 5,116,421	₩ 597,641	₩ (1,225)	₩ -	₩ (96,948)	₩ 5,615,889
Debentures	8,807,408	(229,707)	13,628	(5,226)	4,555	8,590,658
Total debt arising from financial activities	₩ 13,923,829	₩ 367,934	₩ 12,403	₩ (5,226)	₩ (92,393)	₩ 14,206,547

<i>(in millions of Korean won)</i>	At January 1, 2017	Cash flows	Exchange differences	Fair value hedge	Others	At December 31, 2017
Borrowings	₩ 6,332,708	₩(1,201,062)	₩ (48,257)	₩ -	₩ 33,032	₩ 5,116,421
Debentures	8,781,598	86,959	(67,437)	1,889	4,399	8,807,408
Total debt arising from financial activities	₩15,114,306	₩(1,114,103)	₩ (115,694)	₩ 1,889	₩ 37,431	₩13,923,829

46. Dividends

A dividend in respect of the year ended December 31, 2018, of ₩ 300 per share, amounting to a total dividend of ₩ 97,776 million, is to be proposed to shareholders at the annual general meeting on March 28, 2018. These financial statements do not reflect this dividend payable.

47. Unconsolidated Structured Entities

The Group owns interests in unconsolidated structured entities where the Group does not have control in accordance with Korean IFRS 1110. The natures of interests and risks are as follow:

Interests owned by the Group in unconsolidated structured entities has been classified per nature and purpose of each structured entity into structured financing and investment fund.

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Unconsolidated structured entities classified as 'structured financing' include real estate project financing investment entity, infrastructure development entity and special-purpose entity for shipping and aviation financing. Each entity was incorporated as a separate entity to efficiently carry out the Group's business. The funds are raised through channels such as equity investments, loans from financial institutions and participating organizations. Structured financing is a way of funding large scale businesses with risks. The structured financing invests in qualifying companies not based on credit or physical collateral of the Group leading the project, but the economic feasibilities of the specific project. Investors of the entity benefit from the income arising from the ongoing projects and the Group recognizes interest income, income from valuation of equity investments and dividend income. Although an entity that provides funds, joint guarantees, unsubordinated credit offerings and others exists prior to the Group's financial support, if the funds are not collected by the predetermined schedule or if circumstances such as cessation of a project occurs, the Group could be exposed to principal losses due to decrease in value of equity investments or losses arising from uncollectible loans.

Unconsolidated structured entities classified as 'investment fund' include investment trust company and private equity firm. The investment trust company delegates investment and management to fund managers according to the trust agreement and distributes operating profit to the investors. The private equity firm invests in equity securities through private placement in order to participate in management, enhance governance, and others. The income from the investment is distributed to the investors. The Group, an investor to the investment fund, recognizes income from valuation of equity investments and dividend income in proportion to its share ratio. If the value of the private equity fund decreases, the Group will be exposed to the risk of principal losses.

Total asset size of the unconsolidated structured entities, carrying amount for the line items as recognized in the consolidated financial statements, maximum exposure to loss and loss incurred for the years ended December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

	2018			
	Investment fund	Structural financing	Asset-backed securitization	Project financing
Total assets of unconsolidated structured entity	₩ 9,200,495	₩ 12,742,479	₩ 38,201,310	₩ 3,791,859
Recognized assets related to unconsolidated structured entities:				
Financial assets at fair value through profit or loss	603,378	170,519	-	-
Financial assets at fair value through other comprehensive income	-	-	144,689	-
Financial assets at amortized cost	-	2,296,144	367,989	-
Equity method investments	231,357	-	-	-
Loans and receivables	-	1,632,512	-	377,019
(Provision for impairment)	-	(34,593)	-	(1,006)
	834,735	4,064,582	512,678	376,013

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Recognized liabilities related to unconsolidated structured entities:				
Financial guarantee contract	-	1,335	-	-
Provisions for debt guarantees	-	11	-	-
Maximum exposure to loss ¹				
Investments	834,735	4,064,555	512,678	-
Investment commitments	63,858	49,603	-	-
Loan commitments	-	1,197,686	-	376,013
Financial guarantee contract	-	192,247	-	-
Purchase commitment	-	162,489	35,500	-
	898,593	5,667,926	548,178	376,013
Loss on unconsolidated structured entity	₩ 3,187	₩ 20,246	₩ 104	₩ -

¹ Maximum exposure to loss includes the amount of investment assets recognized on the statement of financial position, and the amount readily determinable when specific criteria of contracts including purchase agreement or credit grants are met.

(in millions of Korean won)

	2017		
	Investment fund	Structural financing	Asset-backed securitization
Total assets of unconsolidated structured entity	₩ 8,841,791	₩ 67,153,508	₩ 34,857,700
Recognized assets related to unconsolidated structured entities:			
Financial assets held for trading	27,510	-	-
AFS financial assets	527,007	174,415	212,494
HTM financial assets	-	-	198,539
Loans and receivables	-	3,302,466	-
(Provision for impairment)	-	(39,355)	-
	554,517	3,437,526	411,033
Recognized liabilities related to unconsolidated structured entities:			
Financial guarantee contract	-	-	-
Maximum exposure to loss ¹			
Investments	554,517	3,437,526	411,033
Investment commitments	89,075	18,762	-
Loan commitments	-	1,133,850	-
Financial guarantee contract	-	158,345	-
Purchase commitment	-	-	88,000
	643,592	4,748,483	499,033
Loss on unconsolidated structured entity	₩ 653	₩ 28,040	₩ 1,535

¹ Maximum exposure to loss includes the amount of investment assets recognized on the

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statement of financial position, and the amount readily determinable when specific criteria of contracts including purchase agreement or credit grants are met.

48. Approval of Issuance of the Financial Statements

The consolidated financial statements 2018 were approved for issue by the Board of Directors on February 12, 2019 and are subject to change with the approval of shareholders at their Annual General Meeting on March 28, 2019.

49. Changes in Accounting Policies

- 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

Beginning balance - Korean IFRS 1039	₩	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)
Beginning balance of retained earnings - Korean IFRS 1109	₩	4,351,215

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(b) Classification and Measurement of Financial Instruments

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, loans and receivables	Financial assets at amortized cost	Total
Financial assets – January 1, 2018						
Beginning balance – Korean IFRS 1039 ¹	₩ 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 HTM financial assets and loans and receivables to financial assets at amortized cost	-	-	-	(84,080,313)	84,080,313	-
Beginning balance - Korean IFRS 1109 ¹	₩ 2,335,113	₩ -	₩ 4,897,794	₩ -	₩ 84,080,313	₩ 91,313,220

¹ The adjustments arising from impairment of financial assets are not included. See Note 49 (a).

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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 ¹	₩	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 bonds from available-for-sale financial assets to financial assets at fair value through profit or loss		-	-	(52)
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 ¹	₩	-	₩ 14,537	₩ 4,453,029

¹ The adjustments arising from impairment of financial assets are not included. See Note 49 (a).

(c) 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.

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(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.

- Application of Korean IFRS 1115 *Revenue from contracts with customers*

As explained in Note 2, the Group has applied Korean IFRS 1115 *Revenue from contracts with customers* from January 1, 2018. In accordance with the transitional provisions in Korean IFRS 1115, comparative figures have not been restated. The application of Korean IFRS 1115 has no impact on the consolidated interim financial statement.