

BNK FINANCIAL GROUP INC. and Subsidiaries

**Consolidated Financial Statements
December 31, 2019 and 2018**

BNK FINANCIAL GROUP INC. and Subsidiaries

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Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

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

Opinion

We have audited the accompanying consolidated financial statements of BNK Financial Group Inc. and its subsidiaries (collectively referred to as the "Group") which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the BNK Financial Group Inc. as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS).

Basis for Opinion

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

Key Audit Matter

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

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

Key Audit Matter

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

The Group recognizes expected credit losses for loans at amortized cost using individual and collective assessment method and records provision for impairment of loans at amortized cost amounting to ₩ 79,633,112 million and ₩ 817,657 million, respectively. Individually assessed expected credit losses are calculated using present value of the future recoverable cash flows of financial assets that is individually significant and this assessment implies uncertainty and includes several assumptions and estimates. We focus on this area since loans at amortized cost for expected credit losses using individual assessment and provision for impairment of loans at amortized cost of ₩ 588,159 million and ₩195,545 million at the end of the reporting period, respectively, are significant in the consolidated financial statements, taking into account the impact of the individually assessed expected credit losses in the consolidated financial statements and management's estimates and judgments. Meanwhile, Busan Bank and Kyongnam Bank are the most affected companies from those impacts among subsidiaries.

How our audit addressed the Key Audit Matter

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

- Method of selecting loans to be individually assessed by the Group
 - Data applied when calculating individually assessed expected credit losses performed by the Group
- We evaluated the level of uncertainty of the estimates related to individually assessed expected credit losses and determined the following based on the assessed risk of material misstatement:
- Whether the Group has appropriately applied the requirements of Korean IFRS in relation to the estimates of expected credit losses for individual assessment
 - Whether the method of estimating provision for impairment on the basis of individual assessment used by the Group is appropriate and has been applied consistently

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

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

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

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

Other Matter

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to

the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Seoul, Korea

March 12, 2020

This report is effective as of March 12, 2020, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

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

<i>(in millions of Korean won)</i>	Notes	2019	2018
Assets			
Cash and due from banks	4,6,7,42 ₩	4,148,498 ₩	3,212,849
Financial assets at fair value through profit or loss	4,6,8,11	3,839,224	3,471,853
Financial assets at fair value through other comprehensive income	4,6,9,13	5,267,070	5,030,992
Financial assets at amortized cost	4,6,10,13	7,534,761	6,798,768
Loans and receivables	4,6,12,13,14	80,657,226	77,629,807
Derivative assets	4,6,15	35,960	30,362
Investments in associates and joint venture	16	551,108	465,099
Property and equipment	17	977,628	887,545
Intangible assets	18	266,377	271,652
Investment properties	19	224,182	198,173
Other assets	20	1,036,736	796,483
Total assets		₩ 104,538,770	₩ 98,793,583
Liabilities			
Deposit liabilities	4,6,21 ₩	76,609,540 ₩	73,380,110
Borrowings	4,6,22	5,079,228	5,615,889
Debentures	4,6,23	10,185,756	8,590,658
Derivative liabilities	4,6,15	42,540	57,275
Net defined benefit liabilities	24	84,536	72,000
Provisions	25,39	45,258	42,656
Current tax liabilities	37	103,589	35,069
Deferred tax liabilities	37	61,435	47,088
Other liabilities	4,6,26	3,145,719	2,527,875
Total liabilities		95,357,601	90,368,620
Equity			
Equity attributable to owners of the Parent Company			
Share capital	27	1,629,676	1,629,676
Hybrid equity securities	27	707,874	508,521
Other paid-in capital	27	786,783	786,783
Other components of equity	27	(32,524)	(51,005)
Retained earnings	27	5,191,904	4,753,003
		8,283,713	7,626,978
Non-controlling interest		897,457	797,984
Total equity		9,181,170	8,424,962
Total liabilities and equity		₩ 104,538,771	₩ 98,793,582

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

BNK FINANCIAL GROUP INC. and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2019 and 2018

<i>(in millions of Korean won, except per share amounts)</i>	Notes	2019	2018
Net interest income(expenses)	28		
Interest income			
Financial assets at fair value through profit or loss		₩ 58,856	₩ 44,474
Financial asset at fair value through other comprehensive income and amortized cost		<u>3,570,405</u>	<u>3,584,328</u>
		3,629,261	3,628,802
Interest expenses		<u>(1,442,487)</u>	<u>(1,285,262)</u>
		<u>2,186,774</u>	<u>2,343,540</u>
Net fee and commission income	29		
Commission income		369,971	353,561
Commission expenses		<u>(123,534)</u>	<u>(149,613)</u>
		<u>246,437</u>	<u>203,948</u>
Gain on financial assets at fair value through profit or loss	30	101,501	44,432
Gain on financial assets at fair value through other comprehensive income	31	18,327	14,122
Loss on financial assets at amortized cost	32	(310)	(21)
Contribution to provision for credit loss and others	33		
Contribution to provision for credit loss		(423,693)	(501,835)
Gain on disposal of loans		99,423	39,235
General and administrative expenses	34	(1,273,365)	(1,264,740)
Other operating income (expenses)	15,35		
Gain on foreign currency transaction		34,701	27,497
Gain from derivatives		29,425	25,093
Other operating income		321,483	261,852
Other operating expenses		<u>(533,821)</u>	<u>(443,289)</u>
Operating profit		<u>806,882</u>	<u>749,834</u>
Non-operating income (expenses)	36		
Share of profit of associates		14,738	5,680
Other income		33,776	27,467
Other expenses		<u>(62,023)</u>	<u>(64,343)</u>
		<u>(13,509)</u>	<u>(31,196)</u>
Profit before income tax		793,373	718,638
Income tax expense	37	<u>(194,428)</u>	<u>(180,497)</u>
Profit for the year	5,38	₩ <u>598,945</u>	₩ <u>538,141</u>
Profit is attributable to:			
Owners of the Parent Company		562,225	502,095
Non-controlling interest		36,722	36,046

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

BNK FINANCIAL GROUP INC. and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2019 and 2018

<i>(in millions of Korean won, except per share amounts)</i>	Notes	2019	2018
Other comprehensive income, net of tax	27		
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of net defined benefit liabilities		(12,119)	(29,780)
Gain on valuation of equity instruments at fair value through other comprehensive income		7,084	13,437
<i>Items that may be subsequently reclassified to profit or loss</i>			
Gain on valuation of debt instruments at fair value through other comprehensive income		20,085	37,139
Exchange differences on translation of foreign operations		5,837	1,615
Loss on valuation of hedges of net investments in foreign operations		(2,560)	(3,093)
Share of other comprehensive income of associates		(34)	-
(Reversal of) Impairment loss of debt instruments at fair value through other comprehensive income		318	(54)
Other comprehensive income for the year, net of tax		18,611	19,264
Total comprehensive income for the year		<u>₩ 617,556</u>	<u>₩ 557,405</u>
Total comprehensive income for the year is attributable to:			
Owners of the Parent Company	₩	580,834	₩ 521,359
Non-controlling interests		36,722	36,046
Earnings per share (in Korean won)			
Basic and diluted earnings per share	₩	1,647	₩ 1,475

BNK FINANCIAL GROUP INC. and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2019 and 2018

