

BNK FINANCIAL GROUP INC. and Subsidiaries

**Consolidated Interim Financial Statements
June 30, 2019 and 2018**

BNK FINANCIAL GROUP INC. and Subsidiaries

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Report on Review of Interim Financial Statements

(English Translation of a Report Originally Issued in Korean)

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

Reviewed Financial Statements

We have reviewed the accompanying consolidated interim financial statements of BNK Financial Group Inc. and its subsidiaries (collectively referred to as the “Group”). These financial statements consist of the consolidated interim statement of financial position of the Group as at June 30, 2019, and the related consolidated interim statements of comprehensive income for the three-month and six-month periods ended June 30, 2019 and 2018, and consolidated interim statements of changes in equity and cash flows for the six-month periods ended June 30, 2019 and 2018, and a summary of significant accounting policies and other explanatory notes, expressed in Korean won.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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

Conclusion

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

Other Matters

We have audited the consolidated statement of financial position of the Group as at December 31, 2018, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, in accordance with Korean Standards on Auditing. We expressed an unqualified opinion on those financial statements, not presented herein, in our audit report dated March 20, 2019. The consolidated statement of financial position as at December 31, 2018, presented herein for comparative purposes, is consistent, in all material respects, with the above audited statement of financial position as at December 31, 2018.

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

Seoul, Korea
August 14, 2019

This report is effective as of August 14, 2019, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

BNK FINANCIAL GROUP INC. and Subsidiaries
Consolidated Interim Statements of Financial Position
June 30, 2019 and December 31, 2018

(in millions of Korean won)

	Notes	June 30, 2019	December 31, 2018
Assets			
Cash and due from banks	7	₩ 3,175,469	₩ 3,212,849
Financial assets at fair value through profit or loss	8	4,483,075	3,471,853
Financial assets at fair value through other comprehensive income	9	5,097,761	5,030,992
Financial assets at amortized cost	10	7,038,062	6,798,768
Loans and receivables	12,13	81,606,953	77,629,807
Derivative assets	14	55,539	30,362
Investments in associates and joint venture	15	474,627	465,099
Property and equipment	16	922,152	887,545
Intangible assets	17	251,294	271,652
Investment properties	18	218,569	198,173
Other assets		892,626	796,482
Total assets		₩ 104,216,127	₩ 98,793,582
Liabilities			
Deposit liabilities		₩ 74,685,874	₩ 73,380,110
Borrowings	19	5,936,819	5,615,889
Debentures	20	9,424,090	8,590,658
Derivative liabilities		58,690	57,275
Net defined benefit liabilities	21	97,572	72,000
Provisions	22	39,081	42,656
Current tax liabilities		85,066	35,069
Deferred tax liabilities		66,732	47,088
Other liabilities	23	4,951,964	2,527,875
Total liabilities		95,345,888	90,368,620
Equity			
Equity attributable to owners of the Parent Company	24		
Share capital		1,629,676	1,629,676
Hybrid equity securities		608,184	508,521
Other paid-in capital		786,783	786,783
Other components of equity		(46,118)	(51,005)
Retained earnings		4,994,257	4,753,003
		7,972,782	7,626,978
Non-controlling interest		897,457	797,984
Total equity		8,870,239	8,424,962
Total liabilities and equity		₩ 104,216,127	₩ 98,793,582

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

BNK FINANCIAL GROUP INC. and Subsidiaries
Consolidated Interim Statements of Comprehensive income
Three-Month and Six-Month Periods Ended June 30, 2019 and 2018

		Period Ended June 30			
		2019 (Unaudited)		2018 (Unaudited)	
	Notes	Three months	Six months	Three months	Six months
(in millions of Korean won, except per share amounts)					
Net interest income	25				
Interest income					
Financial assets at fair value through profit or loss		₩ 15,367	₩ 29,692	₩ 10,827	₩ 19,608
Financial asset at fair value through other comprehensive income and amortized cost		907,325	1,814,711	886,616	1,751,248
		922,692	1,844,403	897,443	1,770,856
Interest expenses		(370,273)	(734,127)	(310,552)	(601,971)
		552,419	1,110,276	586,891	1,168,885
Net fee and commission income	26				
Commission income		98,162	182,358	89,928	182,291
Commission expenses		(27,146)	(57,429)	(35,383)	(71,995)
		71,016	124,929	54,545	110,296
Gain (loss) on financial assets at fair value through profit or loss	27	26,838	52,057	(7,289)	13,959
Gain on financial assets at fair value through other comprehensive income	28	3,976	14,966	1,313	7,034
Gain (loss) on financial assets at amortized cost	29	(66)	27	11	(31)
Contribution to provision for credit loss	30	(51,887)	(109,167)	(83,160)	(151,085)
General and administrative expenses	31	(319,775)	(627,856)	(293,719)	(574,140)
Other operating income (expenses)					
Gain on foreign currency transaction		12,405	16,522	1,853	7,603
Gain from derivatives		10,650	26,309	7,758	4,797
Other operating income		62,623	124,475	52,623	110,034
Other operating expenses		(121,303)	(237,871)	(99,352)	(191,869)
Operating profit		246,896	494,667	221,474	505,483
Non-operating income	32				
Share of profit of associates		3,421	7,597	1,423	2,017
Other income		2,965	12,489	4,231	10,579
Other expenses		(8,096)	(21,025)	(10,847)	(20,435)
		(1,710)	(939)	(5,193)	(7,839)
Profit before income tax		245,186	493,728	216,281	497,644
Income tax expense	33	(60,547)	(122,098)	(57,534)	(124,066)
Profit for the period		₩ 184,639	₩ 371,630	₩ 158,747	₩ 373,578
Profit is attributable to:					
Owners of the Parent Company		174,107	351,237	150,343	357,596
Non-controlling interest		10,530	20,393	8,403	15,982

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

BNK FINANCIAL GROUP INC. and Subsidiaries
Consolidated Interim Statements of Comprehensive Income
Three-Month and Six-Month Periods Ended June 30, 2019 and 2018

		Period Ended June 30			
		2019 (Unaudited)		2018 (Unaudited)	
Notes		Three months	Six months	Three months	Six months
(in millions of Korean won, except per share amounts)					
Other comprehensive income, net of tax					
<i>Items that will not be reclassified to profit or loss</i>					
	Remeasurements of net defined benefit liabilities	(4,477)	(21,807)	(1,869)	(6,429)
	Gain on valuation of equity instruments at fair value through other comprehensive income	(50)	218	5,080	5,819
<i>Items that may be subsequently reclassified to profit or loss</i>					
	Gain on valuation of debt instruments at fair value through other comprehensive income	15,305	23,793	10,742	14,703
	Exchange differences on translation of foreign operations	2,690	5,174	4,711	4,504
	Loss on valuation of hedges of net investments in foreign operations	(1,268)	(2,494)	(3,656)	(3,331)
	Impairment loss of debt instruments at fair value through other comprehensive income	106	124	(26)	(50)
	Other comprehensive income for the period, net of tax	12,306	5,008	14,982	15,216
	Total comprehensive income for the period	₩ 196,945	₩ 376,638	₩ 173,729	₩ 388,794
Total comprehensive income for the period is attributable to:					
	Owners of the Parent Company	₩ 186,412	₩ 356,246	₩ 165,323	₩ 372,812
	Non-controlling interests	10,530	20,393	8,403	15,982
Earnings per share (in Korean won)					
34	Basic and diluted earnings per share	₩ 510	₩ 1,038	₩ 444	₩ 1,067

BNK FINANCIAL GROUP INC. and Subsidiaries
Consolidated Interim Statements of Changes in Equity
Six-Month Periods Ended June 30, 2019 and 2018

(in millions of Korean won)	Attributable to owners of the Parent Company							
	Share capital	Hybrid equity securities	Other paid-in capital	Other components of equity	Retained earnings	Total	Non-controlling interests	Total equity
Balance at January 1, 2018	₩ 1,629,676	₩ 259,277	₩ 786,783	₩ (36,056)	₩ 4,417,881	₩ 7,057,561	₩ 598,459	₩ 7,656,020
Changes in accounting policy	-	-	-	(34,213)	(66,666)	(100,879)	4	(100,875)
Dividends	-	-	-	-	(74,962)	(74,962)	-	(74,962)
Issuance of hybrid equity securities	-	249,244	-	-	-	249,244	199,335	448,579
Dividends on hybrid equity securities	-	-	-	-	(9,843)	(9,843)	(15,982)	(25,825)
Others	-	-	-	-	-	-	(25)	(25)
Total comprehensive income	-	-	-	-	357,596	357,596	15,982	373,578
Profit for the period	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	(6,429)	-	(6,429)	-	(6,429)
Remeasurements of net defined benefit liabilities	-	-	-	-	-	-	-	-
Gain on valuation of financial assets at fair value through other comprehensive income	-	-	-	20,523	-	20,523	-	20,523
Gain on disposal of financial assets at fair value through other comprehensive income	-	-	-	-	89	89	-	89
Gain on overseas operations translation	-	-	-	4,504	-	4,504	-	4,504
Loss on valuation of hedges of net investments in foreign operations	-	-	-	(3,331)	-	(3,331)	-	(3,331)
Impairment loss of debt instruments at fair value through other comprehensive income	-	-	-	(50)	-	(50)	-	(50)
Balance at June 30, 2018	₩ 1,629,676	₩ 508,521	₩ 786,783	₩ (55,052)	₩ 4,624,095	₩ 7,494,023	₩ 797,773	₩ 8,291,796
Balance at January 1, 2019	₩ 1,629,676	₩ 508,521	₩ 786,783	₩ (51,005)	₩ 4,753,003	₩ 7,626,978	₩ 797,984	₩ 8,424,962
Changes in accounting policy	-	-	-	-	(97,776)	(97,776)	-	(97,776)
Dividends	-	99,662	-	-	-	99,662	99,667	199,329
Issuance of hybrid equity securities	-	-	-	-	(12,835)	(12,835)	(20,393)	(33,228)
Dividends on hybrid equity securities	-	-	-	-	506	506	(194)	312
Others	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	351,237	351,237	20,393	371,630
Profit for the period	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	(21,807)	-	(21,807)	-	(21,807)
Remeasurements of net defined benefit liabilities	-	-	-	-	-	-	-	-
Gain on valuation of financial assets at fair value through other comprehensive income	-	-	-	24,012	-	24,012	-	24,012
Gain (loss) on disposal of financial assets at fair value through other comprehensive income	-	-	-	(122)	122	-	-	-
Gain on overseas operations translation	-	-	-	5,174	-	5,174	-	5,174
Loss on valuation of hedges of net investments in foreign operations	-	-	-	(2,494)	-	(2,494)	-	(2,494)
Impairment loss of debt instruments at fair value through other comprehensive income	-	-	-	124	-	124	-	124
Balance at June 30, 2019	₩ 1,629,676	₩ 608,183	₩ 786,783	₩ (46,118)	₩ 4,994,257	₩ 7,972,781	₩ 897,457	₩ 8,870,238

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

BNK FINANCIAL GROUP INC. and Subsidiaries
Consolidated Interim Statements of Cash Flows
Six-Month Periods Ended June 30, 2019 and 2018

(in millions of Korean won)

	2019	2018
Cash flows from operating activities		
Profit for the period	₩ 371,630	₩ 373,578
Adjustments to profit for the period:		
Interest income	(1,844,403)	(1,770,856)
Interest expense	734,127	601,971
Loss (gain) on financial assets at fair value through profit or loss, net	(14,986)	11,721
Gain on financial assets at fair value through other comprehensive income, net	(14,966)	(7,034)
Loss (gain) on financial assets at amortized cost, net	(27)	31
Contribution to provision for credit loss	184,554	211,245
Loss (gain) on foreign currency translation	(2,462)	1,777
Loss (gain) on valuation of derivatives, net	(27,177)	1,591
Depreciation	48,158	31,596
Amortization	37,288	37,056
Post-employment benefits	31,503	29,401
Other operating income, net	104,699	59,602
Share of loss of associates	(7,597)	(2,017)
Loss on property and equipment, and intangible assets	(1,334)	(41)
Income tax expense	122,098	124,066
	<u>(650,525)</u>	<u>(669,891)</u>
Changes in operating assets and liabilities:		
Decrease (increase) in due from banks	7,566	(592,103)
Increase in financial assets at fair value through profit or loss	(803,046)	(630,716)
Increase in loans and receivables	(4,053,045)	(2,315,381)
Decrease in derivative assets and liabilities	3,535	681
Increase in other assets	(239,971)	(222,396)
Increase in deposit liabilities	1,314,183	1,606,308
Decrease in provisions	(12)	(70)
Increase in other liabilities	2,385,899	799,244
Decrease in net defined benefit liabilities	(28,364)	(20,626)
Increase in plan assets	(6,406)	(2,279)
	<u>(1,419,661)</u>	<u>(1,377,338)</u>
Interest received	1,821,311	1,784,512
Dividend received	8,622	6,391
Interest paid	(748,370)	(567,467)
Income tax paid	(52,634)	(55,231)
Net cash outflow from operating activities	<u>₩ (669,627)</u>	<u>₩ (505,446)</u>

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

BNK FINANCIAL GROUP INC. and Subsidiaries
Consolidated Interim Statements of Cash Flows
Six-Month Periods Ended June 30, 2019 and 2018

(in millions of Korean won)

	2019	2018
Cash flows from investing activities		
Proceeds from disposal of financial assets at fair value through profit or loss	₩ 3,314,749	₩ 649,466
Payments for financial assets at fair value through profit or loss	(3,506,862)	(839,535)
Proceeds from disposal of financial assets at fair value through other comprehensive income	1,633,333	892,439
Payments for financial assets at fair value through other comprehensive income	(1,671,516)	(707,726)
Proceeds from disposal of financial assets at amortized cost	425,798	767,507
Payments for financial assets at amortized cost	(655,297)	(919,270)
Proceeds from disposal of investments in associates	144,057	207,079
Payments for investments in associates	(149,640)	(533,974)
Proceeds from disposal of property and equipment	4,465	57
Payments for property and equipment	(47,368)	(62,785)
Proceeds from disposal of intangible assets	10	2,258
Payments for intangible assets	(14,577)	(6,964)
Others	4,037	1,739
Net cash outflow from investing activities	(518,811)	(549,709)
Cash flows from financing activities		
Increase in borrowings	13,173,736	19,419,005
Decrease in borrowings	(12,904,483)	(18,804,814)
Proceeds from issuance of debentures	2,121,346	1,701,139
Repayment of debentures	(1,320,000)	(1,907,368)
Lease liabilities paid	(13,986)	-
Dividends paid to shareholders	(128,857)	(98,407)
Proceeds from issuance of hybrid equity securities	199,330	448,579
Others	26,216	-
Net cash inflow from financing activities	1,153,302	758,134
Net decrease in cash and cash equivalents	(35,136)	(297,021)
Cash and cash equivalents at the beginning of the period	1,145,631	1,014,578
Effects of exchange rate changes on cash and cash equivalents	5,767	5,344
Cash and cash equivalents at the end of the period	₩ 1,116,262	₩ 722,901

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

BNK FINANCIAL GROUP INC. and Subsidiaries

Notes to the Consolidated Interim Financial Statements

June 30, 2019 and 2018 (Unaudited), and December 31, 2018

1. General Information

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

1.1 BNK Financial Group

BNK Financial Group was incorporated on March 15, 2011, in accordance with the provisions of the Financial Holding Company Act, whereby holders of the ordinary share of Busan Bank; BNK Securities Co., Ltd.; BNK Capital Co., Ltd.; and BNK Credit Information Co., Ltd. transferred all of their shares to the Parent Company and in return received shares of the Parent Company's ordinary share in order to control, manage and provide financial support to subsidiaries engaged in financial business or financial industry-related subsidiaries. Meanwhile, BNK Financial Group established BNK Information System Co., Ltd. and BNK Savings Bank Co., Ltd. as its subsidiaries with 100% investment in 2011. The Parent Company obtained control of Kyongnam Bank by acquiring 56.97% of its shares in October 2014 and ultimately acquired 100% of shares of Kyongnam Bank through comprehensive exchange of shares on June 4, 2015. In July 2015, the Parent Company also obtained 51.01% of shares in BNK Asset Management Co., Ltd. and established it as its subsidiary through paid-in capital increase and acquisition of ownership. In December 2017, the Parent Company took over the rest of BNK Asset Management Co., Ltd.'s shares, accordingly, it became a wholly-owned subsidiary. The headquarters of BNK Financial Group is located at Busan Nam-gu Munhyeongeumyu-ro, 30. Meanwhile, the Parent Company's share capital as at June 30, 2019, amounts to ₩1,629,676 million with 325,935,246 outstanding shares.