	Attributable to owners of the Parent Company						Non-controlling interests	Total equity
	Share capital	Hybrid equity securities	Other paid-in capital	Other components of equity	Retained earnings	Total		
<i>(in millions of Korean won)</i>								
Balance at January 1, 2018	₩ 1,629,676	₩ 259,277	₩ 786,783	₩ (36,056)	₩ 4,417,880	₩ 7,057,560	₩ 598,458	₩ 7,656,018
Changes in accounting policy	-	-	-	(34,213)	(66,666)	(100,879)	4	(100,875)
Dividends	-	-	-	-	(74,962)	(74,962)	-	(74,962)
Issuance of hybrid equity securities	-	249,244	-	-	-	249,244	199,335	448,579
Dividends on hybrid equity securities	-	-	-	-	(21,500)	(21,500)	(35,852)	(57,352)
Others	-	-	-	-	8	8	(8)	-
Total comprehensive income								
Profit for the year	-	-	-	-	502,095	502,095	36,046	538,141
Other comprehensive income								
Remeasurements of net defined benefit liabilities	-	-	-	(29,780)	-	(29,780)	-	(29,780)
Gain on valuation of financial assets at fair value through other comprehensive income	-	-	-	50,576	-	50,576	-	50,576
Loss on disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	(3,853)	(3,853)	-	(3,853)
Gain on overseas operations translation	-	-	-	1,615	-	1,615	-	1,615
Loss on valuation of hedges of net investments in foreign operations	-	-	-	(3,093)	-	(3,093)	-	(3,093)
Reversal of impairment loss of debt instruments at fair value through other comprehensive income	-	-	-	(54)	-	(54)	-	(54)
Balance at December 31, 2018	₩ 1,629,676	₩ 508,521	₩ 786,783	₩ (51,005)	₩ 4,753,002	₩ 7,626,977	₩ 797,983	₩ 8,424,960
Balance at January 1, 2019	₩ 1,629,676	₩ 508,521	₩ 786,783	₩ (51,005)	₩ 4,753,002	₩ 7,626,977	₩ 797,983	₩ 8,424,960
Dividends	-	-	-	-	(97,776)	(97,776)	-	(97,776)
Issuance of hybrid equity securities	-	199,353	-	-	-	199,353	99,667	299,020
Dividends on hybrid equity securities	-	-	-	-	(25,496)	(25,496)	(36,722)	(62,218)
Others	-	-	-	-	(180)	(180)	(194)	(374)
Total comprehensive income								
Profit for the year	-	-	-	-	562,225	562,225	36,722	598,947
Other comprehensive income								
Remeasurements of net defined benefit liabilities	-	-	-	(12,119)	-	(12,119)	-	(12,119)
Gain on valuation of financial assets at fair value through other comprehensive income	-	-	-	27,169	-	27,169	-	27,169
Gain (loss) on disposal of equity instruments at fair value through other comprehensive income	-	-	-	(129)	129	-	-	-
Gain on overseas operations translation	-	-	-	5,837	-	5,837	-	5,837
Loss on valuation of hedges of net investments in foreign operations	-	-	-	(2,560)	-	(2,560)	-	(2,560)
Share of other comprehensive income of associates	-	-	-	(34)	-	(34)	-	(34)
Impairment loss of debt instruments at fair value through other comprehensive income	-	-	-	318	-	318	-	318
Balance at December 31, 2019	₩ 1,629,676	₩ 707,874	₩ 786,783	₩ (32,523)	₩ 5,191,904	₩ 8,283,714	₩ 897,456	₩ 9,181,170

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

BNK FINANCIAL GROUP INC. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

(in millions of Korean won)

	2019	2018
Cash flows from operating activities		
Profit for the year	₩ 598,947	₩ 538,141
Adjustments to profit for the year:		
Interest income	(3,629,261)	(3,628,803)
Interest expense	1,442,487	1,285,262
Loss (gain) on financial assets at fair value through profit or loss, net	(31,905)	5,048
Gain on financial assets at fair value through other comprehensive income, net	(18,327)	(14,122)
Loss on financial assets at amortized cost, net	310	21
Contribution to provision for credit loss	423,693	502,248
Gain on foreign currency translation	(5,305)	(2,319)
Gain on valuation of derivatives, net	(22,919)	(8,043)
Depreciation	96,504	64,240
Amortization	73,652	74,047
Post-employment benefits	64,738	58,066
Other operating expenses, net	204,157	147,065
Share of profit of associates	(14,738)	(5,680)
Loss (gain) on property and equipment, and intangible assets	(820)	4,857
Income tax expense	194,428	180,497
	<u>(1,223,306)</u>	<u>(1,337,616)</u>
Changes in operating assets and liabilities:		
Decrease (increase) in due from banks	(931,073)	60,262
Increase in financial assets at fair value through profit or loss	(605,428)	(1,004,132)
Increase in loans and receivables	(3,427,462)	(3,115,983)
Decrease (increase) in derivative assets and liabilities	2,600	(1,207)
Increase in other assets	(502,869)	(420,325)
Increase in deposit liabilities	3,236,407	3,550,906
Decrease in provisions	(83)	(539)
Increase (decrease) in other liabilities	258,895	(190,951)
Decrease in defined benefit obligation	(31,205)	(23,212)
Increase in plan assets	(36,702)	(34,761)
	<u>(2,036,920)</u>	<u>(1,179,942)</u>
Interest received	3,702,382	3,657,797
Dividend received	10,978	7,704
Interest paid	(1,426,206)	(1,206,923)
Income tax paid	<u>(114,507)</u>	<u>(124,727)</u>
Net cash inflow (outflow) from operating activities	<u>(488,632)</u>	<u>354,434</u>

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

BNK FINANCIAL GROUP INC. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 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	7,714,911	1,682,482
Payments for financial assets at fair value through profit or loss	(7,492,298)	(1,831,784)
Proceeds from disposal of financial assets at fair value through other comprehensive income	3,071,686	2,319,178
Payments for financial assets at fair value through other comprehensive income	(3,239,632)	(2,384,139)
Proceeds from disposal of financial assets at amortized cost	1,215,452	1,528,609
Payments for financial assets at amortized cost	(1,934,463)	(1,641,047)
Proceeds from disposal of investments in associates	236,748	141,511
Payments for investments in associates	(263,475)	(532,500)
Proceeds from disposal of property and equipment	4,535	8,225
Payments for property and equipment	(109,240)	(125,330)
Proceeds from disposal of intangible assets	73	3,018
Payments for intangible assets	(58,835)	(30,504)
Net cash flows from business combinations	(7,600)	-
Decrease in leasehold deposits provided	9,281	8,468
Net cash outflow from investing activities	(852,857)	(853,813)
Cash flows from financing activities		
Increase in borrowings	28,610,798	37,018,128
Decrease in borrowings	(29,222,527)	(36,420,488)
Issuance of debentures	3,859,754	2,687,661
Repayment of debentures	(2,300,000)	(2,917,368)
Payments of lease liabilities	(28,658)	-
Dividends paid to shareholders	(97,776)	(74,962)
Issuance of hybrid equity securities	199,353	249,244
Dividends paid on hybrid equity securities	(26,755)	(20,954)
Decrease in non-controlling interest	63,572	164,192
Others	281,704	(49,075)
Net cash inflow from financing activities	1,339,466	636,378
Net increase (decrease) in cash and cash equivalents	(2,023)	137,004
Cash and cash equivalents at the beginning of the year	1,145,630	1,014,578
Effects of exchange rate changes on cash and cash equivalents	6,686	(5,952)
Cash and cash equivalents at the end of the year	W 1,150,293	W 1,145,630

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

BNK FINANCIAL GROUP INC. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2019 and 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. In November 2019, the Parent Company also obtained 100% of shares in BNK Venture Capital Co., Ltd. and established it as 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 December 31, 2019, amounts to ₩1,629,676 million with 325,935,246 outstanding shares.

1.2 Consolidated Subsidiaries

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

Name of subsidiary	Industry	Location	Closing month	Ownership interests (%)	
				2019	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 Venture Capital Co., Ltd.	Start-up Investment Company Advisory	Korea	December 31	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 Financial Statements
December 31, 2019 and 2018

Name of subsidiary	Industry	Location	Closing month	Ownership interests (%)	
				2019	2018
BNK REPO PLUS Private Investment Trust No. 1 ²	Beneficiary certificate	Korea	December 31	41.57	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	81.12	-
BNK Tuna Private investment Trust ^{1 2}	Beneficiary certificate	Korea	December 31	66.67	-
BNK Luxembourg Core Office Real Estate Investment Trust ²	Beneficiary certificate	Korea	December 31	100.00	-
BNK Teun Teun Mid and LongTerm Securities Investment Trust ¹ – Bond ²	Beneficiary certificate	Korea	December 31	45.09	-
Multi-Esset KLC VLOC Professional Private Equity Fund No. 1 ²	Beneficiary certificate	Korea	December 31	100.00	-
BNK Seonbo-Booulkyung Start-up New Technologie No. 1 ²	Beneficiary certificate	Korea	December 31	75.00	-
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	99.98	-
BNK Asset Management Co., Ltd.:					
BNK Brave New KOREA No.1 ²	Beneficiary certificate	Korea	December 31	69.38	67.64
BNK Global AI Securities Feeder Investment Trust H ²	Beneficiary certificate	Korea	December 31	68.63	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

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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.