1.2 Consolidated Subsidiaries

Details of the consolidated subsidiaries as at June 30, 2019 and December 31, 2018, are as follows:

Name of subsidiary	Industry	Location	Closing month	Ownership interests (%)	
				June 30, 2019	December 31, 2018
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 Teun Teun Short-term Government Bond No. 1 ²	Beneficiary certificate	Korea	December 31	-	92.04

BNK FINANCIAL GROUP INC. and Subsidiaries
Notes to the Consolidated Interim Financial Statements
June 30, 2019 and 2018 (Unaudited), and December 31, 2018

Name of subsidiary	Industry	Location	Closing month	Ownership interests (%)	
				June 30, 2019	December 31, 2018
BNK REPO PLUS Private Investment Trust No. 1 ²	Beneficiary certificate	Korea	December 31	41.67	41.67
BNK KOSDAQ Venture Investment Trust No. 1 ²	Beneficiary certificate	Korea	December 31	36.62	36.62
BNK-KN Southeast Region Job Creation Fund ^{1 2}	Beneficiary certificate	Korea	December 31	52.62	-
BNK K200 Index Securities Investment Trust ²	Beneficiary certificate	Korea	December 31	80.31	-
BNK Tuna Private investment Trust ^{1 2}	Beneficiary certificate	Korea	December 31	80.00	-
BNK Luxembourg Core Office Real Estate Investment Trust ²	Beneficiary certificate	Korea	December 31	100.00	-
BNK Teun Teun Mid and Long-Term Securities Investment Trust ¹ - Bond ²	Beneficiary certificate	Korea	December 31	43.31	-
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 ^{1st 2}	Beneficiary certificate	Korea	December 31	100	100
HDC Dual Private Securities Investment Trust ^{3rd 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	96.71
MFO BNK Finance Kazakhstan LLP	Specialized credit financial business	Kazakhstan	December 31	100	100
BNK Securities Co., Ltd.:					
BNK Open Innovation Investment Association ²	Beneficiary certificate	Korea	December 31	99.97	-
BNK Asset Management Co., Ltd.:					
BNK Brave New KOREA No.1 ²	Beneficiary certificate	Korea	December 31	68.95	67.64
BNK Global AI Securities Feeder Investment Trust H ²	Beneficiary certificate	Korea	December 31	72.50	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.

BNK FINANCIAL GROUP INC. and Subsidiaries
Notes to the Consolidated Interim Financial Statements
June 30, 2019 and 2018 (Unaudited), and December 31, 2018

1.3 Summarized Financial Information

Summarized financial information for consolidated subsidiaries as at June 30, 2019 and December 31, 2018 and for the six-month periods ended June 30 2019 and 2018, is as follows:

(in millions of Korean won)

Name of subsidiary	June 30, 2019			2019			
	Assets	Liabilities	Equity	Operating income	Operating profit	Profit for the period	Total comprehensive income
Busan Bank Co., Ltd. and its Subsidiaries	₩56,646,956	₩51,548,837	₩ 5,098,119	₩1,460,611	₩ 297,344	₩ 222,777	₩ 223,023
Kyongnam Bank Co., Ltd. and its Subsidiaries	38,400,731	35,035,831	3,364,900	821,724	151,857	120,369	123,590
BNK Capital Co., Ltd. and its Subsidiaries	5,173,567	4,497,897	675,670	317,896	51,641	39,337	41,284
BNK Securities Co., Ltd. and its Subsidiaries	2,660,512	2,226,763	433,749	83,733	17,448	12,731	13,210
BNK Savings Bank Co., Ltd.	1,029,042	886,362	142,680	34,561	13,562	11,245	11,245
BNK Asset Management Co., Ltd. and its Subsidiaries	75,318	3,161	72,157	6,226	2,287	1,730	1,730
BNK Credit Information Co., Ltd.	10,711	662	10,049	2,809	595	421	421
BNK System Co., Ltd.	14,328	5,131	9,197	26,052	685	547	547

(in millions of Korean won)

Name of subsidiary	December 31, 2018			2018			
	Assets	Liabilities	Equity	Operating income	Operating profit	Profit for the period	Total comprehensive income
Busan Bank Co., Ltd. and its Subsidiaries	₩53,034,643	₩48,195,199	₩ 4,839,444	₩ 1,405,248	₩ 332,005	₩ 248,205	₩ 259,476
Kyongnam Bank Co., Ltd. and its Subsidiaries	37,936,971	34,660,326	3,276,645	802,895	142,200	108,650	113,030
BNK Capital Co., Ltd. and its Subsidiaries	5,067,528	4,423,114	644,414	265,046	52,873	38,189	38,578
BNK Securities Co., Ltd.	1,797,779	1,377,240	420,539	78,083	3,653	2,400	1,568
BNK Savings Bank Co., Ltd.	1,016,461	885,027	131,434	27,542	8,915	8,613	8,613
BNK Asset Management Co., Ltd. and its Subsidiaries	72,277	1,850	70,427	3,563	489	219	219
BNK Credit Information Co., Ltd.	10,192	564	9,628	2,657	472	338	338
BNK System Co., Ltd.	11,211	2,562	8,649	21,322	1,224	945	945

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1.4 Changes in Scope for Consolidation

Subsidiaries newly included in the consolidation for the six-month period June 30, 2019 and the year ended December 31, 2018:

Subsidiary	June 30, 2019
BNK-KN Southeast Region Job Creation Fund ¹	Participated in BNK Securities Co., Ltd.'s investment when setting the fund
BNK K200 Index Securities Investment Trust	Participated in Busan Bank Co., Ltd. 's investment when setting beneficiary certificate
BNK Tuna Private investment Trust ¹	Participated in Busan Bank Co., Ltd. 's investment when setting beneficiary certificate
BNK Open Innovation Investment Association	Participated in BNK Securities Co., Ltd.'s investment when setting the fund
BNK Luxembourg Core Office Real Estate Investment Trust	Participated in Busan Bank Co., Ltd. 's investment when setting beneficiary certificate
BNK Teun Teun Mid and Long-Term Securities Investment Trust ¹ - Bond	Participated in Busan Bank Co., Ltd. 's investment when setting beneficiary certificate

Subsidiary	December 31, 2018
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 six-month period June 30, 2019 and the year ended December 31, 2018:

Subsidiary	June 30, 2019
BNK Tuen Tuen Short-term Government Bond No. 1	Liquidation of Busan Bank Co., Ltd.'s beneficiary certificate

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Subsidiary	December 31, 2018
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

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 periods presented, unless otherwise stated.

2.1 Basis of Preparation

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

The Group's condensed consolidated interim financial statements for the six-month period ended June 30, 2019, have been prepared in accordance with Korean IFRS 1034 *Interim Financial Reporting*. These condensed consolidated interim financial statements have been prepared in accordance with Korean IFRS which is effective or early adopted as at June 30, 2019.

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.

2.1.1 New and amended standards and interpretations adopted by the Group

The Group has applied the following standards and interpretations for the first time for their annual reporting period commencing January 1, 2019.

- Enactment of Korean IFRS 1116 *Leases*

Korean IFRS 1116 *Leases* replaces Korean IFRS 1017 *Leases*. Under Korean IFRS 1116, with implementation of a single lease model, lessee is required to recognize assets and liabilities for all lease which lease term is over 12 months and underlying assets are not low value assets. A lessee is required to recognize a right-of-use asset and a lease liability representing its obligation

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to make lease payments.

With implementation of Korean IFRS 1116 *Lease*, the Group has changed accounting policy. The Group has adopted Korean IFRS 1116 retrospectively, as permitted under the specific transitional provisions in the standard, and recognized the cumulative impact of initially applying the standard as at January 1, 2019, the date of initial application. The Group has not restated comparatives for the 2018 reporting period. The impact of the adoption of the leasing standard and the new accounting policies are disclosed in Note 37.

- 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. The amendment does not have a significant impact on the financial statements.

- 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 amendment does not have a significant impact on the financial statements.

- 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. The amendment does not have a significant impact on the financial statements.

- 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 presents examples of circumstances where a judgement or estimate is required to be reassessed. The enactment does not have a significant impact on the financial statements.

2.1.2 New standards and interpretations not yet adopted by the Group

Certain new accounting standards and interpretations that have been published are not mandatory for annual reporting period commencing January 1, 2019 and have not been early adopted by the Group are set out below.

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2.2 Significant Accounting Policies

Significant accounting policies and method of computation used in the preparation of the condensed consolidated interim financial statements are consistent with those of the consolidated financial statements for the year ended December 31, 2018, except for the changes due to the application of amendment and enactments of standards described in Note 2.1.1 and the one described below.

2.2.1 Income Tax Expense

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

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

Significant accounting estimates and assumptions applied in the preparation of these condensed consolidated interim financial statements are the same as those applied to the consolidated financial statements for the year ended December 31, 2018, except for the estimates used to determine income tax expense, and accounting estimates and assumptions for implementation of Korean IFRS 1116 explained as below.

4. Financial Risk Management

(a) General

The Group is exposed to various financial risks, such as credit risk, liquidity risk, market risk and operational risk, associated with financial instruments. There has not been a significant change in the Group's purpose of financial risk management and risk management policy since December 31, 2018.

(b) Credit Risk

Maximum exposure to credit risk

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The Group's maximum exposure to credit risk that does not consider value of collateral as at June 30, 2019 and December 31, 2018, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2019		December 31, 2018	
On balance				
Cash and due from banks	₩	2,059,206	₩	2,067,219
Financial assets at fair value through profit or loss		4,437,476		3,448,382
Financial assets at fair value through other comprehensive income		4,909,434		4,855,353
Financial assets at amortized cost		7,038,062		6,798,768
Loans		77,834,691		76,088,389
Receivables		3,772,262		1,541,418
Derivative assets		55,539		30,362
		<u>100,106,670</u>		<u>94,829,891</u>
Off balance				
Guarantees and acceptances		1,225,962		1,164,061
Loan commitments		18,581,139		17,667,195
		<u>19,807,101</u>		<u>18,831,256</u>
	₩	119,913,771	₩	113,661,147

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 June 30, 2019 and December 31, 2018 is as follows:

(in millions of
Korean won)

June 30, 2019													
Loans and receivables										Debt securities			
										Fair value through other comprehensive income		Amortized cost	
Loans					Receivables								
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						Subtotal	
Grade 1	₩ 3,195,184	₩ 4,147	₩ -	₩ 397,706	₩ 2	₩ -	₩ 3,597,039	₩ 3,459,750	₩ 5,604,195	₩ 9,063,945			
Grade 2	4,814,850	4,018	-	95,053	8	-	4,913,929	1,317,037	1,402,143	2,719,180			
Grade 3	7,098,395	45,943	-	11,493	83	-	7,155,914	101,447	-	101,447			
Grade 4	11,596,941	175,089	-	20,778	383	-	11,793,191	30,600	30,473	61,073			
Grade 5	23,324,791	896,341	-	48,680	1,529	-	24,271,341	-	-	-			
Grade 6	14,949,526	6,300,190	-	36,363	14,323	-	21,300,402	-	-	-			
Grade 7	1,406,562	2,205,972	955,400	2,068	5,699	1,678	4,577,379	-	-	-			
Non-graded	1,751,278	43,842	-	3,140,799	1,384	-	4,937,303	601	2,029	2,630			
	₩ 68,137,527	₩ 9,675,542	₩ 955,400	₩ 3,752,940	₩ 23,411	₩ 1,678	₩ 82,546,498	₩ 4,909,435	₩ 7,038,840	₩ 11,948,275			

(in millions of
Korean
won)

December 31, 2018													
Loans and receivables										Debt securities			
										Fair value through other comprehensive income		Amortized cost	
Loans					Receivables								
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						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			

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Exposure to credit risk for loan commitments and guarantees and acceptances by credit risk grade as at June 30, 2019 and December 31, 2018, is as follows:

(in millions of
Korean won)

June 30, 2019

	Loan commitments				Guarantees and acceptances			
	12 months expected credit losses	Expected lifetime credit losses		Subtotal	12 months expected credit losses	Expected lifetime credit losses		Subtotal
		Unrecognized impairment	Recognized impairment			Unrecognized impairment	Recognized impairment	
Grade 1	₩ 1,350,439	₩ 1,649	₩ -	₩ 1,352,088	₩ 5,173	₩ -	₩ -	₩ 5,173
Grade 2	1,941,071	472	-	1,941,543	48,615	-	-	48,615
Grade 3	2,383,352	6,607	-	2,389,959	69,714	780	-	70,494
Grade 4	4,500,416	29,593	-	4,530,009	193,092	8,153	-	201,245
Grade 5	4,381,988	176,388	-	4,558,376	491,867	60,452	-	552,319
Grade 6	2,140,712	528,552	-	2,669,264	186,018	137,775	-	323,793
Grade 7	260,872	238,157	14,426	513,455	49	18,817	5,457	24,323
Non-graded	138,194	2,871	-	141,065	-	-	-	-
	₩ 17,097,044	₩ 984,289	₩ 14,426	₩ 18,095,759	₩ 994,528	₩ 225,977	₩ 5,457	₩ 1,225,962