1.3 Summarized Financial Information

Summarized financial information for consolidated subsidiaries as at and for the years ended December 31, 2019 and 2018, is as follows:

(in millions of Korean won)

Name of subsidiary	2019						
	Assets	Liabilities	Equity	Operating income	Operating profit	Profit for the year	Total comprehensive income
Busan Bank Co., Ltd. and its Subsidiaries	₩56,263,405	₩51,048,211	₩ 5,215,194	₩ 2,747,873	₩ 501,342	₩ 374,814	₩ 381,738
Kyongnam Bank Co., Ltd. and its Subsidiaries	39,296,261	35,898,643	3,397,618	1,586,874	231,377	181,711	190,823
BNK Capital Co., Ltd. and its Subsidiaries	5,425,262	4,708,984	716,278	704,392	103,093	78,862	81,892
BNK Securities Co., Ltd. and its Subsidiaries	2,372,112	1,930,045	442,067	167,090	28,584	20,984	21,528
BNK Savings Bank Co., Ltd.	1,084,684	933,233	151,451	66,014	23,444	20,017	20,017
BNK Asset Management Co., Ltd. and its Subsidiaries	77,836	4,897	72,939	12,630	2,937	2,511	2,511
BNK Credit Information Co., Ltd.	11,465	887	10,578	5,955	1,330	950	950
BNK System Co., Ltd.	14,954	5,190	9,764	67,950	1,537	1,114	1,114
BNK Venture Capital Co., Ltd.	18,721	170	18,551	440	237	464	391

(in millions of Korean won)

Name of subsidiary	2018						
	Assets	Liabilities	Equity	Operating income	Operating profit (loss)	Profit (loss) for the year	Total comprehensive income (loss)
Busan Bank Co., Ltd. and its Subsidiaries	₩53,034,643	₩48,195,199	₩ 4,839,444	₩ 2,672,040	₩ 467,774	₩ 346,726	₩ 364,571
Kyongnam Bank Co., Ltd. and its Subsidiaries	37,936,971	34,660,326	3,276,645	1,618,518	230,881	168,976	173,033
BNK Capital Co., Ltd. and its Subsidiaries	5,067,528	4,423,114	644,414	596,765	94,689	71,140	68,678
BNK Securities Co., Ltd.	1,797,779	1,377,240	420,539	149,257	14,534	11,357	10,726
BNK Savings Bank Co., Ltd.	1,016,461	885,027	131,434	57,767	16,693	15,633	15,633
BNK Asset Management Co., Ltd. and its Subsidiaries	72,277	1,850	70,427	8,392	(399)	(424)	(424)
BNK Credit Information Co., Ltd.	10,192	564	9,628	5,340	1,009	776	776
BNK System Co., Ltd.	11,211	2,562	8,649	51,711	1,921	1,540	1,540

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1.4 Changes in Scope for Consolidation

Subsidiaries newly included in the consolidation for the years ended December 31, 2019 and 2018:

Subsidiary	2019
BNK-KN Southeast Region Job Creation Fund1	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 Trust1	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 Trust1 - Bond	Participated in Busan Bank Co., Ltd.'s investment when setting beneficiary certificate
BNK Venture Capital Co., Ltd.	Incorporated as a subsidiary by acquisition of BNK Venture Capital Co., Ltd.
Multi-Esset KLC VLOC Professional Private Equity Fund No. 1	Participated in Busan Bank Co., Ltd.'s investment when setting beneficiary certificate
BNK Seonbo-Booulkyung Start-up New Technologie No. 1	Participated in BNK Securities Co., Ltd.'s investment when setting the fund

Subsidiary	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 Trust 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

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Subsidiaries excluded from the consolidation for the years ended December 31, 2019 and 2018:

Subsidiary	2019
BNK Teun Teun Short-term Government Bond No. 1	Liquidation of Busan Bank Co., Ltd.'s beneficiary certificate
Subsidiary	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 years presented, unless otherwise stated.

2.1 Basis of Preparation

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

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

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

The financial statements have been prepared on a historical cost basis, except for the following:

- Certain financial assets and liabilities (including derivative instruments), certain classes of property, plant and equipment and investment property – measured at fair value

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- assets held for sale – measured at fair value less costs to sell, and
- defined benefit pension plans – plan assets measured at fair value.

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

2.2 Changes in Accounting Policies and Disclosures

(a) New and amended standards adopted by the Group

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

- Enactment of Korean IFRS 1116 *Leases*

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

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 47.

- Amendment to Korean IFRS 1109 *Financial Instruments – Prepayment Features with Negative Compensation*

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 1109 *Financial Instruments*, and 1107 *Financial Instruments: Disclosure*

An exception has been added to the amendments so that entities would apply hedge accounting during the period of uncertainty due to the interest rate benchmark reform. In the hedging relationship, an entity shall assume that the interest rate benchmark on which the hedge cash flows are based is not altered as a result of interest rate benchmark reform when determining whether a forecast transaction is highly probable and prospectively assessing hedging

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effectiveness. For a hedge of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the requirement that the risk component shall be separately identifiable only at the inception of the hedging relationship. The application of this exception is ceased either when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedge item, or when the hedging relationship is discontinued. These amendments will be effective for annual periods beginning on or after January 1, 2020. However, the Group early adopted the amendments as it is permitted. Significant interest rate benchmark for hedging relationship are LIBOR and CD interest rates, and those affected by the amendments are hedging accounting in Note 15.

- 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. The amendments also clarify that Korean IFRS 1109 requirements are applied to long-term interests that form part of the entity's net investment in an associate or joint venture before applying the impairment requirements of Korean IFRS 1028. 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.

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

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

- Amendments to Korean IFRS 1001 *Presentation of Financial Statements* and Korean IFRS 1008 *Accounting policies, changes in accounting estimates and errors – Definition of Material*

The amendments clarify the explanation of the definition of material and amended Korean IFRS

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1001 and Korean IFRS 1008 in accordance with the clarified definitions. Materiality is assessed by reference to omission or misstatement of material information as well as effects of immaterial information, and to the nature of the users when determining the information to be disclosed by the Group. These amendments should be applied for annual periods beginning on or after January 1, 2020, and earlier application of permitted. The Group does not expect that these amendments have a significant impact on the financial statements.

- Amendments to Korean IFRS 1103 *Business Combination – Definition of a Business*

To consider the integration of the required activities and assets as a business, the amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs and excludes economic benefits from the lower costs. An entity can apply a concentration test, an optional test, where substantially all of the fair value of gross assets acquired is concentrated in a single asset or a group of similar assets, the assets acquired would not represent a business. These amendments should be applied for annual periods beginning on or after January 1, 2020, and earlier application of permitted. The Group does not expect that these amendments have a significant impact on the financial statements.

- On December 16, 2019, the IFRIC concluded that the enforceable period of a lease under IFRS 16, "Leases", reflects broader economics, not just legal rights and termination cash payments. The Group is assessing the impact that the change in accounting policy of enforceable period will have on the Group's financial statements, and the Group will apply the impact in the financial statements once the assessment is completed.

2.3 Consolidation

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

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

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and

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- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

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

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

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

2.4 Business Combination

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

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

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

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

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

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

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

When a business combination is achieved in stages, the Group's previously held equity interest in

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

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

2.5 Investments in Associates and Joint Ventures

Associates are entities over which the Group has significant influence but not control or joint control. Investments in associates are accounted for using the equity method of accounting, after initially being recognized at cost. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. If there is an objective evidence of impairment for the investment in the associate, the Group recognizes the difference between the recoverable amount of the associate and its book amount as impairment loss

2.6 Goodwill

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

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

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

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

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2.7 Foreign Currencies

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

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

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

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

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

2.8 Cash and Cash Equivalents

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

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2.9 Financial Assets

(a) Classification

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

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

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

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. The Group reclassifies debt investments when, and only when its business model for managing those assets changes.

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

(b) Measurement

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

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

A. Debt instruments

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

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired.
- **Fair value through other comprehensive income:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through

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other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss.

B. Equity instruments

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

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

(c) Impairment

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

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

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

(d) Recognition and Derecognition

Regular way purchases and sales of financial assets are recognized or derecognized on trade-

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

2.10 Financial Liabilities and Equity Instruments

(a) Classification as debt or equity

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

(b) Equity instruments

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

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

(c) Hybrid Capital Instruments

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

(d) Financial liabilities

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

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

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(e) Financial guarantee contracts

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

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

(f) Derecognition of financial liabilities

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

(g) Offsetting of financial instruments

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

2.11 Derivative Instruments

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

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

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

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as current assets or current liabilities.

(a) Embedded derivatives

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

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

(b) Hedge accounting

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

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

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

(c) Fair value hedges

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

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

(d) Cash flow hedges

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

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

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

2.12 Property and Equipment

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

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

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

	Useful life (Years)	Depreciation method
Construction	50	Straight line
Leasehold improvements	5	Straight line
Equipment and vehicles	5	Straight line

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

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

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

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derecognized.

2.13 Investment Property

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

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

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

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

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

2.14 Leases

As explained in Note 2.2 (a) above, the Group has changed its accounting policy for leases. The impact of the new accounting policies is disclosed in Note 46.

As at December 31, 2018, leases of property, plant and equipment where the Group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalized at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding lease payments, net of finance charges, were included in a finance lease obligation. Each lease payment was allocated between the liability and finance cost. The finance cost was 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 property, plant and equipment acquired under finance leases was depreciated over the asset's useful life, or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as 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

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basis over the period of the lease.

2.15 Intangible Assets

(a) Intangible assets acquired separately

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

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

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

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

(c) Intangible assets acquired in a business combination

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

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

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

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(d) Derecognition of intangible assets

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

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

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

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

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

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

2.17 Investments in Associates and Joint Ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in making decision on the financial and operating policies of the investee, but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control over the arrangement have rights to net assets relating to the arrangement. Joint control is the contractually agreed sharing of control over an arrangement that exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The profit for the year and the financial results of the joint ventures and associates are incorporated in these consolidated financial statements using the equity method of accounting,

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except when the investment is classified as held for sale, in which case it is accounted for in accordance with Korean IFRS 1105 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in the joint ventures and associates is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the net assets of the joint ventures and associates and any impairment. When the Group's share of losses in the joint ventures and associates exceeds the Group's interest in the associate, the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint ventures and associates.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the joint ventures and associates recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognized immediately in profit or loss.

Upon a loss of significant influence over the joint ventures and associates, the Group discontinues the use of the equity method and measures at fair value of any investment that the Group retains in the former joint ventures and associates from the date when the Group loses significant influence. The fair value of the investment is regarded as its fair value on initial recognition, as a financial asset, in accordance with Korean IFRS 1109. The Group recognized differences between the carrying amount and fair value in profit or loss, and it is included in determination of the gain or loss on disposal of joint ventures and associates. The Group accounts for all amounts recognized in other comprehensive income in relation to the joint ventures and associates on the same basis as would be required if the joint ventures and associates had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by an associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity profit or loss as a reclassification adjustment.

When the Group's ownership of interest in an associate or a joint venture decreases, but the Group continues to maintain significant influence over an associate or a joint venture, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that decrease in ownership interest if the gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities. Meanwhile, if interest on an associate or a joint venture meets the definition of non-current asset held for sale, it is accounted for in accordance with Korean IFRS 1105.

The requirements of Korean IFRS 1036 to determine whether there has been a loss event are applied to identify whether it is necessary to recognize any impairment loss with respect to the Group's investment in the associates and joint ventures. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with Korean IFRS 1036 as a single asset by comparing its recoverable amount (higher of value in use or fair value, less costs to sell) with its carrying amount. Any impairment loss recognized is not allocated to any asset (including goodwill) that forms part of the carrying amount of the investment. Any

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reversal of that impairment loss is recognized in accordance with Korean IFRS 1036 to the extent that the recoverable amount of the investment subsequently increases.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no re-measurement to fair value upon such changes in ownership interests.

When the Group transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

2.18 Impairment of Non-Financial Assets

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

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

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

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

2.19 Non-current Assets Held for Sale

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

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

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

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

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

2.20 Provisions

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

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

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

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

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(a) Onerous contracts

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

(b) Restructurings

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

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

(c) Contingent liabilities acquired in a business combination

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

(d) Provision for acceptances and guarantees and provision for unused commitment

Provisions on confirmed and unconfirmed acceptances and guarantees, unfunded commitments of credit card and unused credit line of consumer and corporate loans are recognized using valuation model that applies the credit conversion factor ("CCF"), default rates and loss given default ("LGD").

2.21 Revenue and Expense Recognition

(a) Interest income and expense

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

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expenses are allocated over the relevant period.

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

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

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

(b) Commission income

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

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

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

② Commission from rendering services

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

③ Commission from significant act performed

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

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

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

④ Unearned revenue from point programs (customer loyalty program)

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

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

(c) Dividend income

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

2.22 Employee Benefits

(a) Short-term employee benefits

Short-term employee benefits are defined as employee benefits that fall due within 12 months after the end of the reporting period in which the employees render the related service. The Group recognizes the undiscounted amount of short-term employee benefits expecting payment in exchange for the services when the employee renders services.

(b) Other long-term employee benefits

If the Group does not pay employee benefits within 12 months from the end of the reporting period after providing services, other long-term employee benefits are discounted by present value of future benefits based on current and past terms. These benefits are also recognized as liabilities

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after deducting fair value of plan assets that can directly pay relevant liabilities. The liabilities are determined after discounting estimated future cash flow by using interest rate of sound finance bonds that have similar maturity with related benefits. Gains and losses arising from remeasurement are recognized as amount of total gains and losses during the period of events.

(c) Post-employment Benefit Costs and Termination Benefits

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

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

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

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

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

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

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

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(d) Share-based payments

For cash-settled share-based payment transactions in which the Group settles in cash as the consideration for goods or services received from employees, the Group measures the goods or services acquired and the liability incurred at the fair value and recognizes as employee benefits and liabilities over the vesting period. Until the liability is settled, the Group is required to remeasure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in value recognized as 'employee benefits' in profit or loss for the year.

2.23 Income Tax Expense

Income tax expense consists of current and deferred taxes.

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

(a) Current tax

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

(b) Deferred tax

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

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

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

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

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

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

(c) Current and deferred taxes for the year

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

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2.24 Accounting for Trust Accounts

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

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

2.25 Fair Value

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

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

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

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2.26 Operating Segments

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

2.27 Approval of Issuance of the Financial Statements

The consolidated financial statements 2019 were approved for issue by the Board of Directors on February 6, 2020 and are subject to change with the approval of shareholders at their Annual General Meeting on March 20, 2020.

3. Critical Accounting Estimates and Assumptions

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

Significant accounting estimates and assumptions applied in the preparation of these consolidated financial statements are the same as those that applied to the consolidated financial statements for the year ended December 31, 2018, except for the accounting estimates and assumptions from adoption of Korean IFRS 1116 as discussed below.

(a) Estimated goodwill impairment

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

(b) Income taxes

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

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

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(c) Fair value of financial instruments

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

(d) Impairment of financial assets

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

(e) Net defined benefit liability

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

(f) Leases

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Most extension options in offices and vehicles leases have not been included in the lease liability, because the Group could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised or the Group becomes obliged to exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

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4. Financial Risk Management

4.1 General

(a) General risk management policy

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

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

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

(b) Organization of risk management

i) Risk management committee

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

ii) Risk management council

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

iii) Risk management division

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

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4.2 Credit Risk

(a) General

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

(b) Risk management framework

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

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

The credit management division and management planning division manage the credit risk by integrating and establishing credit policy, monitoring loan portfolios and restructuring the loans independently from the marketing division. The risk management division conducts the measurement of the economic capital, total exposure management, credit evaluation and approval and reviews the credit evaluation model.