(in millions of
Korean won)

December 31, 2018

	Loan commitments				Guarantees and acceptances			
	12 months expected credit losses	Expected lifetime credit losses		Subtotal	12 months expected credit losses	Expected lifetime credit losses		Subtotal
		Unrecognized impairment	Recognized impairment			Unrecognized impairment	Recognized impairment	
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	9,994	9,225	19,349
Non-graded	207,916	721	-	208,637	-	-	-	-
	₩ 16,334,850	₩ 973,965	₩ 4,080	₩ 17,312,895	₩ 977,581	₩ 177,255	₩ 9,225	₩ 1,164,061

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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 six-month periods ended June 30, 2019 and 2018, are as follows:

(in millions of Korean won)	2019							Adjustment	Consolidated financial statements
	Busan Bank	Kyongnam Bank	BNK Capital Co., Ltd.	BNK Securities Co., Ltd.	BNK Savings Bank	Others	Total		
Net interest income (expenses)	₩ 578,699	₩ 408,377	₩ 112,367	₩ 5,583	₩ 19,003	₩ (15,817)	₩ 1,108,212	₩ 2,065	₩ 1,110,277
Net commission income	46,424	31,851	13,243	23,060	1,074	11,149	126,801	(1,872)	124,929
Net gain (loss) on financial assets at fair value through profit or loss	14,389	8,847	-	23,868	3,066	2,134	52,304	(247)	52,057
Net gain (loss) on financial assets at fair value through other comprehensive income	6,294	8,275	215	162	-	-	14,946	20	14,966
Net gain (loss) on financial assets at amortized cost	(11)	38	-	-	-	-	27	-	27
Provision for credit loss and others	(18,605)	(46,081)	(44,954)	(276)	777	-	(109,139)	(28)	(109,167)
General and administrative expenses	(298,375)	(222,844)	(37,456)	(34,505)	(8,438)	(29,453)	(631,071)	3,215	(627,856)
Other operating income (expenses), net	(31,471)	(36,606)	8,226	(444)	(1,920)	95,956	33,741	(104,308)	(70,567)
Operating profit	297,344	151,857	51,641	17,448	13,561	63,970	595,821	(101,155)	494,666
Non-operating income (expenses), net	(5,567)	3,996	(14)	92	388	(115)	(1,220)	282	(938)
Profit (loss) before income tax	291,777	155,853	51,627	17,540	13,950	63,854	594,601	(100,873)	493,728
Income tax expense	(69,000)	(35,484)	(12,290)	(4,809)	(2,705)	(953)	(125,241)	3,143	(122,098)
Profit (loss) for the period	222,777	120,369	39,337	12,731	11,245	62,901	469,360	(97,730)	371,630
Total assets	₩56,646,956	₩38,400,731	₩5,173,567	₩2,660,512	₩1,029,042	₩ 6,246,605	₩110,157,413	₩(5,941,287)	₩104,216,126
Total liabilities	₩51,548,837	₩35,035,831	₩4,497,897	₩2,226,763	₩ 886,362	₩ 1,302,827	₩ 95,498,517	₩ (152,630)	₩ 95,345,887

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(in millions of Korean won)	2018							Adjustment	Consolidated financial statements
	Busan Bank	Kyongnam Bank	BNK Capital Co., Ltd.	BNK Securities Co., Ltd.	BNK Savings Bank	Others	Total		
Net interest income (expenses)	₩ 613,157	₩ 430,902	₩ 115,323	₩ 6,711	₩ 18,205	₩ (14,740)	₩1,169,558	₩ (673)	₩ 1,168,885
Net commission income	40,122	23,600	9,729	27,062	679	9,935	111,127	(831)	110,296
Net gain (loss) on financial assets at fair value through profit or loss	6,687	5,845	-	440	80	412	13,464	495	13,959
Net gain (loss) on financial assets at fair value through other comprehensive income	5,139	1,775	-	120	-	-	7,034	-	7,034
Net gain (loss) on financial assets at amortized cost	15	(47)	-	-	-	-	(32)	-	(32)
Provision for credit loss and others	(27,062)	(81,261)	(41,933)	36	(896)	-	(151,116)	31	(151,085)
General and administrative expenses	(275,650)	(200,955)	(34,243)	(31,588)	(7,449)	(26,151)	(576,036)	1,896	(574,140)
Other operating income (expenses), net	(30,403)	(37,659)	3,998	872	(1,704)	97,917	33,021	(102,455)	(69,434)
Operating profit	332,005	142,200	52,873	3,653	8,915	67,374	607,020	(101,537)	505,483
Non-operating income (expenses), net	(7,702)	478	(295)	60	322	(90)	(7,227)	(612)	(7,839)
Profit (loss) before income tax	324,303	142,678	52,579	3,713	9,237	67,283	599,793	(102,149)	497,644
Income tax expense	(76,098)	(34,028)	(14,390)	(1,313)	(624)	(559)	(127,012)	2,946	(124,066)
Profit (loss) for the period	248,205	108,650	38,189	2,400	8,613	66,724	472,781	(99,203)	373,578
Total assets	₩52,483,737	₩37,767,510	₩4,903,105	₩2,012,530	₩ 889,181	₩ 6,187,609	₩104,243,672	₩(6,362,042)	₩ 97,881,630
Total liabilities	₩47,740,910	₩34,536,163	₩4,288,791	₩1,601,149	₩764,767	₩1,277,338	₩ 90,209,118	₩ (619,283)	₩ 89,589,835

(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

This note provides an update on the judgements and estimates made by the Group in determining the fair values of the financial instruments since the last annual financial report. There are no significant changes in the business and economic environments that affect the fair value of the Group's financial assets and liabilities for the six-month period ended June 30, 2019.

(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 June 30, 2019 and December 31, 2018, are as follows:

(in millions of Korean won)	June 30, 2019		December 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and due from bank	₩ 3,175,469	₩ 3,175,469	₩ 3,212,849	₩ 3,212,849
Financial assets at fair value through profit or loss	4,483,075	4,483,075	3,471,853	3,471,853
Financial assets at fair value through other comprehensive income	5,097,761	5,097,761	5,030,992	5,030,992
Financial assets at amortized cost	7,038,062	7,134,932	6,798,768	6,830,477
Loans and receivables	81,606,953	82,615,937	77,629,807	78,276,719
Derivative assets	55,539	55,539	30,362	30,362
	<u>₩ 101,456,859</u>	<u>₩ 102,562,713</u>	<u>₩ 96,174,631</u>	<u>₩ 96,853,252</u>
Financial liabilities:				
Deposits	₩ 74,685,874	₩ 74,768,267	₩ 73,380,110	₩ 73,390,600
Borrowings	5,936,819	5,930,986	5,615,889	5,605,300
Debentures	9,424,090	9,540,464	8,590,658	8,658,686
Derivative liabilities	58,690	58,690	57,275	57,275
Other financial liabilities ¹	4,746,069	4,746,071	2,325,771	2,330,349
	<u>₩ 94,851,542</u>	<u>₩ 95,044,478</u>	<u>₩ 89,969,703</u>	<u>₩ 90,042,210</u>

¹ Other financial liabilities consist of accounts payables, accrued expenses and lease liabilities

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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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Classification

Fair value measurement technique

Since the contractual maturity of other financial assets and liabilities is short-term or not defined, the book value of the assets and liabilities is regarded as reasonable approximation of fair value without using DCF model. However, the fair value of finance lease liabilities is determined by DCF model.

(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 June 30, 2019 and December 31, 2018, are as follows:

(in millions of Korean won)

		June 30, 2019			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Financial assets at fair value through profit or loss	₩	232,830	₩ 3,295,935	₩ 954,310	₩ 4,483,075
Financial assets at fair value through other comprehensive income		1,286,821	3,640,934	170,006	5,097,761
Loans receivables at fair value through profit or loss		-	-	4,273	4,273
Derivative assets		-	53,269	2,270	55,539
	₩	1,519,651	₩ 6,990,138	₩ 1,130,859	₩ 9,640,648
Financial liabilities:					
Borrowings liabilities	₩	45,009	₩ -	₩ -	₩ 45,009
Derivative liabilities		-	58,309	381	58,690
	₩	45,009	₩ 58,309	₩ 381	₩ 103,699

(in millions of Korean won)

		December 31, 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
	₩	1,780,136	₩ 5,782,775	₩ 973,575	₩ 8,536,486
Financial liabilities:					
Borrowings liabilities	₩	29,810	₩ -	₩ -	₩ 29,810
Derivative liabilities		-	54,406	2,869	57,275
	₩	29,810	₩ 54,406	₩ 2,869	₩ 87,085

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The valuation techniques and input variables of Level 2 financial instruments, subsequently measured at fair value, as at June 30, 2019 and December 31, 2018, are as follows:

June 30, 2019				
(in millions of Korean won)	Fair value	Valuation techniques	Input variables	
Financial assets:				
Financial assets at fair value through profit or loss				
Debt securities	₩ 2,075,103	DCF Model	Discount rate, Exchange rate	
Beneficiary certificates	472,386	Net Asset Value Method	Value of underlying assets	
Other securities	748,446	DCF Model	Discount rate	
Financial assets at fair value through other comprehensive income				
Debt securities	3,640,934	DCF Model	Discount rate, Exchange rate	
Derivative assets	53,269	DCF Model	Discount rate, Exchange rate	
Financial liabilities:				
Derivative liabilities	₩ 58,309	DCF Model	Discount rate, Exchange rate	
December 31, 2018				
(in millions of Korean won)	Fair value	Valuation techniques	Input variables	
Financial assets:				
Financial assets at fair value through profit or loss				
Debt securities	₩ 1,521,335	DCF Model	Discount rate, Exchange 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, Exchange rate	
Derivative assets	29,290	DCF Model	Discount rate, Exchange rate	
Financial liabilities:				
Derivative liabilities	₩ 54,406	DCF Model	Discount rate, Exchange 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 June 30, 2019 and December 31, 2018, 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
		June 30, 2019			
Financial assets					
Financial assets at fair value through profit or loss	₩	954,310			
Equity securities		18,176	Net Asset Value Method, DCF Model	Value of underlying assets Discount rate: 11.02% Growth rate: 2.00%	Fair value increases (decreases) when value of underlying assets increases (decreases)
Debt securities		362,793	Net Asset Value Method, 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% Volatility: 1.00%-30%	Fair value increases (decreases) when discount rate decreases (increases), growth rate increases (decreases) or liquidation value increases (decreases)
Beneficiary certificates		563,466	Net Asset Value Method	Value of underlying assets	Fair value increases (decreases) when value of underlying assets increases (decreases)
Other securities		9,875	Net Asset Value Method and others	Value of underlying assets	Fair value increases (decreases) when value of underlying assets increases (decreases) and others
Financial assets at fair value through other comprehensive income		170,006			
Equity securities		170,006	Net Asset Value Method, Free Cash Flow Equity Model, Dividend DCF Model and others	Discount rate: 3.39%-17.48% 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		4,273			
Hybrid (combined) instruments		4,273	Binomial Trees	Volatility: 25.82%-41.54% Discount rate: 1.94%	Fair value increases (decreases) when volatility increases (decreases) or discount rate decreases

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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
	June 30, 2019			
Derivative assets	2,270	Binomial Trees, DCF Model	Volatility: 0.05%-17.12% Discount rate: 1.66%-11.30%	(increases) Fair value increases (decreases) when volatility increases (decreases) or discount rate decreases (increases)
Financial liability				
Derivative liabilities	381	Binomial Trees, DCF Model	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
	December 31, 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) and others
Financial assets at fair value through other comprehensive income	166,002			
Equity securities	166,002	Free Cash Flow Equity Model,	Discount rate: 3.39%-19.47% Growth rate: 0.00%-1.00%	Fair value increases (decreases) when discount

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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
	December 31, 2018			
		Dividend Discount Model and others	Liquidation value: -1.00%- 1.00%	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, DCF Model	Volatility: 0.05%-17.12% Discount rate: 1.66%-11.30%	Fair value increases (decreases) when volatility increases (decreases) or discount rate decreases (increases)
Financial liability				
Derivative liabilities	2,869	Binomial Trees, DCF Model	Volatility: 0.51% Discount rate: 1.38%-1.94%	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 as at June 30, 2019 and December 31, 2018:

(in millions of Korean won)

	June 30, 2019			
	Profit (loss) for the period		Other comprehensive income	
	Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
Financial assets				
Financial assets at fair value through profit or loss ¹	₩ 1,472	₩ (1,366)	₩ -	₩ -
Financial assets at fair value through other comprehensive income ¹	-	-	21,464	(9,449)
Loans receivables at fair value through profit or loss ²	1,031	(670)	-	-
Derivative assets ³	10,067	(20,668)	-	-
Financial liabilities				
Derivative liabilities ³	3,771	(7,314)	-	-
	<u>₩ 16,341</u>	<u>₩ (30,018)</u>	<u>₩ 21,464</u>	<u>₩ (9,449)</u>

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.

(in millions of Korean won)

	December 31, 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				

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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.

Changes in Level 3 financial instruments subsequently measured at fair value for the six-month periods ended June 30, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019					
	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	₩ 803,222	₩ 166,002	₩ 3,279	₩ 1,072	₩ 2,869	
Total profit or loss						
Amount recognized in profit or loss ¹	(1,654)	-	994	1,519	(2,146)	
Amount recognized in other comprehensive income	-	5,996	-	-	-	
Purchases	194,022	-	-	-	-	
Sales	(41,018)	(1,992)	-	-	-	
Settlement	-	-	-	(321)	(342)	
Other changes						
Transfer into level 3 ²	-	-	-	-	-	
Transfer into other levels ²	-	-	-	-	-	
Reclassification	(262)	-	-	-	-	
Ending balance	₩ 954,310	₩ 170,006	₩ 4,273	₩ 2,270	₩ 381	

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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 six-month period ended June 30, 2019, are as follows:

		Financial assets at fair value through profit or loss	Loans receivables at fair value through profit or loss		Derivatives		Total
<i>(in millions of Korean won)</i>							
Profit (loss) for the period	₩	(1,654)	₩	994	₩	3,665	₩ 3,005
Change in unrealized loss		(804)		994		3,619	3,809

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

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 six-month period ended June 30, 2018, are as follows:

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² It moved from Level 3 to Level 1 due to listing of equity securities during the six-month period ended June 30, 2018.