(c) Maximum exposure to credit risk

The Group's maximum exposure of financial instruments except for equity securities to credit risk that does not consider value of collateral as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019		2018	
On balance				
Cash and due from banks	₩	2,998,205	₩	2,067,219
Financial assets at fair value through profit or loss		3,749,422		3,448,382
Financial assets at fair value through other comprehensive income		5,064,688		4,855,353
Financial assets at amortized cost		7,534,761		6,798,768
Loans		78,958,203		76,088,389
Receivables		1,699,023		1,541,418
Derivative assets		35,960		30,362
		<u>100,040,262</u>		<u>94,829,891</u>
Off balance				
Guarantees and acceptances		1,170,073		1,164,061
Loan commitments		20,121,504		17,667,195
		<u>21,291,577</u>		<u>18,831,256</u>
	₩	<u>121,331,839</u>	₩	<u>113,661,147</u>

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(d) Analysis of credit quality of financial assets

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

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

The gross carrying amount of loans, receivables and debt securities by credit risk grade as at December 31, 2019 and 2018, is as follows:

(in millions of
Korean won)

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	Unrecognized impairment	Recognized impairment	Subtotal	12 months expected credit losses	12 months expected credit losses	Subtotal	
Grade 1	₩ 3,126,715	₩ 4,202	₩ -	₩ 50,094	₩ 2	₩ -	₩ -	₩ -	₩ 3,181,013	₩ 3,417,964	₩ 5,631,506	₩ 9,049,470	
Grade 2	5,001,531	4,306	-	200,912	6	-	-	-	5,206,755	1,454,067	1,872,305	3,326,372	
Grade 3	7,706,698	45,779	-	9,909	41	-	-	-	7,762,427	141,726	-	141,726	
Grade 4	11,769,429	148,628	-	16,307	206	-	-	-	11,934,570	50,331	30,388	80,719	
Grade 5	23,811,898	1,007,865	-	37,831	1,224	-	-	-	24,858,818	-	-	-	
Grade 6	14,001,974	6,286,848	-	26,623	10,568	-	-	-	20,326,013	-	-	-	
Grade 7	1,321,789	2,301,352	785,367	1,587	5,517	3,017	-	-	4,418,629	-	-	-	
Non-graded	2,383,879	60,845	-	1,341,195	1,088	-	-	-	3,787,007	600	1,683	2,283	
₩ 69,123,913	₩ 9,859,825	₩ 785,367	₩ 1,684,458	₩ 18,652	₩ 3,017	₩ 81,475,232	₩ 5,064,688	₩ 7,535,882	₩ 12,600,570				

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

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

(in millions of
Korean won)

2019

Loan commitments								Guarantees and acceptances			
12 months expected credit losses				Expected lifetime credit losses				12 months expected credit losses			
Unrecognized impairment	Recognized impairment		Subtotal	Unrecognized impairment	Recognized impairment		Subtotal	Unrecognized impairment	Recognized impairment		Subtotal
Grade 1	₩ 1,435,135	₩ 1,631	₩ -	₩ 1,436,766	₩ 27,509	₩ -	₩ 27,509	₩ -	₩ -	₩ -	₩ 27,509
Grade 2	2,129,302	406	-	2,129,708	10,568	-	10,568	-	-	-	10,568
Grade 3	2,599,140	5,323	-	2,604,463	77,490	818	78,308	818	-	-	818
Grade 4	4,602,583	44,859	-	4,647,442	156,107	7,520	163,627	156,107	-	-	156,107
Grade 5	4,920,276	277,013	-	5,197,289	486,173	90,189	576,362	486,173	-	-	486,173
Grade 6	2,151,512	486,013	-	2,637,525	143,622	130,162	273,884	143,622	100	100	243,722
Grade 7	272,792	246,025	179	518,996	70	13,220	589,286	13,220	5,524	5,524	18,744
Non-graded	385,166	6,513	184	391,863	21,000	-	412,863	-	-	-	412,863
₩ 18,495,906	₩ 1,067,783	₩ 363	₩ 19,564,052	₩ 922,539	₩ 241,909	₩ 5,624	₩ 1,170,072	₩ 241,909	₩ 5,624	₩ 1,170,072	

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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	

(e) Concentration analysis of credit risk

Details of loans and debt securities by borrower's country and industry as at December 31, 2019, are as follows:

(in millions of Korean won)

2019				
	Loans	Debt securities		
		FVTOCI	Amortized cost	Subtotal
Country:				
The Republic of Korea	₩ 78,894,147	₩ 4,971,275	₩ 7,446,362	₩ 12,417,637
China	157,385	-	-	-
Others	717,573	93,413	89,520	182,933
	₩ 79,769,105	₩ 5,064,688	₩ 7,535,882	₩ 12,600,570
Industry:				
Mining	₩ 45,655	₩ 96,404	₩ 20,000	₩ 116,404
Manufacturing	19,165,544	-	-	-
Electricity, gas, steam and water service	476,403	325,075	556,314	881,389
Construction	2,458,497	220,628	404,606	625,234
Wholesale and retail	6,574,639	-	-	-
Transportation	2,091,890	240,274	106,936	347,210
Lodging and restaurant business	2,621,640	-	-	-
Publishing, visual entertainment, broadcasting and information	275,981	-	-	-
Financial and insurance business	1,135,336	1,926,126	2,491,579	4,417,705
Real estates and lease business	12,715,882	457,787	456,871	914,658

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Business facility management and business support services	440,484	30,053	100,000	130,053
Public, national defense and social security system	83,393	1,732,588	3,387,894	5,120,482
Associations, organizations and household	3,361,750	35,753	10,000	45,753
Others	28,322,011	-	1,682	1,682
	<u>₩ 79,769,105</u>	<u>₩ 5,064,688</u>	<u>₩ 7,535,882</u>	<u>₩ 12,600,570</u>

4.3 Liquidity Risk

(a) General

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

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

(b) Liquidity risk management

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

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

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

The Group's non-derivative financial liabilities as at December 31, 2019, are summarized by remaining contractual maturity as follows:

(in millions of Korean won)

	2019					Total
	Less than one month	1-3 months	3-12 months	1-5 years	More than five years	
Financial liabilities ¹:						
Deposits	₩34,871,001	₩11,914,524	₩28,463,439	₩ 1,929,409	₩ 412,126	₩77,590,499
Borrowings	1,754,595	787,542	1,122,372	1,225,500	271,469	5,161,478
Debentures	161,060	926,682	2,004,743	6,719,392	829,375	10,641,252
Other financial liabilities ²	2,903,152	15,362	188,471	85,794	280,799	3,473,578
	<u>39,689,808</u>	<u>13,644,110</u>	<u>31,779,025</u>	<u>9,960,095</u>	<u>1,793,769</u>	<u>96,866,807</u>
Derivative liabilities:						
Derivatives for hedging ³	-	-	-	4,643	5,795	10,438
Derivatives for trading	4,889	12,507	11,570	3,136	-	32,102
	<u>₩ 4,889</u>	<u>₩ 12,507</u>	<u>₩ 11,570</u>	<u>₩ 7,779</u>	<u>₩ 5,795</u>	<u>₩ 42,540</u>

¹ Principal and interest are included in financial liabilities.

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

³ Estimate the cash flows by offsetting cash inflow and cash outflow.

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

Guarantees, loan commitments and other credit facilities provided by the Group have maturities. However, if the counterparty requests the payment immediately, the payment must be fulfilled. The off balance sheet items as at December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019	2018
Guarantees	₩ 1,170,073	₩ 1,164,061
Loan commitments	20,121,504	17,667,195
	<u>₩ 21,291,577</u>	<u>₩ 18,831,256</u>

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4.4 Market Risk

(a) General

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

(b) Market risk management

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

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

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

(c) Market risk management for trading activities

a. Definition of trading position

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

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

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managed by a separate trading department.

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

b. Measurement of market risk occurring at trading position

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

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

c. VaR

① VaR measurement

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

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

② Back testing

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

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③ Stress testing

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

i) Busan Bank

The following table shows VaR as at December 31, 2019 and 2018, at 99% confidence level for a one-day holding period, for interest rate risk, equity price risk and foreign exchange rate risk related to trading activities.

(in millions of Korean won)	2019			
	Maximum	Minimum	Average	Ending
Interest rate risk	₩ 644	₩ 186	₩ 348	₩ 505
Equity price risk	264	-	110	-
Foreign exchange rate risk	1,099	17	160	133
Diversification	(765)	(13)	(227)	(218)
Total VaR	₩ 1,242	₩ 190	₩ 391	₩ 420

(in millions of Korean won)	2018			
	Maximum	Minimum	Average	Ending
Interest rate risk	₩ 381	₩ 41	₩ 220	₩ 185
Equity price risk	173	-	21	-
Foreign exchange rate risk	884	25	174	61
Diversification	(629)	45	(95)	(35)
Total VaR	₩ 809	₩ 111	₩ 320	₩ 211

ii) Kyongnam Bank

The following table shows VaR as at December 31, 2019 and 2018, at 99% confidence level for a one-day holding period, for interest rate risk, equity price risk and foreign exchange rate risk related to trading activities.

(in millions of Korean won)	2019			
	Maximum	Minimum	Average	Ending
Interest rate risk	₩ 63	₩ 64	₩ 80	₩ 65
Equity price risk	241	17	171	198
Foreign exchange rate risk	203	2	11	8
Diversification	(64)	(5)	(25)	(18)
Total VaR	₩ 443	₩ 78	₩ 237	₩ 253

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(in millions of Korean won)	2018			
	Maximum	Minimum	Average	Ending
Interest rate risk	₩ 1,307	₩ 4	₩ 102	₩ 64
Equity price risk	424	-	207	46
Foreign exchange rate risk	41	7	10	4
Diversification	(184)	(4)	(59)	(7)
Total VaR	₩ 1,588	₩ 7	₩ 260	₩ 107

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

d. Details by risk factors

① Interest rate risk

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

② Equity price risk

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

③ Foreign exchange rate risk

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

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		2019									
		USD		JPY		EUR		CNY		Others	
(in millions of USD, JPY, EUR, CNY and in millions of Korean won)		Foreign currency	Korean won equivalent	Foreign currency	Korean won equivalent	Foreign currency	Korean won equivalent	Foreign currency	Korean won equivalent	Korean won equivalent	
Assets	Cash and cash equivalents	434	₩ 502,324	8,950	₩ 95,185	38	₩ 49,907	296	₩ 49,015	₩ 37,409	
	Financial assets at fair value through profit or loss	14	16,194	-	-	-	-	-	-	-	
	Financial assets at fair value through other comprehensive income	93	107,908	-	-	-	-	-	-	-	
	Financial assets at amortized cost	91	104,788	-	-	-	-	-	-	-	
	Loans and receivables	1,528	1,769,080	21,769	231,505	61	78,903	469	77,848	57,947	
		2,160	2,500,294	30,719	326,690	99	128,810	765	126,863	95,356	
Liabilities	Deposit liabilities	762	882,092	10,797	114,820	40	52,415	455	75,479	21,922	
	Borrowings	610	706,619	16,545	175,950	27	35,414	81	13,483	41,596	
	Other liabilities	726	840,728	1,399	14,877	13	15,757	481	79,570	127,901	
		2,098	₩ 2,429,439	28,741	₩ 305,647	80	₩ 103,586	1,017	₩ 168,532	₩ 191,419	
		2018									
		USD		JPY		EUR		CNY		Others	
(in millions of USD, JPY, EUR, CNY and in millions of Korean won)		Foreign currency	Korean won equivalent	Foreign currency	Korean won equivalent	Foreign currency	Korean won equivalent	Foreign currency	Korean won equivalent	Korean won equivalent	
Assets	Cash and cash equivalents	271	₩ 302,259	13,310	₩ 134,855	29	₩ 38,099	162	₩ 26,399	₩ 36,091	
	Financial assets at fair value through profit or loss	21	23,243	2	3	4	5	6	7	8	
	Financial assets at fair value through other comprehensive income	97	108,609	-	-	-	-	-	-	-	
	Financial assets at amortized cost	65	72,557	-	-	-	-	-	-	-	
	Loans and receivables	1,401	1,566,664	21,538	218,212	57	71,849	318	51,619	19,962	
		1,855	2,073,332	34,850	353,070	90	109,953	486	78,025	56,061	
Liabilities	Deposit liabilities	782	874,476	9,569	96,942	42	53,589	96	15,629	20,722	
	Borrowings	591	661,526	15,727	159,342	14	18,899	190	30,847	20,312	
	Other liabilities	494	552,813	1,487	15,058	6	6,991	511	83,048	213,049	
		1,867	₩ 2,088,815	26,783	₩ 271,342	62	₩ 79,479	797	₩ 129,524	₩ 254,083	

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(d) Market risk management for non-trading activities

a. Definition of non-trading position

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

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

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

4.5 Operational Risk

(a) General

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

(b) Operational risk management

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

4.6 Capital Management

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

In accordance with financial holding Group regulations, the Group must maintain the share capital-common ratio of 7.0%, Tier 1 capital ratio of 8.5% and total capital ratio of 10.5% as at December 31, 2019.

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

The Group's BIS capital ratios as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019	2018
Share capital - common (A)	₩ 7,192,130	₩ 6,749,028
Other basic capital (B)	1,204,856	1,016,115
Tier 2 capital (C)	1,365,920	1,530,316
Total capital (D)	₩ 9,762,906	₩ 9,295,459
Credit risk-weighted assets	₩ 69,883,300	₩ 65,540,331
Market risk-weighted assets	651,614	459,250
Operational risk-weighted assets	4,878,328	4,694,986
Total risk-weighted assets (E)	₩ 75,413,242	₩ 70,694,567
Share capital - common ratio (A/E) (%)	9.54	9.55
Tier 1 capital ratio ((A+B)/E) (%)	11.13	10.98
Total capital ratio (D/E) (%)	12.95	13.15

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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 years ended December 31, 2019 and 2018, are as follows:

(in millions of Korean won)	2019								Consolidated financial statements
	Busan Bank	Kyongnam Bank	BNK Capital Co., Ltd.	BNK Securities Co., Ltd.	BNK Savings Bank	Others	Total	Adjustment	
Net interest income (expenses)	₩ 1,152,985	₩ 802,330	₩ 224,410	₩ 13,223	₩ 37,857	₩ (30,075)	₩ 2,200,730	₩ (13,956)	₩ 2,186,774
Net commission income	92,024	57,380	29,997	46,321	1,371	24,107	251,200	(4,763)	246,437
Net gain on financial assets at fair value through profit or loss	32,067	20,371	723	38,863	3,289	3,099	98,412	3,089	101,501
Net gain on financial assets at fair value through other comprehensive income	7,546	10,595	-	164	-	-	18,305	22	18,327
Net loss on financial assets at amortized cost	(218)	(92)	-	-	-	-	(310)	-	(310)
Reversal of provision for credit loss and others (contribution to)	(109,415)	(128,676)	(88,752)	(1,051)	3,619	-	(324,275)	5	(324,270)
General and administrative expenses	(606,611)	(449,169)	(79,113)	(68,110)	(18,957)	62,653	(1,159,307)	(114,058)	(1,273,365)
Other operating income (expenses), net	(67,035)	(81,362)	15,828	(827)	(3,735)	38,648	(98,483)	(49,728)	(148,211)
Operating profit	501,342	231,377	103,093	28,584	23,444	98,433	986,273	(179,390)	806,883
Non-operating income (expenses), net	(12,982)	2,544	(201)	227	876	127	(9,409)	(4,100)	(13,509)
Profit before income tax	488,361	233,921	102,892	28,810	24,320	98,559	976,863	(183,489)	793,374
Income tax expense	(113,547)	(52,210)	(24,030)	(7,826)	(4,303)	(1,944)	(203,860)	9,433	(194,427)
Profit for the year	₩ 374,814	₩ 181,711	₩ 78,862	₩ 20,984	₩ 20,017	₩ 96,615	₩ 773,003	₩ (174,056)	₩ 598,947
Total assets	₩56,263,405	₩39,296,261	₩5,425,262	₩ 2,372,112	₩ 1,084,684	₩ 6,245,495	₩110,687,219	₩(6,148,448)	₩104,538,771
Total liabilities	₩51,048,211	₩35,898,643	₩4,708,984	₩ 1,930,045	₩ 933,233	₩ 1,162,859	₩ 95,681,975	₩ (324,374)	₩ 95,357,601