<i>(in millions of Korean won)</i>	Financial assets at fair value through profit or loss		Loans receivables at fair value through profit or loss		Derivatives		Total
Profit (loss) for the period	₩	(1,942)	₩	110	₩	(883)	₩ (2,715)
Change in unrealized loss		(1,389)		110		(883)	(2,162)

(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 June 30, 2019 and December 31, 2018, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and deposits	₩ 1,116,263	₩ 2,059,206	₩ -	₩ 3,175,469
Loans and receivables	-	-	82,611,664	82,611,664
Financial assets at amortized cost	69,038	7,065,894	-	7,134,932
	₩ 1,185,301	₩ 9,125,100	₩ 82,611,664	₩ 92,922,065
Financial liabilities:				
Deposit liabilities	₩ -	₩ 9,363,887	₩ 65,404,380	₩ 74,768,267
Borrowings	969,032	571,280	4,345,665	5,885,977
Debentures	-	9,540,464	-	9,540,464
Other financial liabilities	-	-	4,746,071	4,746,071
	₩ 969,032	₩ 19,475,631	₩ 74,496,116	₩ 94,940,779

<i>(in millions of Korean won)</i>	December 31, 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
	₩ 1,214,218	₩ 8,829,108	₩ 78,273,440	₩ 88,316,766
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
	₩ 683,938	₩ 17,836,232	₩ 71,434,955	₩ 89,955,125

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The valuation techniques and input variables of Level 2 financial instruments, subsequently not measured at fair value as at June 30, 2019 and December 31, 2018, 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>	Fair value		Valuation techniques	Input variables
	June 30, 2019	December 31, 2018		
Financial assets:				
Financial assets at amortized cost				
Debt securities	₩ 7,065,894	₩ 6,761,889	DCF Model	Discount rate
Financial liabilities:				
Deposit liabilities	9,363,887	8,694,004	DCF Model	Discount rate
Borrowings	571,280	483,542	DCF Model	Discount rate
Debentures	9,540,464	8,658,686	DCF Model	Discount rate

The valuation techniques and input variables of Level 3 financial instruments, subsequently not measured at fair value as at June 30, 2019 and December 31, 2018, are as follows:

<i>(in millions of Korean won)</i>	Fair value		Valuation techniques	Input variables
	June 30, 2019	December 31, 2018		
Financial assets:				
Loans and receivables	₩ 82,611,664	₩ 78,273,440	DCF Model	Discount rate
Financial liabilities:				
Deposit liabilities	₩ 65,404,380	₩ 64,696,596	DCF Model	Discount rate
Borrowings	4,345,665	4,408,010	DCF Model	Discount rate
Other financial liabilities	4,746,071	2,330,349	DCF Model	Discount rate

(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.

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

	June 30, 2019		December 31, 2018	
	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	₩ 2,041,614	₩ (1,744,436)	₩ 1,639,964	₩ (1,483,604)
Loaned securities	353,971	-	696,359	-
	<u>₩ 2,395,585</u>	<u>₩ (1,744,436)</u>	<u>₩ 2,336,323</u>	<u>₩ (1,483,604)</u>

7. Cash and Due from banks

Restricted cash and due from banks as at June 30, 2019 and December 31, 2018, consist of the following:

(in millions of Korean won)	Financial institution	June 30, 2019	December 31, 2018	Reason for restriction
Due from banks:				
Due from banks in Korean won	The BOK	₩ 1,837,486	₩ 1,811,940	The BOK Act
	The Korea Securities Finance Corporation	2,961	41,141	Deposits from investors and others
	Korea Federation of Savings Banks and others	37,703	34,308	Reserve deposits and others
	Korea Securities Depository and others	19,682	23,093	Deposits from investors and others
	KRX and others	10,323	7,044	Collective fund for default losses and others
	Security companies	177	4,310	Subscription deposits
	Busan bank	2	2	Consignment transaction deposits
		<u>1,908,334</u>	<u>1,921,838</u>	
Due from banks in foreign currencies	The BOK	46,471	66,463	Reserve deposits
	KRX and others	4,245	8,824	Reserve deposits and others
	The People's Bank of China and others	88,271	39,556	Reserve deposits for overseas affiliates and others
		<u>138,987</u>	<u>114,843</u>	
		<u>₩ 2,047,321</u>	<u>₩ 2,036,681</u>	

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8. Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss as at June 30, 2019 and December 31, 2018, consist of the following:

<i>(in millions of Korean won)</i>	June 30, 2019	December 31, 2018
Equity securities	₩ 45,599	₩ 23,471
Government and public bonds	195,510	278,824
Finance bonds	452,725	855,805
Corporate bonds	1,598,873	485,378
Other debt securities	345,682	312,449
Beneficiary certificates	1,086,366	876,756
Others	758,320	639,170
	<u>₩ 4,483,075</u>	<u>₩ 3,471,853</u>

9. Financial Assets at Fair Value through Other Comprehensive Income

Financial assets at fair value through other comprehensive income as at June 30, 2019 and December 31, 2018, consist of the following:

<i>(in millions of Korean won)</i>	June 30, 2019	December 31, 2018
Equity securities		
Equity securities	₩ 187,347	₩ 174,658
Equity investments	980	981
	<u>188,327</u>	<u>175,639</u>
Debt securities		
Government and public bonds	1,110,870	1,048,475
Finance bonds	828,047	819,204
Corporate bonds	2,616,546	2,291,315
Loans in securities	353,971	696,359
	<u>4,909,434</u>	<u>4,855,353</u>
	<u>₩ 5,097,761</u>	<u>₩ 5,030,992</u>

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Derecognized equity securities at fair value through other comprehensive income for the six-month period ended June 30, 2019, are as follows:

(in millions of Korean won)

	2019	
	Disposal	Accumulated loss on valuation at disposal date
General stocks ¹		
Marketable stocks	₩ 1,668	₩ 1,368
Non-marketable stocks	325	(1,204)
	₩ 1,993	₩ 164

¹ It was either eliminated for the cause of closing the business or disposed of as the stock price rose.

10. Financial Assets at amortized cost

Financial assets at amortized cost as at June 30, 2019 and December 31, 2018, are as follows:

(in millions of Korean won)

	June 30, 2019	December 31, 2018
Debt securities		
Government and public bonds	₩ 3,470,264	₩ 3,397,844
Finance bonds	318,735	307,306
Corporate bonds	3,240,175	3,094,421
Loans in securities	9,665	-
Provision for impairment	(777)	(803)
	₩ 7,038,062	₩ 6,798,768

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11. Assets Provided as Collateral

The investments in financial assets provided as collaterals as June 30, 2019 and December 31, 2018, consist of the following:

<i>(in millions of Korean won)</i>		Face value		Reason
	Provided to	June 30, 2019		
Financial assets at fair value through profit or loss	KSD	₩ 1,144,658		Sold under repurchase agreements
	KRX	2,005		CCP, settlement agreements and others
	Samsung Futures Inc.	23,323		Margin for futures and others
	Standard Chartered Bank Korea Ltd	9,126		Collateral for Credit Support Annex
	KSFC and others	50,837		Lending transaction
Financial assets at fair value through other comprehensive income	KSD	271,819		Sold under repurchase agreements
	Nomura Finance Investment and others	34,212		Sold under repurchase agreements
	The BOK	521,018		Borrowing collateral and overdraft and settlement
	Sumitomo Mitsui Banking Corporation	64,831		Foreign borrowings
	KRX	7,048		Collective funds for OTC derivatives
	Standard Chartered Bank Korea Ltd and others	25,895		Collateral for Credit Support Annex
Financial assets at amortized cost	KSD	590,925		Sold under repurchase agreements
	The BOK	974,346		Borrowing collateral and overdraft and settlement
	KSD	84		Borrowing collateral and overdraft and settlement
	KRX	2,021		Collective funds for OTC derivatives
	Industrial Bank of Korea and others	55,094		Foreign borrowings and Collateral for Credit Support Annex
	Futures Companies	44,904		Margin for futures and others
		₩ 3,822,146		

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(in millions of Korean won)		Face value		
	Provided to	December 31, 2018		Reason
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	KSD		269,707	Sold under repurchase agreements
	Nomura Finance Investment and others		31,565	Sold under repurchase agreements
	The BOK		597,448	Borrowing collateral and overdraft and settlement
	KSFC		502,036	Financing transaction
	Sumitomo Mitsui Banking Corporation		70,118	Foreign borrowings
	Standard Chartered Bank Korea Ltd and others		21,947	Collateral for Credit Support Annex
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 and others		57,101	Foreign borrowings and Collateral for Credit Support Annex
	Futures Companies		42,952	Margin for futures and others
			₩ 4,073,340	

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12. Loans and Receivables

Loans and receivables as at June 30, 2019 and December 31, 2018, consist of the following:

(in millions of Korean won)

	June 30, 2019			December 31, 2018		
	Amortized cost	Fair value	Total	Amortized cost	Fair value	Total
Loans receivable:						
Loans in Korean won						
Corporates	₩ 48,188,936	₩ -	₩ 48,188,936	₩ 46,648,573	₩ -	₩ 46,648,573
Household	24,173,880	-	24,173,880	24,248,521	-	24,248,521
Public sector and others	1,671,991	-	1,671,991	1,737,837	-	1,737,837
Interbank loans	213,802	-	213,802	221,640	-	221,640
	74,248,609	-	74,248,609	72,856,571	-	72,856,571
Loans in foreign currencies	1,363,376	-	1,363,376	1,214,636	-	1,214,636
Call loans	285,983	-	285,983	346,297	-	346,297
Bills bought in local currency	10,616	-	10,616	11,645	-	11,645
Bills bought in foreign currencies	283,129	-	283,129	248,636	-	248,636
Advances for customers	2,293	-	2,293	4,241	-	4,241
Credit card receivables	942,011	-	942,011	972,964	-	972,964
Bonds purchased under repurchase agreement	348,100	-	348,100	152,200	-	152,200
Privately placed bonds	41,200	4,273	45,473	40,242	3,279	43,521
Finance lease receivables	669,745	-	669,745	569,241	-	569,241
Installment financing receivables	432,683	-	432,683	510,069	-	510,069
	78,627,745	4,273	78,632,018	76,926,742	3,279	76,930,021
Provision for impairment of loans receivable ¹	(938,051)	-	(938,051)	(980,013)	-	(980,013)
Deferred loan origination fees	(9,288)	-	(9,288)	(10,369)	-	(10,369)
Deferred loan origination costs	150,012	-	150,012	148,750	-	148,750
	77,830,418	4,273	77,834,691	76,085,110	3,279	76,088,389
Receivables:						
Suspense payments	2,771	-	2,771	3,008	-	3,008
Non-trade receivable	2,932,503	-	2,932,503	342,847	-	342,847
Domestic exchange settlement debits	105,186	-	105,186	502,267	-	502,267
Guarantee deposits provided	307,638	-	307,638	317,105	-	317,105
Accrued income	437,181	-	437,181	390,532	-	390,532
Deposits under regulation	834	-	834	818	-	818
Bills unsettled	63	-	63	1,833	-	1,833
Others	466	-	466	15	-	15
	3,786,642	-	3,786,642	1,558,425	-	1,558,425
Provision for impairment of receivables	(5,767)	-	(5,767)	(5,888)	-	(5,888)
Present value discounts (leasehold deposits provided)	(8,613)	-	(8,613)	(11,119)	-	(11,119)

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	3,772,262	-	3,772,262	1,541,418	-	1,541,418
Loans and receivables	₩ 81,602,680	₩ 4,273	₩ 81,606,953	₩ 77,626,528	₩ 3,279	₩ 77,629,807

¹ Present value discounts of loans receivables of ₩895 million and ₩9,240 million are included as at June 30, 2019 and present value discounts of ₩3,254 million and ₩8,387 million are included as at December 31, 2018.

13. Provision For Impairment

Changes in provision for impairment of loans and receivables for the six-month periods ended June 30, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019			
	12 months expected credit losses	Expected lifetime credit losses		Total
		Unrecognized impairment	Recognized impairment	
Beginning balance	₩ 231,119	₩ 282,526	₩ 472,256	₩ 985,901
Changes in financial instruments recognized in beginning balance	8,730	(9,653)	923	-
Transfer to 12 months expected credit losses	28,318	(27,174)	(1,144)	-
Transfer to expected lifetime credit losses	(17,418)	60,352	(42,934)	-
Transfer to financial assets with recognized impairment	(2,169)	(42,832)	45,001	-
Written off during the period as uncollectible	-	-	(151,845)	(151,845)
Decrease in provision due to sales of loans	(5,413)	(28,842)	(71,998)	(106,253)
Financial assets issued or acquired	-	-	7,458	7,458
Changes from adjustments in receivable and payables	-	-	(114)	(114)
Exchange differences	95	179	12	286
Others	(852)	-	(4,641)	(5,493)
	233,680	244,209	252,051	729,940
Additional (reversal of) provision for impaired receivables during the period ¹	2,766	29,520	181,592	213,878
Ending balance	₩ 236,446	₩ 273,729	₩ 433,643	₩ 943,818

¹ Included collection of written-off loans amounting to ₩24,562 million.

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	2018			
	12 months expected credit losses	Expected lifetime credit losses		Total
		Unrecognized impairment	Recognized impairment	
Beginning balance	₩ 266,722	₩ 271,788	₩ 405,156	₩ 943,666
Changes in financial instruments recognized in beginning balance	1,609	(73,248)	71,639	-
Transfer to 12 months expected credit losses	26,924	(26,278)	(646)	-
Transfer to expected lifetime credit losses	(17,742)	28,077	(10,335)	-
Transfer to financial assets with recognized impairment	(7,573)	(75,047)	82,620	-
Written off during the period as uncollectible	-	(82)	(158,559)	(158,641)
Decrease in provision due to sales of loans	(285)	(30,558)	(95,348)	(126,191)
Financial assets issued or acquired	371	-	-	371
Changes from adjustments in receivable and payables	-	-	(278)	(278)
Exchange differences	190	85	149	424
Others	(1,896)	(2)	(5,620)	(7,518)
	266,711	167,983	217,139	651,833
Additional (reversal of) provision for impaired receivables during the period ¹	(1,559)	15,996	258,216	272,653
Ending balance	₩ 265,152	₩ 183,979	₩ 475,355	₩ 924,486

¹ Included collection of written-off loans amounting to ₩52,639 million.