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(in millions of Korean won)	2018								Consolidated financial statements
	Busan Bank	Kyongnam Bank	BNK Capital Co., Ltd.	BNK Securities Co., Ltd.	BNK Savings Bank	Others	Total	Adjustment	
Net interest income (expenses)	₩ 1,224,186	₩ 865,601	₩ 232,637	₩ 14,056	₩ 37,595	₩ (30,604)	₩ 2,343,471	₩ 70	₩ 2,343,541
Net commission income	75,575	39,914	20,113	48,575	1,583	20,383	206,143	(2,196)	203,947
Net gain (loss) on financial assets at fair value through profit or loss	21,417	13,572	-	9,093	80	(1,568)	42,594	1,838	44,432
Net gain on financial assets at fair value through other comprehensive income	6,451	7,532	-	136	-	-	14,119	3	14,122
Net loss on financial assets at amortized cost	(4)	(17)	-	-	-	-	(21)	-	(21)
Reversal of provision for credit loss and others (contribution to)	(169,677)	(193,041)	(98,126)	147	(1,981)	-	(462,678)	78	(462,600)
General and administrative expenses	(631,372)	(429,587)	(72,793)	(58,588)	(16,735)	(56,968)	(1,266,043)	1,303	(1,264,740)
Other operating income (expenses), net	(58,802)	(73,093)	12,858	1,115	(3,849)	104,503	(17,268)	(111,580)	(128,848)
Operating profit	467,774	230,881	94,689	14,534	16,693	35,746	860,317	(110,484)	749,833
Non-operating income (expenses), net	(16,298)	(9,790)	38	135	851	(4,049)	(29,113)	(2,082)	(31,195)
Profit before income tax	451,476	221,091	94,727	14,669	17,544	31,697	831,204	(112,566)	718,638
Income tax expense	(104,750)	(52,115)	(23,587)	(3,312)	(1,912)	(732)	(186,408)	5,911	(180,497)
Profit for the year	₩ 346,726	₩ 168,976	₩ 71,140	₩ 11,357	₩ 15,632	₩ 30,965	₩ 644,796	₩ (106,655)	₩ 538,141
Total assets	₩53,034,643	₩37,936,971	₩5,067,528	₩ 1,797,779	₩1,016,461	₩ 6,174,413	₩105,027,795	₩(6,234,213)	₩ 98,793,582
Total liabilities	₩48,195,199	₩34,660,326	₩4,423,114	₩ 1,377,240	₩ 885,027	₩ 1,281,743	₩ 90,822,649	₩ (454,029)	₩ 90,368,620

(b) Information on financial services and geographical areas

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

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6. Financial Assets and Financial Liabilities

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

(a) The carrying amount of financial instruments by category

The carrying amounts and fair value of financial assets and financial liabilities by each category as at December 31, 2019 and 2018, are as follows:

(in millions of Korean won)	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and due from bank	₩ 4,148,498	₩ 4,148,498	₩ 3,212,849	₩ 3,212,849
Financial assets at fair value through profit or loss	3,839,224	3,839,224	3,471,853	3,471,853
Financial assets at fair value through other comprehensive income	5,267,070	5,267,070	5,030,992	5,030,992
Financial assets at amortized cost	7,534,761	7,619,603	6,798,768	6,830,477
Loans and receivables	80,657,226	81,741,501	77,629,807	78,276,719
Derivative assets	35,960	35,960	30,362	30,362
	<u>₩ 101,482,739</u>	<u>₩ 102,651,856</u>	<u>₩ 96,174,631</u>	<u>₩ 96,853,252</u>
Financial liabilities:				
Deposits	₩ 76,609,540	₩ 76,635,281	₩ 73,380,110	₩ 73,390,600
Borrowings	5,079,228	5,079,744	5,615,889	5,605,300
Debentures	10,185,756	9,202,098	8,590,658	8,658,686
Derivative liabilities	42,540	42,540	57,275	57,275
Other financial liabilities ¹	2,944,345	2,950,578	2,325,771	2,330,349
	<u>₩ 94,861,409</u>	<u>₩ 93,910,241</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.

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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. 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.
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(c) Fair Value Hierarchy Classifications of the Financial Instruments that are Subsequently Measured at Fair Value

Fair value hierarchy classifications of the financial instruments that are subsequently measured at fair value as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>		2019			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Financial assets at fair value through profit or loss	₩	257,196	₩ 2,726,718	₩ 855,310	₩ 3,839,224
Financial assets at fair value through other comprehensive income		1,381,522	3,699,582	185,966	5,267,070
Loans receivables at fair value through profit or loss		-	-	6,755	6,755
Derivative assets		-	35,105	855	35,960
	₩	1,638,718	₩ 6,461,405	₩ 1,048,886	₩ 9,149,009
Financial liabilities:					
Borrowings	₩	42,057	₩ 10,023	₩ -	₩ 52,080
Derivative liabilities		-	42,227	313	42,540
	₩	42,057	₩ 52,250	₩ 313	₩ 94,620
<i>(in millions of Korean won)</i>		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	₩	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 December 31, 2019 and December 31, 2018, are as follows:

2019			
<i>(in millions of Korean won)</i>	Fair value	Valuation techniques	Input variables
Financial assets:			
Financial assets at fair value through profit or loss			
Debt securities	₩ 1,847,009	DCF Model	Discount rate, Exchange rate
Beneficiary certificates	136,728	Net Asset Value Method	Value of underlying assets
Other securities	742,981	DCF Model	Discount rate
Financial assets at fair value through other comprehensive income			
Debt securities	3,699,582	DCF Model	Discount rate, Exchange rate
Derivative assets	35,105	DCF Model	Discount rate, Exchange rate
Financial liabilities:			
Borrowings	₩ 10,023		Discount rate, Exchange rate
Derivative liabilities	42,227	DCF Model	Discount rate, Exchange rate
2018			
<i>(in millions of Korean won)</i>	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 December 31, 2019 and 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
		2019			
Financial assets					
Financial assets at fair value through profit or loss	₩	855,310			
Equity securities		17,669	Net Asset Value Method and DCF Model	Value of underlying assets Discount rate: 8.37%~16.57% Growth rate: 0~3.00% Volatility: 27.7%~38.7%	Fair value increases (decreases) when value of underlying assets increases (decreases)
Debt securities		398,716	Net Asset Value Method, Free Cash Flow Equity Model, Dividend Discount Model and Binomial Trees	Discount rate: 4.61%~18.34% Growth rate: 0.00%-1.00% Liquidation value: -1.00%-1.00% Volatility: 0~47.98%	Fair value increases (decreases) when discount rate decreases (increases), growth rate increases (decreases), liquidation value increases (decreases) or volatility increases (decreases)
Beneficiary certificates		428,830	Net Asset Value Method	Value of underlying assets	Fair value increases (decreases) when value of underlying assets increases (decreases)
Other securities		10,095	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		185,966			
Equity securities		185,966	Net Asset Value Method, Free Cash Flow Equity Model, Dividend Discount Model, DCF Model and others	Discount rate: 3.39%~17.89% 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		6,755			
Hybrid (combined) instruments		6,755	Binomial Trees	Volatility: 21.17% Discount rate: 1.46%	Fair value increases (decreases) when volatility increases (decreases) or discount rate decreases

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<i>(in millions of Korean won)</i>	<u>Fair value</u>	Valuation techniques	Range of significant unobservable inputs	Relationship between significant unobservable inputs and fair value
	2019			(increases)
Derivative assets	855	Binomial Trees and 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	313	Binomial Trees and 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>	<u>Fair value</u>	Valuation techniques	Range of significant unobservable inputs	Relationship between significant unobservable inputs and fair value
	2018			
Financial assets				
Financial assets at fair value through profit or loss	₩ 803,222			
Equity securities	10,279	Free Cash Flow Equity Model, Dividend Discount Model and others	Discount rate: 4.61%-18.34% Growth rate: 0.00%-1.00% Liquidation value: -1.00%- 1.00%	Fair value increases (decreases) when discount rate decreases (increases), growth rate increases (decreases) or liquidation value increases (decreases)
Debt securities	322,887	DCF Model and others	Discount rate: 2.26%-18.34% Growth rate: 0.00%-1.00% Liquidation value: -1.00%- 1.00%	Fair value increases (decreases) when discount rate decreases (increases), growth rate increases (decreases) or liquidation value increases (decreases)
Beneficiary certificates	456,966	Net Asset Value Method	Value of underlying assets	Fair value increases (decreases) when value of underlying assets increases (decreases)
Other securities	13,090	Net Asset Value Method and others	Value of underlying assets	Fair value increases (decreases) when value of underlying assets increases (decreases)
Financial assets at fair value through other comprehensive income	166,002			
Equity securities	166,002	Free Cash Flow Equity Model, Dividend	Discount rate: 3.39%-19.47% Growth rate: 0.00%-1.00% Liquidation value: -1.00%-	Fair value increases (decreases) when discount rate decreases (increases)

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<i>(in millions of Korean won)</i>	Fair value	Valuation techniques	Range of significant unobservable inputs	Relationship between significant unobservable inputs and fair value
	2018			
		Discount Model and others	1.00%	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 and 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 and 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 for the years ended December 31, 2019 and 2018:

(in millions of Korean won)

	2019			
	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	₩ 2,936	₩ (2,457)	₩ -	₩ -
Financial assets at fair value through other comprehensive income ¹	-	-	21,037	(9,726)
Loans receivables at fair value through profit or loss ²	942	(616)	-	-
Derivative assets ³	2,326	(10,904)	-	-
Financial liabilities				
Derivative liabilities ³	4,844	(27,751)	-	-
	₩ 11,048	₩ (41,728)	₩ 21,037	₩ (9,726)

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.