Changes in provision for impairment for financial assets at fair value through other comprehensive income for the six-month periods ended June 30, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019			
	12 months expected credit losses	Lifetime expected credit losses		Total
		Unrecognized impairment	Recognized impairment	
Beginning balance	₩ 689	₩ -	₩ -	₩ 689
Decrease in provision from sales	(143)	-	-	(143)
Reversal of provision for impairment	307	-	-	307
Ending balance	₩ 853	₩ -	₩ -	₩ 853

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(in millions of Korean won)

	2018			
	12 months expected credit losses	Lifetime expected credit losses		Total
		Unrecognized impairment	Recognized impairment	
Beginning balance	₩ 762	₩ -	₩ -	₩ 762
Decrease in provision from sales	(49)	-	-	(49)
Reversal of provision for impairment	(19)	-	-	(19)
Ending balance	₩ 694	₩ -	₩ -	₩ 694

Changes in provision for impairment for securities at amortized cost for the six-month periods ended June 30, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019			
	12 months expected credit losses	Lifetime expected credit losses		Total
		Unrecognized impairment	Recognized impairment	
Beginning balance	₩ 803	₩ -	₩ -	₩ 803
Reversal of provision for impairment	(25)	-	-	(25)
Ending balance	₩ 778	₩ -	₩ -	₩ 778

(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	31	-	-	31
Ending balance	₩ 802	₩ -	₩ -	₩ 802

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14. Derivative Instruments and Hedge Accounting

The valuation of derivatives for trading as at June 30, 2019 and December 31, 2018, are as follows:

(in millions of Korean won)

	June 30, 2019			
	Valuation gain	Valuation loss	Assets	Liabilities
Currency:				
Currency forwards	₩ 43,138	₩ 40,767	₩ 35,679	₩ 34,442
Currency swaps	1,136	1,062	563	671
Currency options	3,593	2,737	10,079	10,207
	<u>47,867</u>	<u>44,566</u>	<u>46,321</u>	<u>45,320</u>
Interest rate:				
Interest rate forwards	67	10	-	-
Interest rate swaps	3,310	207	5,697	480
	<u>3,377</u>	<u>217</u>	<u>5,697</u>	<u>480</u>
Stock:				
Stock options	-	1	-	11
	<u>-</u>	<u>1</u>	<u>-</u>	<u>11</u>
	<u>₩ 51,244</u>	<u>₩ 44,784</u>	<u>₩ 52,018</u>	<u>₩ 45,811</u>

(in millions of Korean won)

	December 31, 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	-	-
	<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>

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 June 30, 2019 and December 31, 2018, are as follows:

(in millions of Korean won)

	June 30, 2019			
	Valuation gain	Valuation loss	Assets	Liabilities
Interest rate:				
Interest rate swaps	₩ 19,979	₩ 6	₩ 2,270	₩ 9,537
Currency rate:				
Currency rate swaps	908	164	1,251	3,342
	₩ 20,887	₩ 170	₩ 3,521	₩ 12,879

(in millions of Korean won)

	December 31, 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

Gain (loss) on valuation of hedged items and hedging instrument for the six-month period ended June 30, 2019 and the year ended December 31, 2018, are as follows

(in millions of Korean won)

	June 30, 2019	December 31, 2018
Loss on valuation of hedging instrument	₩ 20,717	₩ 1,927
Gain on valuation of hedged items	(19,917)	(2,735)
	₩ 800	₩ (808)

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Amount, timing and uncertainty of future cash flows for the six-month period ended June 30, 2019, are as follows:

(in millions of Korean won)	2019													
	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	₩	-	₩	58,828	₩	73,265	₩	-	₩	-	₩	559,200	₩	691,293
Average hedge ratio (%)		-		100		100		-		-		559,200		100
Risk hedges for net investments in foreign operation														
Nominal amount of risk hedge instrument		-		103,534		-		-		-		-		103,534
Average hedge ratio (%)		-		100		-		-		-		-		100

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 June 30, 2019, are as follows:

(in millions of Korean won)	June 30, 2019							
	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	₩ 132,093	₩ 744	₩ 1,251	₩ 3,342	₩ -	₩ 744	₩ -	
Interest rate risk hedge	559,200	19,973	2,270	9,537	-	19,973	-	
Hedges for net investments in foreign operations								
Currency risk hedge	103,534	(3,356)	-	-	103,534	-	(2,494)	
	₩ 794,827	₩ 17,361	₩ 3,521	₩ 12,879	₩ 103,534	₩ 20,717	₩ (2,494)	

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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 June 30, 2019, are as follows:

(in millions of Korean won)	June 30, 2019							
	Statements of financial position				Statements of comprehensive income and statements of changes in equity			Reserve for foreign currency translation
	Nominal amount	Changes in fair value	Deposits received	Bonds	Profit or loss	Other Comprehensi -ve income		
Fair value risk hedges								
Currency risk hedge	₩ 132,093	₩ (797)	₩ -	₩ 84,990	₩ (805)	₩ -	₩ -	-
Interest rate risk hedge	559,200	(19,691)	271,803	280,010	(19,691)	-	-	-
Hedges for net investments in foreign operations								
Currency risk hedge	103,534	3,461	-	-	-	2,624	(1,919)	
	₩ 794,827	₩ (17,027)	₩ 271,803	₩ 365,000	₩ (20,496)	₩ 2,624	₩ (1,919)	

The amounts and items recognized as profit or loss due to ineffective portion in fair value risk hedges for the six-month period ended June 30, 2019, are as follows:

(in millions of Korean won)	Ineffective portion of risk hedges recognized as profit or loss	Items
Fair value risk hedges		
Interest rate risk hedge	282	Gain on valuation of derivatives
Currency risk hedge	(53)	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 six-month period ended June 30, 2019.

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15. Investments in Associates and Joint Venture

Details of investments in associates and joint venture as at June 30, 2019 and December 31, 2018, are as follows:

(in millions of Korean won)

	Main business	Location	Closing month	June 30, 2019		Acquisition cost	Carrying amount
				Percentage of ownership (%)			
Investments in associates:							
BNK Winning Securities Investment Trust 1	Financial investment	The Republic of Korea	December	27.54	₩ 9,363	₩ 8,227	
BNK 'Strong' Dividend Securities Investment Trust-1	Financial investment	The Republic of Korea	December	29.99	9,988	10,413	
Hanhwa Private Securities Investment Trust 104 th	Financial investment	The Republic of Korea	December	30.27	30,000	30,665	
Samsung Repo Professional Connection Private Securities Investment Trust 1st	Financial investment	The Republic of Korea	December	50.00	50,000	51,674	
Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 1st	Financial investment	The Republic of Korea	December	27.27	30,000	30,907	
Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 3rd	Financial investment	The Republic of Korea	December	30.00	30,000	30,591	
HDC Presto Private Securities Investment Trust 8th	Financial investment	The Republic of Korea	December	30.00	30,000	30,293	
IBK Private Securities Investment Trust S2ndIBK PRIVATE SECURITIES INVESTMENT TRUST S2ND	Financial investment	The Republic of Korea	December	23.08	30,000	30,181	
NH-Amundi Enhanced Bond Private Securities Investment TrustNH-Amundi Enhanced Bond Private Securities Investment Trust	Financial investment	The Republic of Korea	December	23.08	30,000	30,275	
Consus Clean Water Private Special Asset Fund-1	Financial investment	The Republic of Korea	December	50.00	12,081	12,232	
Shinhan BNPP Private Securities Investment Trust for Corporates 8th	Financial investment	The Republic of Korea	December	50.00	50,000	50,179	
Yuri Repo Alpha Private Securities Investment Trust 1st	Financial investment	The Republic of Korea	December	44.98	40,000	40,419	
Kiwoom Frontier Private Securities Investment Trust 11th	Financial investment	The Republic of Korea	December	50.00	50,000	50,829	
Kiwoom Frontier Private Securities Investment Trust 12th	Financial investment	The Republic of Korea	December	49.84	50,000	51,320	
Petra 7 alpha Private Equity	Financial	The Republic	December	21.79	11,275	11,275	

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PartnershipPetra 7 alpha Private Equity Partnership	investment	of Korea				
BNK Smart Korea Private investment TrustBNK SMART KOREA PRIVATE INVESTMENT TRUST	Financial investment	The Republic of Korea	December	28.57	2,000	2,064
BNK New Start Goal Convertible Securities Investment TrustBNK NEW START GOAL CONVERTIBLE SECURITIES INVESTMENT TRUST	Financial investment	The Republic of Korea	December	30.06	200	263
KC Co., Ltd.	Manufacture	The Republic of Korea	December	41.69	-	-
Investments in joint venture:						
M-park Capital Co., Ltd. ¹	Specialized credit financial business	The Republic of Korea	December	30.00	6,000	2,820
					<u>₩ 470,907</u>	<u>₩ 474,627</u>

(in millions of Korean won)

December 31, 2018						
	Main business	Location	Closing month	Percentage of ownership (%)	Acquisition cost	Carrying amount
Investments in associates:						
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 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 Securities Investment Trust - J 3rd	Financial investment	The Republic of Korea	December	30.00	30,000	30,120
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

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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:						
M-park Capital Co., Ltd.	Specialized credit financial business	The Republic of Korea	December	30.00	6,000	3,083
					₩ 462,465	₩ 465,099

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 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 six-month period ended June 30, 2019 and the year ended December 31, 2018, are as follows:

(in millions of Korean won)

(in millions of Korean won)	June 30, 2019											
	Beginning balance		Acquisition/ disposal		Share of profit or loss of associates and joint venture		Dividends received		Others		Ending balance	
Investments in associates:												
BNK Winning Securities Investment Trust 1	₩	9,871	₩	(2,000)	₩	356	₩	-	₩	-	₩	8,227
BNK 'Strong' Dividend Securities Investment Trust-1		10,229		-		560		-		(376)		10,413
Hanhwa Private Securities Investment Trust 104 th		30,050		-		615		-		-		30,665
Shinhan BNPP Private Securities Investment Trust 6 th		30,807		(30,863)		56		-		-		-
HDC Presto Private Securities Investment Trust 8 th		30,784		(30,881)		97		-		-		-
IBK Private Securities Investment Trust RP2		30,581		(30,846)		265		-		-		-
Samsung Repo Professional Connection Private Securities Investment Trust 1 st		50,838		-		836		-		-		51,674
Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 1 st		30,278		-		629		-		-		30,907

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Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 3 rd	30,120	-	471	-	-	30,591
HDC Presto Private Securities Investment Trust 8thHDC PRESTO PRIVATE SECURITIES INVESTMENT TRUST 8TH	-	30,000	293	-	-	30,293
IBK Private Securities Investment Trust S2ndIBK PRIVATE SECURITIES INVESTMENT TRUST S2ND	-	30,000	181	-	-	30,181
NH-Amundi Enhanced Bond Private Securities Investment TrustNH-Amundi Enhanced Bond Private Securities Investment Trust	-	30,000	275	-	-	30,275
Consus Clean Water Private Special Asset Fund-1	13,274	(918)	285	(409)	-	12,232
Shinhan BNPP Private Securities Investment Trust for Corporates 8 th	51,231	-	357	(1,409)	-	50,179
Yuri Repo Alpha Private Securities Investment Trust 1 st	40,706	-	145	(432)	-	40,419
Kiwoom Frontier Private Securities Investment Trust 11 th	51,027	-	801	(999)	-	50,829
Kiwoom Frontier Private Securities Investment Trust 12 th	50,212	-	1,108	-	-	51,320
Petra 7 alpha Private Equity PartnershipPetra 7 alpha Private Equity Partnership	-	11,275	-	-	-	11,275
BNK Stocks for Public Subscription Plus 10	2,008	(2,008)	-	-	-	-
BNK SMART KOREA PRIVATE INVESTMENT TRUST	-	2,000	64	-	-	2,064
BNK NEW START GOAL CONVERTIBLE SECURITIES INVESTMENT TRUST	-	200	63	-	-	263
KC Co., Ltd.	-	-	-	-	-	-
Investments in joint venture:						
M-park Capital Co., Ltd.	3,083	-	(263)	-	-	2,820
	₩ 465,099	₩ 5,959	₩ 7,194	₩ (3,249)	₩ (376)	₩ 474,627

(in millions of Korean won)

		December 31, 2018					
		Share of profit or loss of associates and joint venture					
	Beginning balance	Acquisition/disposal		Dividends received	Others	Ending balance	
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	

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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 Income						
Plus Private Securities						
Investment Trust 1 st	-	(672)	672	-	-	-
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	-	2,000	8	-	-	2,008
KC Co., Ltd.	-	-	-	-	-	-
Investments in joint venture:						
M-park Capital Co., Ltd.	3,923	-	(840)	-	-	3,083
	₩ 62,998	₩ 395,255	₩ 5,680	₩ 5,433	₩ (4,267)	₩ 465,099

Financial information of associates and joint venture as at June 30, 2019 and December 31, 2018, are as follows:

(in millions of Korean won)

June 30, 2019

	Current assets	Current liabilities	Equity	Operating income	Operating profit (loss) from continuing operations	Total comprehensive income (loss)
Investments in associates:						
BNK Winning Securities	₩ 30,193	₩ 326	₩ 29,867	₩ 3,305	₩ 1,670	₩ 1,670

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Investment Trust 1						
BNK 'Strong' Dividend Securities Investment Trust-1	36,662	179	36,483	10,190	4,026	4,026
Hanhwa Private Securities Investment Trust 104 th	282,232	180,940	101,292	5,089	1,979	1,979
Samsung Repo Professional Connection Private Securities Investment Trust 1 st	191,980	88,632	103,348	4,742	1,672	1,672
Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 1 st	252,891	139,567	113,324	4,839	2,304	2,304
Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 3 rd	196,998	95,029	101,969	2,680	1,570	1,570
HDC PRESTO PRIVATE SECURITIES INVESTMENT TRUST 8TH	150,032	49,055	100,977	1,148	977	977
IBK PRIVATE SECURITIES INVESTMENT TRUST S2ND	239,244	108,458	130,786	846	786	786
NH-Amundi Enhanced Bond Private Securities Investment Trust	209,914	78,724	131,190	902	1,190	1,190
Consus Clean Water Private Special Asset Fund-1	24,492	27	24,465	305	278	278
Shinhan BNPP Private Securities Investment Trust for Corporates 8 th	104,514	4,156	100,358	2,097	358	358
Yuri Repo Alpha Private Securities Investment Trust 1 st	173,192	83,325	89,867	373	434	434
Kiwoom Frontier Private Securities Investment Trust 11 th	200,996	99,339	101,657	625	747	747
Kiwoom Frontier Private Securities Investment Trust 12 th	202,206	99,234	102,972	4,472	2,707	2,707
Petra 7 alpha Private Equity Partnership	49,839	104	49,735	(1,093)	(465)	(465)
BNK SMART KOREA PRIVATE INVESTMENT TRUST	7,256	31	7,225	256	225	225
BNK NEW START GOAL CONVERTIBLE SECURITIES INVESTMENT TRUST	704	-	704	902	211	211
KC Co., Ltd.	1,625	1,996	(3,056)	6,708	(688)	(774)
Investments in joint venture:						

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M-park Capital Co., Ltd.	19,760	1,120	18,640	5,262	211	211
	₩ 2,374,730	₩ 1,030,242	₩ 1,341,803	₩ 53,648	₩ 20,192	₩ 20,106

(in millions of Korean won)

December 31, 2018						
	Current assets	Current liabilities	Equity	Operating income	Operating profit (loss) from continuing operations	Total comprehensive income (loss)
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						

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venture:

M-park Capital Co., Ltd.	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

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 June 30, 2019 and December 31, 2018, are as follows:

(in millions of Korean won)

	June 30, 2019			
	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	₩ 29,867	27.54	₩ 8,227	₩ 8,227
BNK 'Strong' Dividend Securities Investment Trust-1	36,483	29.99	10,413	10,413
Hanhwa Private Securities Investment Trust 104 th	101,292	30.27	30,665	30,665
Samsung Repo Professional Connection Private Securities Investment Trust 1 st	103,348	50.00	51,674	51,674
Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 1 st	113,324	27.27	30,907	30,907
Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 3 rd	101,969	30.00	30,591	30,591
HDC PRESTO PRIVATE SECURITIES INVESTMENT TRUST 8TH	100,977	30.00	30,293	30,293
IBK PRIVATE SECURITIES INVESTMENT TRUST S2ND	130,786	23.08	30,181	30,181
NH-Amundi Enhanced Bond Private Securities Investment Trust	131,190	23.08	30,275	30,275
Consus Clean Water Private Special Asset Fund-1	24,465	50.00	12,232	12,232
Shinhan BNPP Private Securities Investment Trust for Corporates 8 th	100,358	50.00	50,179	50,179
Yuri Repo Alpha Private Securities Investment Trust 1 st	89,867	44.98	40,419	40,419
Kiwoom Frontier Private Securities Investment Trust 11 th	101,657	50.00	50,829	50,829
Kiwoom Frontier Private Securities Investment Trust 12 th	102,972	49.80	51,320	51,320
Petra 7 alpha Private Equity Partnership	49,735	21.79	11,275	11,275
BNK SMART KOREA PRIVATE INVESTMENT TRUST	7,225	28.57	2,064	2,064
BNK NEW START GOAL CONVERTIBLE SECURITIES	704	30.06	212	263

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INVESTMENT TRUST				
KC Co., Ltd.	(3,056)	41.69	-	-
Investments in joint venture:				
M-park Capital Co., Ltd. ¹	18,640	30.00	5,592	2,820

(in millions of Korean won)

		December 31, 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 Securities Investment Trust for Corporates 8 th		102,462	50.00	51,231	51,231
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:					
M-park Capital Co., Ltd. ¹		18,568	30.00	5,570	3,083

¹ As a result of the adjustment of unrealized gains or losses on internal transactions, the amount of ₩2,772 million and ₩2,487 million adjusted as at June 30, 2019 and December 31, 2019, respectively.

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16. Property and Equipment

Changes in property and equipment for the six-month periods ended June 30, 2019 and 2018, are as follows:

(in millions of Korean won)

Korean won)	2019													
	Beginning balance	Changes in accounting policy		Acquisition	Disposal	Reclassification	Depreciation	Impairment loss	Others	Ending Balance				
Land	₩ 272,724	₩	-	₩ -	₩ (1,534)	₩ 1,170	₩ -	₩ -	₩ -	₩ 272,360				
Buildings	449,954		-	1,505	(1,112)	6,421	(5,605)	-	5	451,168				
Leasehold improvements	29,712		-	1,300	(216)	1,794	(5,651)	-	211	27,150				
Equipment and vehicles	93,140		-	7,236	(47)	3,495	(19,335)	-	(371)	84,118				
Construction in progress	22,755		-	37,327	(185)	(36,963)	-	-	318	23,252				
Right-of-use assets	-		55,770	10,338	(5,077)	-	(16,297)	-	110	44,844				
Others	19,260		-	-	-	-	-	-	-	19,260				
	₩ 887,545	₩	55,770	₩ 57,706	₩ (8,171)	₩ (24,083)	₩ (46,888)	₩ -	₩ 273	₩ 922,152				

(in millions of Korean won)

	2018							
	Beginning balance	Acquisition	Disposal	Reclassification	Depreciation	Impairment loss	Others	Ending Balance
Land	₩ 269,849	₩ 881	₩ -	₩ 3,370	₩ -	₩ -	₩ -	₩ 274,100
Buildings	393,265	5,391	-	6,561	(4,980)	-	12	400,249
Leasehold improvements	31,691	4,353	(183)	893	(5,900)	-	(733)	30,121
Equipment and vehicles	95,246	10,107	(43)	3,914	(19,709)	-	733	90,248
Construction in progress	39,421	42,053	-	(16,125)	-	-	275	65,624
Others	26,172	-	-	-	-	-	-	26,172
	₩ 855,644	₩ 62,785	₩ (226)	₩ (1,387)	₩ (30,589)	₩ -	₩ 287	₩ 886,514

Right-of-use asset

Details of right-of-use asset as at June 30, 2019, are as follows:

(in millions of Korean won)

	June 30, 2019			
	Properties	Vehicles	Others	Total
Cost of right-of-use asset	₩ 56,597	₩ 1,089	₩ 1,259	₩ 58,945
Accumulated depreciation	13,188	194	719	14,101

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Book amount of right-of-use asset	₩ 43,409	₩ 895	₩ 540	₩ 44,844
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17. Intangible Assets

Changes in intangible assets for the six-month periods ended June 30, 2019 and 2018, are as follows:

(in millions of Korean won)

(in millions of Korean won)	2019															
	Beginning balance		Acquisition	Disposal	Reclassification	Amortization	Impairment loss	Others		Ending Balance						
Software	₩	42,626	₩	3,756	₩	-	₩	10,992	₩	(11,404)	₩	-	₩	(2)	₩	45,968
Goodwill		26,025		-		-		-		-		-		-		26,025
Core deposits		98,559		-		-		(8,759)		-		-		-		89,800
Others		104,442		10,821		(66)		(8,575)		(17,125)		-		4		89,501
	₩	271,652	₩	14,577	₩	(66)	₩	2,417	₩	(37,288)	₩	-	₩	2	₩	251,294

(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	₩	2,330	₩	-	₩	1,424	₩	(11,223)	₩	-	₩	(18)	₩	47,098
Goodwill		26,025		-		-		-		-		-		-		26,025
Core deposits		116,077		-		-		(8,759)		-		-		-		107,318
Others		116,082		4,634		(2,066)		2,460		(17,070)		-		3		104,043
	₩	312,769	₩	6,964	₩	(2,066)	₩	3,884	₩	(37,052)	₩	-	₩	(15)	₩	284,484

¹ Transferred from construction in progress.

18. Investment Properties

The fair value and assessment method of investment properties as at June 30, 2019 and December 31, 2018, are as follows:

(in millions of Korean won)	June 30, 2019	December 31, 2018	Valuation techniques	Input variables
Land	₩ 134,608	₩ 119,953	- The evaluation method of using officially assessed land pricing - Sales comparison approach	- Officially assessed land pricing - Sales history
Building	106,783	98,739	- Evaluation by the prime cost	- Repurchase cost - Durable years
	₩ 241,391	₩ 218,692		

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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.

Changes in investment properties for the six-month periods ended June 30, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019					
	Beginning balance	Reclassifi- cation	Depreciation	Disposal	Others	Ending Balance
Land	₩ 99,857	₩ 11,808	₩ -	₩ -	₩ -	₩ 111,665
Building	98,316	9,858	(1,270)	-	-	106,904
	<u>₩ 198,173</u>	<u>₩ 21,666</u>	<u>₩ (1,270)</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 218,569</u>

(in millions of Korean won)

	2018					
	Beginning balance	Reclassifi- cation	Depreciation	Disposal	Others	Ending Balance
Land	₩ 103,703	₩ (3,369)	₩ -	₩ -	₩ -	₩ 100,334
Building	82,712	872	(995)	-	(10)	82,579
	<u>₩ 186,415</u>	<u>₩ (2,497)</u>	<u>₩ (995)</u>	<u>₩ -</u>	<u>₩ (10)</u>	<u>₩ 182,913</u>

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19. Borrowings

Borrowings at amortized cost as at June 30, 2019 and December 31, 2018, consist of:

<i>(in millions of Korean won)</i>	Annual interest rate (%)			June 30, 2019	December 31, 2018
	Minimum	Maximum			
Borrowings in Korean won:					
The BOK	0.50	0.75	₩	612,400	₩ 624,579
Others	0.80	3.41		2,533,324	2,388,002
				<u>3,145,724</u>	<u>3,012,581</u>
Borrowings in foreign currencies:					
Overdraft on our account	3.81	4.01		133,146	70,469
Banks	0.28	3.20		448,151	394,362
Relending loans	2.89	3.09		51,732	50,002
Others	2.70	4.01		324,234	313,342
				<u>957,263</u>	<u>828,175</u>
Call money	1.70	4.70		17,362	231,132
Bonds sold under repurchase agreement:					
Korean won	0.95	2.70		1,716,529	1,457,262
Foreign currencies	0.40	0.40		27,907	26,342
				<u>1,744,436</u>	<u>1,483,604</u>
Bills sold	0.95	1.50		27,410	30,962
Deferred expenses from borrowings				(385)	(375)
			₩	<u>5,891,810</u>	<u>₩ 5,586,079</u>

Borrowings at fair value through profit or loss as at June 30, 2019 and December 31, 2018, consist of:

<i>(in millions of Korean won)</i>	Annual interest rate (%)			June 30, 2019	December 31, 2018
	Minimum	Maximum			
Securities sold	1.47	1.54	₩	45,009	₩ 29,810

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20. Debentures

Debentures issued by the Group as at June 30, 2019 and December 31, 2018, are as follows:

(in millions of Korean won)	Annual interest rate (%)			June 30, 2019		December 31, 2018
	Minimum	Maximum				
Debentures in Korean won:						
Unsecured coupon bond	1.36	3.43	₩	6,901,561	₩	5,542,144
Subordinated bond	3.05	4.40		1,950,000		2,610,000
Present value discounts				(10,004)		(9,658)
				8,841,557		8,142,486
Debentures in foreign currencies:						
Senior bond	4.85	4.85		307,689		198,668
Subordinated bond	3.63	3.63		289,200		279,525
Gain on fair value hedge				(11,890)		(27,517)
Present value discounts				(2,466)		(2,504)
				582,533		448,172
			₩	9,424,090	₩	8,590,658

21. Net Defined Benefit Liabilities

As at June 30, 2019 and December 31, 2018, 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>	June 30, 2019		December 31, 2018	
Present value of funded defined benefit liabilities	₩	561,220	₩	525,328
Fair value of plan assets		<u>(463,648)</u>		<u>(453,328)</u>
Net defined benefit liabilities	₩	<u>97,572</u>	₩	<u>72,000</u>

Movements in the net defined benefit liabilities for the six-month periods ended June 30, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019					
	Present value of defined benefit obligation		Plan assets		Total	
Current service cost	₩	31,619	₩	(543)	₩	31,076
Interest expense (interest income)		<u>7,064</u>		<u>(6,637)</u>		<u>427</u>
	₩	<u>38,683</u>	₩	<u>(7,180)</u>	₩	<u>31,503</u>

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(in millions of Korean won)	2018					
	Present value of defined benefit obligation		Plan assets		Total	
Current service cost	₩	28,920	₩	-	₩	28,920
Interest expense (interest income)		7,478		(6,997)		481
	₩	36,398	₩	(6,997)	₩	29,401

22. Provisions

Details of provisions for other liabilities and charges as at June 30, 2019 and December 31, 2018, are as follows:

(in millions of Korean won)

	June 30, 2019	December 31, 2018
Provision for acceptances and guarantees	₩ 4,660	₩ 6,487
Provision for unused credit limit	25,437	27,433
Provision for restoration costs	6,976	6,791
Provision for credit card point	1,758	1,774
Provision for litigation	75	-
Others	175	171
	₩ 39,081	₩ 42,656

Changes in provision for acceptances and guarantees and provision for unused credit limit for the six-month periods ended June 30, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019			
	12 months expected credit losses	Expected lifetime credit losses		Total
		Unrecognized impairment	Recognized impairment	
Beginning balance	₩ 18,827	₩ 10,561	₩ 4,532	₩ 33,920
Changes in financial instruments recognized at the beginning balance	1,792	(1,810)	18	-
Transfer to 12-months expected credit loss	2,399	(2,378)	(21)	-
Transfer to expected lifetime loss	(599)	604	(5)	-
Transfer to credit-impaired financial assets	(8)	(36)	44	-
Foreign currency translation and others	7	6	8	21
	20,626	8,757	4,558	33,941
Provision (reversal)	(1,723)	9	(2,130)	(3,844)
Ending balance	₩ 18,903	₩ 8,766	₩ 2,428	₩ 30,097

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(in millions of Korean won)	2018							
	12 months expected credit losses		Expected lifetime credit losses				Total	
			Unrecognized impairment		Recognized impairment			
Beginning balance	₩	28,596	₩	9,968	₩	8,534	₩	47,098
Changes in financial instruments recognized at the beginning balance		(30)		1,777		(1,747)		-
Transfer to 12-months expected credit loss		556		(556)		-		-
Transfer to expected lifetime loss		(560)		2,342		(1,782)		-
Transfer to credit-impaired financial assets		(26)		(9)		35		-
Foreign currency translation and others		18		4		106		128
		28,584		11,749		6,893		47,226
Provision (reversal)		(6,694)		(1,190)		(955)		(8,839)
Ending balance	₩	21,890	₩	10,559	₩	5,938	₩	38,387

Changes in other provisions for the six-month periods ended June 30, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019					
	Beginning balance	Increase	Decrease	Others	Ending balance	
Provision for restoration costs	₩ 6,791	₩ 29	₩ -	₩ 156	₩ 6,976	
Provision for credit card point	1,774	98	(114)	-	1,758	
Provision for litigation	-	75	-	-	75	
Others	171	11	(6)	(1)	175	
	₩ 8,736	₩ 213	₩ (120)	₩ 155	₩ 8,984	

(in millions of Korean won)

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

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Provision for restoration costs is the present value of expected settlement cost for the existing leasehold stores as at June 30, 2019 and December 31, 2018, 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.

23. Other Liabilities

Other liabilities as at June 30, 2019 and December 31, 2018, consist of the followings:

<i>(in millions of Korean won)</i>	June 30, 2019		December 31, 2018	
Other financial liabilities:				
Due to trust accounts	₩	406,920	₩	377,096
Due to fund accounts		242		(274)
Foreign exchange remittances pending		40,720		44,303
Prepaid card liabilities		10,650		10,996
Debit card liabilities		11,930		24,020
Deposits for letter of guarantees and others		289,584		269,357
Present value discounts		(17,806)		(16,847)
Accounts payable		2,945,081		464,662
Accrued expenses		710,954		686,562
Financial guarantee contract liabilities		5,150		3,896
Agency business accounts		177,719		205,023
Unsettled domestic exchange liabilities		15,561		60,576
Deposits held by agency relationship		101,543		156,366
Guarantee deposits for securities subscription		11,191		39,514
Lease liabilities		36,552		-
Accrued marketable securities		307		-
Remittance pending		78		521
		<u>4,746,376</u>		<u>2,325,771</u>
Other non-financial liabilities:				
Withholding taxes		17,822		17,651
Unearned revenues		41,548		41,836
Others		146,217		142,617
		<u>205,587</u>		<u>202,104</u>
	₩	<u>4,951,963</u>	₩	<u>2,527,875</u>

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Lease liabilities by term structures as at June 30, 2019, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2019					
	Less than 1 month	1 month ~ 3 months	3 ~ 12 months	1 year ~ 5 years	More than 5 years	Total
Lease liabilities	₩ 2,364	₩ 4,517	₩ 12,408	₩ 18,471	₩ 2,902	₩ 40,662

24. Equity

(a) Share capital

As at June 30, 2019, the Group has 700 million shares authorized with a par value of ₩ 5,000, and 325,935,246 shares have been issued. The Parent Company's share capital as at June 30, 2019, amounts to ₩1,629,676 million.

(b) Other paid-in capital

Other paid-in capital as at June 30, 2019 and December 31, 2018, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2019	December 31, 2018
Share premium	₩ 678,953	₩ 678,953
Other reserves	102,339	102,339
Treasury shares	(213)	(213)
Gain on disposal of treasury share	5,826	5,826
Loss on disposal of treasury share	(122)	(122)
	<u>₩ 786,783</u>	<u>₩ 786,783</u>

(c) Hybrid equity securities

Details of hybrid equity securities issued by the Parent Company as at June 30, 2019 and December 31, 2018, are as follows:

<i>(in millions of Korean won)</i>	Issue date	Maturity	Interest rate (%)	June 30, 2019	December
Hybrid equity securities in Korean won	2015.06.24	2045.06.24	4.60	₩ 80,000	₩
	2015.06.24	2045.06.24	5.10	30,000	
	2015.08.31	2045.08.31	4.48	150,000	
	2018.02.13	-	4.83	100,000	
	2018.03.02	-	4.26	150,000	
	2019.02.20	-	3.74	100,000	
Issuance cost				(1,816)	
				<u>₩ 608,184</u>	<u>₩</u>

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Hybrid equity securities classified as non-controlling equity as at June 30, 2019 and December 31, 2018, are as follows:

<i>(in millions of Korean won)</i>	Issue date	Maturity	Interest rate (%)		June 30, 2019	December 31, 2018
Hybrid equity securities in Korean won	2013.04.25	2043.04.25	4.75	₩	60,000	₩
	2013.05.27	2043.05.27	4.83		40,000	
	2013.10.25	2043.10.25	5.55		90,000	
	2013.11.07	2043.11.07	5.72		10,000	
	2013.11.11	2043.11.11	6.00		37,000	
	2013.11.28	2043.11.28	6.14		63,000	
	2017.07.24	-	4.58		150,000	
	2017.09.19	2047.09.19	4.79		150,000	
	2018.05.04	-	4.50		100,000	
	2018.06.26	-	4.65		100,000	
	2019.04.29	-	3.60		100,000	
Issuance cost					(2,543)	
				₩	<u>897,457</u>	₩

The Group can exercise its right to early repayment after 10years 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 June 30, 2019 and December 31, 2018, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2019	December 31, 2018
Gain on valuation of financial instruments at fair value through other comprehensive income	₩ 120,642	₩ 90,233
Exchange differences on translation of foreign operations	(68)	(5,013)
Remeasurements of net defined benefit liabilities	(179,973)	(155,859)
Gain on valuation of hedges of net investments in foreign operations	(2,583)	659
Share of other comprehensive income of associates	(89)	(87)
Deferred tax effects	16,204	19,062
	<u>₩ (46,118)</u>	<u>₩ (51,005)</u>

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(e) Retained earnings

Retained earnings as at June 30, 2019 and December 31, 2018, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2019		December 31, 2018	
Reserve:				
Earned profit reserves ¹	₩	595,504	₩	539,559
Regulatory reserve for credit loss		490,074		548,168
Discretionary reserves		2,541,717		2,254,884
		<u>3,627,295</u>		<u>3,342,611</u>
Retained earnings before appropriation		<u>1,366,962</u>		<u>1,410,392</u>
	₩	<u>4,994,257</u>	₩	<u>4,753,003</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 June 30, 2019 and December 31, 2018, is as follows:

<i>(in millions of Korean won)</i>	June 30, 2019		December 31, 2018	
Provided reserve for credit loss ¹	₩	490,074	₩	548,168
Changes in accounting policy		-		(67,122)
Expected provision of reserve for credit loss		37,190		9,028
Regulatory reserve for credit loss	₩	<u>527,264</u>	₩	<u>490,074</u>
Owners of the Parent Company	₩	527,264	₩	490,074
Non-controlling interests		-		-

¹ Provided reserve for credit loss as at June 30, 2019 and December 31, 2018, 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 three-month and six-month periods ended June 30, 2019 and 2018, are as follows:

(in millions of Korean won)	2019		2018	
	Three months	Six months	Three months	Six months
Profit for the period of owners of the Parent Company	₩ 174,107	₩ 351,237	₩ 150,343	₩ 357,596
Provision (reversal) of reserve for credit losses	27,897	37,190	(17,500)	23,643
Adjusted profit after the provision of regulatory reserve ¹	₩ 146,210	₩ 314,047	₩ 167,843	₩ 333,953
Adjusted earnings per share after the provision of regulatory reserve ¹ (in Korean won)	₩ 424	₩ 924	₩ 497	₩ 994

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.

25. Net Interest Income

Net interest income, interest income and expenses for the three-month and six-month periods ended June 30, 2019 and 2018, are as follows:

(in millions of Korean won)	2019		2018	
	Three months	Six months	Three months	Six months
Interest income				
Due from banks	₩ 3,159	₩ 6,11	₩ 1,911	₩ 4,096
Financial instruments at fair value through profit or loss	15,367	29,692	10,827	19,608
Financial instruments at fair value through other comprehensive income	21,467	42,401	19,755	39,028
Financial assets at amortized cost	39,813	78,591	40,015	78,849
Loans receivable	842,886	1,687,607	824,935	1,629,275
	922,692	1,844,403	897,443	1,770,856
Interest expense:				
Deposit liabilities	(274,980)	(546,752)	(226,480)	(436,925)
Borrowings	(26,286)	(51,076)	(20,862)	(38,689)
Debentures	(64,510)	(126,968)	(59,311)	(119,076)
Others	(4,497)	(9,331)	(3,899)	(7,281)
	(370,273)	(734,127)	(310,552)	(601,971)
Net interest income	₩ 552,419	₩ 1,110,276	₩ 586,891	₩ 1,168,885

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26. Net Commission Income

Net commission income, commission income and expenses for the three-month and six-month periods ended June 30, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019		2018	
	Three months	Six months	Three months	Six months
Commission income:				
Commission received	₩ 91,752	₩ 170,877	₩ 84,575	₩ 171,580
Guarantees	3,440	6,924	3,631	7,523
Credit card	2,910	4,402	1,663	3,089
Others	60	155	59	99
	<u>98,162</u>	<u>182,358</u>	<u>89,928</u>	<u>182,291</u>
Commission expenses:				
Commission	(14,490)	(28,612)	(13,623)	(29,337)
Credit card	(12,656)	(28,817)	(21,760)	(42,658)
	<u>(27,146)</u>	<u>(57,429)</u>	<u>(35,383)</u>	<u>(71,995)</u>
Net commission income	<u>₩ 71,016</u>	<u>₩ 124,929</u>	<u>₩ 54,545</u>	<u>₩ 110,296</u>

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27. Gain or Loss on Financial Assets at Fair Value through Profit or Loss

Gain or loss on financial assets at fair value through profit or loss for the three-month and six-month periods ended June 30, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019		2018	
	Three months	Six months	Three months	Six months
Gain on financial assets at fair value through profit or loss:				
Gain on disposal of financial assets at fair value through profit or loss	₩ 48	₩ 117	₩ 74	₩ 125
Gain on sale of financial assets at fair value through profit or loss	20,388	37,167	12,608	23,407
Gain on valuation of financial assets at fair value through profit or loss	9,051	20,157	7,064	16,877
Dividend income of shares and beneficiary certificate	6,554	14,557	5,107	14,401
	<u>36,041</u>	<u>71,998</u>	<u>24,853</u>	<u>54,810</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	(332)	(460)	(188)	(236)
Loss on sale of financial assets at fair value through profit or loss	(5,535)	(8,333)	(5,657)	(10,976)
Loss on valuation of financial assets at fair value through profit or loss	(3,335)	(11,147)	(26,297)	(29,637)
Purchase expenses of financial assets at fair value through profit or loss	(1)	(1)	-	(2)
	<u>(9,203)</u>	<u>(19,941)</u>	<u>(32,142)</u>	<u>(40,851)</u>
Net gain (loss) on financial assets at fair value through profit or loss	₩ 26,838	₩ 52,057	₩ (7,289)	₩ 13,959

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28. Gain or Loss on Financial Assets at Fair Value through Other Comprehensive Income

Gain or loss on financial assets at fair value through other comprehensive income for the three-month and six-month period June 30, 2019 and 2018, are as follows:

(in millions of Korean won)	2019		2018	
	Three months	Six months	Three months	Six months
Gain on financial assets at fair value through other comprehensive income:				
Gain on sale of financial assets at fair value through other comprehensive income	₩ 3,748	₩ 10,395	₩ 957	₩ 1,001
Reversal of impairment loss	8	82	54	117
Dividend income	446	4,947	359	6,027
	<u>4,202</u>	<u>15,424</u>	<u>1,370</u>	<u>7,145</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	(34)	(70)	(11)	(13)
Impairment loss on financial assets at fair value through other comprehensive income	(192)	(388)	(46)	(98)
	<u>(226)</u>	<u>(458)</u>	<u>(57)</u>	<u>(111)</u>
Net gain on financial assets at fair value through other comprehensive income	₩ 3,976	₩ 14,966	₩ 1,313	₩ 7,034

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29. Gain or Loss on Financial Assets at Amortized Cost

Gain or loss on financial assets at amortized cost for the three-month and six-month period June 30, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019		2018	
	Three months	Six months	Three months	Six months
Gain on financial assets at amortized cost:				
Gain on sale of financial assets at amortized cost	₩ 3	₩ 4	₩ -	₩ -
Reversal of impairment loss on financial assets at amortized cost	19	143	26	51
	<u>22</u>	<u>147</u>	<u>26</u>	<u>51</u>
Loss on financial assets at amortized cost:				
Loss on sale of financial assets at amortized cost	(2)	(2)	-	-
Impairment loss on financial assets at amortized cost	(86)	(118)	(15)	(83)
	<u>(88)</u>	<u>(120)</u>	<u>(15)</u>	<u>(83)</u>
Net gain (loss) on financial assets at amortized cost	₩ (66)	₩ 27	₩ 11	₩ (32)

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30. Provision For Credit Loss

Provision for credit loss for the three-month and six-month periods ended June 30, 2019 and 2018, are as follows:

(in millions of Korean won)	2019		2018	
	Three months	Six months	Three months	Six months
Reversal of provision for credit loss and others:				
Reversal of provisions:				
Reversal of provision for impairment	₩ -	₩ 4	₩ (189)	₩ 40
Reversal of provision for credit loss on acceptances and guarantees	1,721	1,867	965	1,580
Reversal of provision for credit loss on financial guarantee contract	54	350	15	15
Reversal of provision for credit loss on unused credit limits	(576)	2,184	1,410	7,494
	<u>1,199</u>	<u>4,405</u>	<u>2,201</u>	<u>9,129</u>
Gain on disposal of loans receivable	49,929	89,023	38,869	97,972
Gain on loans receivable at fair value through profit or loss	954	994	656	703
	<u>52,082</u>	<u>94,422</u>	<u>41,726</u>	<u>107,804</u>
Contribution to provision for credit loss and others:				
Contribution to provisions:	(94,554)	(189,320)	(109,760)	(220,054)
Impairment loss	105	(19)	34	-
Contribution to provision for credit loss on acceptances and guarantees	(108)	(188)	(218)	(235)
Contribution to provision for credit loss on unused credit limits	361	(426)	660	(195)
Contribution to provision for credit loss on financial guarantee contract	<u>(94,196)</u>	<u>(189,953)</u>	<u>(109,284)</u>	<u>(220,484)</u>
	<u>(9,823)</u>	<u>(13,636)</u>	<u>(15,010)</u>	<u>(37,813)</u>
Loss on disposal of loans receivable	50	-	(592)	(592)
	<u>(103,969)</u>	<u>(203,589)</u>	<u>(124,886)</u>	<u>(258,889)</u>
Contribution to provision for credit loss	₩ (51,887)	₩ (109,167)	₩ (83,160)	₩ (151,085)

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31. General and Administrative Expenses

General and administrative expenses for the three-month and six-month periods ended June 30, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019		2018	
	Three months	Six months	Three months	Six months
Employee benefits:				
Salaries	₩ 146,213	₩ 285,707	₩ 124,674	₩ 249,102
Employee benefit expenses	42,495	81,538	45,508	81,336
Post-employment benefits	15,822	31,703	14,314	29,409
	<u>204,530</u>	<u>398,948</u>	<u>184,496</u>	<u>359,847</u>
Rental expense	2,726	6,240	10,310	21,041
Business promotion expenses	5,319	10,481	3,948	8,026
Depreciation	24,098	48,158	15,851	31,584
Amortization	18,681	37,288	18,531	37,052
Taxes and dues	12,576	24,065	11,809	22,716
Other administrative expenses	51,845	102,676	48,774	93,874
	<u>₩ 319,775</u>	<u>₩ 627,856</u>	<u>₩ 293,719</u>	<u>₩ 574,140</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 June 30, 2019, are as follows:

i) Linked to short-term performance

	2015	2016	2017	2018	2019
Number of shares granted	66,372	142,247	271,387	248,706	344,048
Residual shares	7,477	18,236	122,216	173,906	344,048
Date of granted	2015-03-02	2016-03-03	2017-03-03	2018-02-28	2019-03-05
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 / Market performance	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	Cash
Service period	1 year	1 year	1 year	1 year	1 year

ii) Linked to long-term performance

	2014	2015	2016	2017	2018	2019
Number of shares granted	21,256	79,803	57,721	143,406	103,075	33,620
Residual shares	8,123	64,814	56,815	136,779	90,926	33,620
Date of granted	2014-01-01	2015-01-01	2016-01-01	2017-01-01	2018-01-01	2019-01-01
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	Cash-settled share-based payment
Exercise price	₩0	₩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	Service period / Non-market performance
Settlement method	Cash	Cash	Cash	Cash	Cash	Cash
Service period	3 years	3 years	3 years	3 years	3 years	3 years

	Deferred grant in 2019	Deferred grant in 2020	Deferred grant in 2021	Deferred grant in 2022
Residual shares ¹	18,231	32,538	29,467	15,272
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
Settlement method	Cash	Cash	Cash	Cash
Vesting conditions	Vested	Vested	Vested	Vested

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

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the end of reporting period.

Changes in granted number of share options for the six-month periods ended June 30, 2019 and 2018, are as follows:

i) Linked to short-term performance

<i>(in shares)</i>	June 30, 2019	December 31, 2018
Beginning balance	512,191	412,614
Granted	344,048	248,706
Exercised	190,356	149,129
Ending balance	<u>665,883</u>	<u>512,191</u>

ii) Linked to long-term performance

<i>(in shares)</i>	June 30, 2019	December 31, 2018
Beginning balance	298,151	324,775
Granted	33,620	86,856
Exercised	23,381	7,411
Others	82,687	(106,069)
Ending balance	<u>391,077</u>	<u>298,151</u>

<i>(in shares)</i>	Deferred grant	
	June 30, 2019	December 31, 2018
Beginning balance	78,313	81,908
Granted	23,146	6,603
Exercised	5,951	10,198
Ending balance	<u>95,508</u>	<u>78,313</u>

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The fair value of share options and the significant inputs into the option pricing model as at June 30, 2019, are as follows:

		June 30, 2019							
		Option pricing model	Share price	Exercise price	Price volatility	Expected option life	Risk-free interest rate	Fair value	
Grant expected in 2020	Black-Scholes Model	₩	7,490	-	23.80%	0.5 year	1.50%	₩	7,379
Grant expected in 2021	Black-Scholes Model		7,490	-	22.62%	1.51 years	1.50%		7,162
Grant expected in 2022	Black-Scholes Model		7,490	-	21.05%	2.51 years	1.48%		6,953
Linked to short-term performance									
Share granted in 2017	Black-Scholes Model		7,490	-	23.80%	0.5 year	1.50%		7,379
Share granted in 2018	Black-Scholes Model		7,490	-	22.62%	1.51 years	1.50%		7,162
Share granted in 2019	Black-Scholes Model		7,490	-	21.05%	2.51 years	1.48%		6,953

Expenses recognized related to the share option granted for the three-month and six-month periods ended June 30, 2019 and 2018, are as follows:

(in millions of Korean won)	2019				2018			
	Three months		Six months		Three months		Six months	
Linked to short-term performance	₩	1,637	₩	3,613	₩	(85)	₩	1,122
Linked to long-term performance		217		(14)		119		486

Liabilities recognized related to the share option granted as at June 30, 2019 and December 31, 2018, are as follows:

(in millions of Korean won)	June 30, 2019		December 31, 2018	
Accrued expenses (short-term performance)	₩	7,188	₩	7,559
Accrued expenses (long-term performance)		1,969		2,368

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32. Non-operating Income and Expenses

Non-operating income and expenses for the three-month and six-month periods ended June 30, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019		2018	
	Three months	Six months	Three months	Six months
Income from investments in associates				
Share of profit of associates	₩ 2,869	₩ 7,371	₩ 2,072	₩ 3,069
Gain on disposal of investments in associates	250	403	-	-
Share of gain (loss) of associates	302	(177)	(649)	(1,052)
	<u>3,421</u>	<u>7,597</u>	<u>1,423</u>	<u>2,017</u>
Non-operating income:				
Gain on disposal of property and equipment	28	1,807	28	45
Gain on disposal of intangible assets	-	-	-	239
Rental income	880	1,694	736	1,367
Restoration income	22	40	16	19
Gain on collection of charge-offs	478	588	457	649
Gain on changes in leases	94	130	-	-
Other non-operating income (other interest income and others)	1,463	8,230	2,994	8,260
	<u>2,965</u>	<u>12,489</u>	<u>4,231</u>	<u>10,579</u>
Non-operating expenses:				
Expenses on collection of charge-offs	(162)	(228)	(118)	(180)
Loss on disposal of property and equipment	(88)	(435)	(198)	(202)
Loss on retirement of property and equipment	-	(2)	-	(13)
Impairment loss on property and equipment	-	-	60	-
Loss on disposal of intangible assets	-	(56)	4	(47)
Donations	(6,076)	(16,953)	(9,501)	(16,726)
Other interest expenses	(1,497)	(3,050)	(1,062)	(2,913)
Regulation penalty	-	-	(2)	(2)
Loss on changes in leases	(23)	(22)	-	-
Restoration loss	(250)	(278)	(31)	(352)
	<u>(8,096)</u>	<u>(21,024)</u>	<u>(10,848)</u>	<u>(20,435)</u>
	<u>₩ (1,710)</u>	<u>₩ (938)</u>	<u>₩ (5,194)</u>	<u>₩ (7,839)</u>

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33. Income Tax Expense

Income tax expense for the six-month periods ended June 30, 2019 and 2018, consists of:

<i>(in millions of Korean won)</i>	2019	2018
Profit before income tax	₩ 493,728	₩ 497,644
Taxes payable ¹	130,594	131,671
Tax effect of:		
Non-taxable income (₩36,053 million in 2019, ₩27,727 million in 2018)	(9,536)	(7,336)
Non-deductible expenses (₩11,699 million in 2019, ₩7,173 million in 2018)	3,094	1,898
Consolidated tax	(4,477)	(6,873)
Others	2,423	4,706
Income tax expense	₩ 122,098	₩ 124,066
Effective tax rate (income tax expense/profit before income tax)	24.73%	24.93%

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 ₩300 billion) to profit before income tax.

34. 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 six-month periods ended June 30, 2019 and 2018.

Weighted average number of ordinary shares for the three-month and six-month periods ended June 30, 2019 and 2018, are as follows:

<i>(in shares)</i>	Three-month period ended June 30, 2019		
	Number of ordinary shares	Days	Weighted average number of shares
Beginning	325,920,391	91	29,658,755,581
			29,658,755,581
Weighted average number of ordinary shares			325,920,391

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<i>(in shares)</i>	Six-month period ended June 30, 2019		
	Number of ordinary shares	Days	Weighted average number of shares
Beginning	325,920,391	181	58,991,590,771
			58,991,590,771
Weighted average number of ordinary shares			325,920,391

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

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

Basic earnings per share attributable to owners of the Parent Company for the three-month and six-month periods ended June 30, 2019 and 2018, are as follows:

<i>(in Korean won and shares)</i>	2019		2018	
	Three months	Six months	Three months	Six months
Profit for the period attributable to owners of the Parent Company	₩ 174,107,187,426	₩ 351,236,785,019	₩ 150,342,869,305	₩ 357,596,297,911
Dividends on hybrid equity securities	(7,911,811,653)	(12,834,548,728)	(5,717,729,371)	(9,843,319,408)
Profit attributable to the ordinary equity holders	166,195,375,773	338,402,236,291	144,625,139,934	347,752,978,503
Weighted average number of ordinary shares outstanding	325,920,391	325,920,391	325,920,391	325,920,391
Basic earnings per share	₩ 510	₩ 1,038	₩ 444	₩ 1,067

Diluted earnings per share for the six-month periods ended June 30, 2019 and 2018, are equal to the basic earnings per share because the Group did not have any potentially dilutive ordinary shares during the year.

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35. Contingencies and Commitments

Payment guarantees as at June 30, 2019 and December 31, 2018, are as follows:

<i>(in millions of Korean won)</i>	Type	June 30, 2019	December 31, 2018
Confirmed acceptances and guarantees:			
Confirmed acceptances and guarantees in Korean won	Payment guarantee for loans	₩ 116,263	₩ 121,982
	Others	543,886	504,710
		<u>660,149</u>	<u>626,692</u>
Confirmed acceptances and guarantees in foreign currencies	Acceptances on letters of credit	9,097	7,180
	Acceptances on letters of guarantee for importers	33,934	24,109
	Others	234,018	240,012
		<u>277,049</u>	<u>271,301</u>
		<u>937,198</u>	<u>897,993</u>
Unconfirmed acceptances and guarantees:	Letters of credit	281,395	255,923
	Others	7,348	10,126
		<u>288,743</u>	<u>266,049</u>
Others:	Endorsed bill	21	19
		<u>₩ 1,225,962</u>	<u>₩ 1,164,061</u>

Unused commitments as at June 30, 2019 and December 31, 2018, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2019	December 31, 2018
Corporates	₩ 7,450,175	₩ 7,757,830
Households	6,020,349	5,201,707
Credit card	4,625,235	4,353,358
Securities purchase agreement	485,380	354,300
	<u>₩ 18,581,139</u>	<u>₩ 17,667,195</u>

Lawsuits

As at June 30, 2019 and December 31, 2018, the Group's major lawsuits are as follows:

<i>(in millions of Korean won)</i>	June 30, 2019		December 31, 2018	
	As a plaintiff	As a defendant	As a plaintiff	As a defendant
Number (case)	42 cases	74 cases	44 cases	67 cases
Amount	₩ 190,637	₩ 112,281	₩ 177,383	₩ 31,094
Provisions related to these lawsuits		₩ 75		₩ -

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The Group recognized ₩75 million of provisions related to these lawsuits as at June 30, 2019.

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. As per the second trial held on January 24, 2019, the Group 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.

As at June 30, 2019, the Group filed a lawsuit litigation by Hyundai Securities (litigation value: ₩44.3 billion) related to the payment of ABCP purchase. The ultimate outcome of this case and its financial effect cannot be predicted 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 a lawsuit with violation of the Financial Investment Services and Capital Markets Act in relation to 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.

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.

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36. 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 June 30, 2019 and December 31, 2018, are as follows:

<i>(in millions of Korean won)</i>			June 30, 2019		December 31, 2018
Associate					
BNK 'Strong' Dividend					
Securities Investment Trust 1 st	Other assets	₩	38	₩	31
BNK 'Strong' Korea					
Securities Investment Trust 1 st	Other assets		4		4
BNK Stocks for Public Subscription Plus 10	Other assets		20		3
BNK 'Winning' Securities Investment Trust 1 st	Other assets		16		16
IBK Private Securities Investment Trust RP 2 nd	Other assets		-		1
Key management	Other liabilities		3		1
	Credit card receivable		1		4
	Deposit liabilities		565		325
	Loans receivable		125		-

Transactions with related parties for the six-month periods ended June 30, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>			2019		2018
Associate					
BNK 'Strong' Dividend					
Securities Investment Trust 1 st	Commission income	₩	75	₩	46
BNK 'Strong' Korea Securities					
Investment Trust 1 st	Commission income		37		27
BNK Stocks for Public Subscription Plus 10	Commission income		37		7
BNK 'Winning' Securities Investment Trust 1 st	Commission income		55		25
Key management	Commission income		1		-
	Commission expenses		2		2
	Interest income		3		1
	Interest expenses		2		1

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Fund transactions with related parties for the six-month periods ended June 30, 2019 and 2018, are as follows:

(in millions of Korean won)

		2019			
		Beginning balance	Increase	Decrease	Ending balance
Key management	Loans receivable	₩ -	₩ 195	₩ 70	₩ 125
	Deposit liabilities	325	497	258	564

(in millions of Korean won)

		2018			
		Beginning balance	Increase	Decrease	Ending balance
Key management	Loans receivable	₩ 100	₩ -	₩ 100	₩ -
	Deposit liabilities	151	477	364	264

Details of payment guarantees provided by the Group to the related parties for the six-month periods ended June 30, 2019 and 2018, are as follows

(in millions of Korean won)

Provided by	Provided to	2019	2018	Remark
BNK Capital	M-park Capital Co., Ltd.	₩ 5,000	₩ 5,000	General loan, credit grants ¹

¹ 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 six-month periods ended June 30, 2019 and 2018.

Compensation for key management for the six-month periods ended June 30, 2019 and 2018, is as follows:

(in millions of Korean won)

	2019	2018
Short-term employee benefits	₩ 1,363	₩ 1,510
Share-based payments	1,194	835
Post-employment benefits	447	479
	₩ 3,004	₩ 2,824

The Group purchased loans receivable ₩164,049 million (2018: ₩113,417 million) from M-park Capital Co., Ltd., a joint venture, for the six-month periods ended June 30, 2019 and 2018.

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37. Changes in Accounting Policies

- Adoption of Korean IFRS 1116 Lease

As explained in Note 2.1.(a), the Group has adopted Korean IFRS 1116, retrospectively, from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are, therefore, recognized in the consolidated statement of financial position on January 1, 2019.

(a) Adjustments recognized on adoption of Korean IFRS 1116 Lease

On adoption of Korean IFRS 1116, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of Korean IFRS 1017. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at January 1, 2019.

The lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 1.90 ~ 8.33%.

(in millions of Korean won)

	Amount	
Operating lease commitments disclosed as at December 31, 2018	₩	47,734
Discounted using the lessee's incremental borrowing rate of at the date of initial application		45,839
Less: low-value leases recognized on a straight-line basis as expense		(841)
Lease liability recognized as at January 1, 2019	₩	44,997

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated statement of financial position as at December 31, 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

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(i) Amounts recognized in the consolidated statement of financial position

(in millions of Korean won)

June 30, 2019

Right-of-use assets ¹		
Properties	₩	43,409
Vehicles		895
Others		540
	₩	<u>44,844</u>
Lease liabilities ²		
Lease liabilities	₩	40,662
Lease liabilities – present value discounts		(4,110)
	₩	<u>36,552</u>

¹ Included in the line item 'property and equipment' in the consolidated statements of financial position.

² Included in the line item 'other liabilities' in the consolidated statements of financial position.

(ii) Amounts recognized in the consolidated statement of profit or loss

The consolidated statement of profit or loss shows the following amounts relating to leases:

(in millions of Korean won)

2019

	Properties		Vehicles		Others		Total
Depreciation of right-of-use assets	₩	14,978	₩	224	₩	1,093	₩ 16,295
Interest expense relating to lease liabilities		<u>494</u>		<u>9</u>		<u>11</u>	<u>514</u>
Expense relating to leases of low-value assets that are not short-term leases		<u>-</u>		<u>-</u>		<u>386</u>	<u>386</u>
	₩	<u>15,472</u>	₩	<u>233</u>	₩	<u>1,490</u>	₩ <u>17,195</u>

The total cash outflow for leases in 2019 was ₩13,986 million.

The change in accounting policy affected the following items in the consolidated statement of financial position on January 1, 2019:

- property and equipment: increase by ₩55,770 million
- right-of-use assets: increase by ₩55,770 million
- prepayments: decrease by ₩10,779 million

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- lease liabilities: increase by ₩44,997 million

Practical expedients applied

In applying Korean IFRS 1116 for the first time, the Group has used the following practical expedients permitted by the standard:

- Reliance on previous assessments on whether leases are onerous
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying Korean IFRS 1017 and Interpretation 2104 *Determining whether an Arrangement contains a Lease*.

(b) The Group's leasing activities and how these are accounted for

The Group leases various offices, equipment and cars. Rental contracts are typically made for fixed periods of 3 to 8 years, but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and

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- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

Payments associated with leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Low-value assets comprise IT-equipment and small items of office furniture.