⁴ For beneficiary certificates and part of the equity investments, their sensitivity from changes in inputs cannot be analyzed as a practical expedient and hence the beneficiary certificates are excluded from the sensitivity analysis.

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

(in millions of Korean won)

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

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

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

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

⁴ For beneficiary certificates and part of the investment securities, their sensitivity from changes in inputs cannot be analyzed as a practical expedient and hence the beneficiary certificates are excluded from the sensitivity analysis.

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Changes in Level 3 financial instruments subsequently measured at fair value for the years ended December 31, 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	
Changes due to business combination	79	-	200	-	-	
Total profit or loss						
Amount recognized in profit or loss ¹	7,359	-	776	855	313	
Amount recognized in other comprehensive income	-	17,113	-	-	-	
Purchases	194,787	4,912	2,500	-	-	
Sales	(91,945)	(2,061)	-	-	-	
Settlement	-	-	-	(1,072)	(2,869)	
Reclassification	(58,192)	-	-	-	-	
Ending balance	₩ 855,310	₩ 185,966	₩ 6,755	₩ 855	₩ 313	

¹ In relation to changes in Level 3 of the fair value hierarchy, total gains or losses recognized in profit or loss for the year and total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period in the consolidated statement of comprehensive income for the year ended December 31, 2019, are as follows:

	Financial assets at fair value through profit or loss	Loans receivables at fair value through profit or loss	Derivatives	Total
(in millions of Korean won)				
Profit for the year	₩ 7,359	₩ 776	₩ 542	₩ 8,677
Change in unrealized gain	7,207	977	542	8,726

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(in millions of Korean won)

	2018									
	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income		Loans receivables at fair value through profit or loss		Derivative assets		Derivative liabilities	
Beginning balance	₩	674,523	₩	159,478	₩	10,877	₩	82	₩	10,011
Total profit or loss										
Amount recognized in profit or loss ¹		6,949		-		1,034		990		(7,142)
Amount recognized in other comprehensive income		-		9,302		-		-		-
Purchases		153,949		-		-		-		-
Sales		(53,249)		-		(8,632)		-		-
Other changes										
Transfer into level 3 ²		21,050		2,427		-		-		-
Transfer into other levels		-		(5,205)		-		-		-
Reclassification		-		-		-		-		-
Ending balance	₩	803,222	₩	166,002	₩	3,279	₩	1,072	₩	2,869

¹ In relation to changes in Level 3 of the fair value hierarchy, total gains or losses recognized in profit or loss for the year and total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period in the consolidated statement of comprehensive income for the year ended December 31, 2018, are as follows:

² The valuation technique of available-for-sale financial assets was changed from market price quoted in an active market and cost values to external values and as a result, these were transferred to Level 3.

(in millions of Korean won)	Financial assets at fair value through profit or loss		Loans receivables at fair value through profit or loss		Derivatives		Total
Profit for the year	₩	6,949	₩	1,034	₩	8,132	₩ 16,115
Change in unrealized loss		7,751		621		(19,350)	(10,978)

The Group recognizes transfers between levels of the fair value at the date of the event or change in circumstances that caused the transfer. There are no significant changes between Level 1 and Level 2 for the years ended December 31, 2019 and 2018.

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(d) Fair Value Hierarchy Classifications of the Financial Instruments that are not Subsequently Measured at Fair Value

Fair value hierarchy classifications of the financial instruments that are subsequently not measured at fair value as at December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

		2019			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and deposits	₩	648,432	₩ 3,500,066	₩ -	₩ 4,148,498
Loans and receivables		-	-	81,734,746	81,734,746
Financial assets at amortized cost		69,623	7,549,980	-	7,619,603
	₩	<u>718,055</u>	<u>₩ 11,050,046</u>	<u>₩ 81,734,746</u>	<u>₩ 93,502,847</u>
Financial liabilities:					
Deposit liabilities	₩	-	₩ 9,678,607	₩ 66,956,674	₩ 76,635,281
Borrowings		842,551	288,043	3,897,070	5,027,664
Debentures		-	9,202,098	-	9,202,098
Other financial liabilities		-	-	2,950,578	2,950,578
	₩	<u>842,551</u>	<u>₩ 19,168,748</u>	<u>₩ 73,804,322</u>	<u>₩ 93,815,621</u>

(in millions of Korean won)

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

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The valuation techniques and input variables of Level 2 financial instruments, subsequently not measured at fair value as at December 31, 2019 and 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
	2019	2018		
Financial assets:				
Financial assets at amortized cost				
Debt securities	₩ 7,549,980	₩ 6,761,889	DCF Model	Discount rate
Financial liabilities:				
Deposit liabilities	₩ 9,678,607	₩ 8,694,004	DCF Model	Discount rate
Borrowings	288,043	483,542	DCF Model	Discount rate
Debentures	9,202,098	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 December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	Fair value		Valuation techniques	Input variables
	2019	2018		
Financial assets:				
Loans and receivables	₩ 81,734,746	₩ 78,273,440	DCF Model	Discount rate
Financial liabilities:				
Deposit liabilities	₩ 66,956,674	₩ 64,696,596	DCF Model	Discount rate
Borrowings	3,897,070	4,408,010	DCF Model	Discount rate
Other financial liabilities	2,950,578	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 book amounts of transferred assets and relevant liabilities at the reporting date are as follows:

(in millions of Korean won)

	2019		2018	
	Book amount of transferred assets	Book amount of related liabilities	Book amount of transferred assets	Book amount of related liabilities
Securities sold under repurchase agreement	₩ 1,659,418	₩ (1,312,273)	₩ 1,639,964	₩ (1,483,604)
Loaned securities	643,956	-	696,359	-
	<u>₩ 2,303,374</u>	<u>₩ (1,312,273)</u>	<u>₩ 2,336,323</u>	<u>₩ (1,483,604)</u>

(f) *Offsetting financial instruments:*

Details of financial instruments that are set off and subject to an enforceable master netting arrangement or similar agreement as at December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019						
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities to be set off	Net amounts of financial assets presented in the consolidated statement of financial position	Non-offsetting amount			Net amount
				Financial instruments	Cash collateral received		
Derivatives assets	₩ 35,960	₩ -	₩ 35,960	₩ 571,263	₩ 178	₩	65,444
Receivable spot exchanges	600,926	-	600,926				
Bonds purchased under resale agreement	200,500	-	200,500	200,500	-		-
Domestic exchange uncollected	1,968,200	1,594,341	373,860	-	-		373,860
Securities-related receivable	32,877	-	32,877	-	-		32,877
	<u>₩ 2,838,463</u>	<u>₩ 1,594,341</u>	<u>₩ 1,244,123</u>	<u>₩ 771,763</u>	<u>₩ 178</u>	<u>₩</u>	<u>472,181</u>

(in millions of Korean won)

	2019						
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets to be set off	Net amounts of financial liabilities presented in the consolidated statement of financial position	Non-offsetting amount			Net amount
				Financial instruments	Cash collateral received		
Derivatives liabilities	₩ 42,540	₩ -	₩ 42,540	₩ 585,139	₩ 3,280	₩	27,831
Payable spot exchanges	573,710	-	573,710				
Bonds sold under repurchase agreement	1,312,273	-	1,312,273	1,312,273	-		-
Securities sold	52,080	-	52,080	-	-		52,080
Domestic currency exchange payables	1,663,252	1,594,341	68,911	-	-		68,911
Securities-related payables	33,813	-	33,813	-	-		33,813
	<u>₩ 3,677,668</u>	<u>₩ 1,594,341</u>	<u>₩ 2,083,327</u>	<u>₩ 1,897,412</u>	<u>₩ 3,280</u>	<u>₩</u>	<u>182,635</u>

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

(in millions of Korean won)

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

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7. Cash and Due from Banks

Cash and due from banks as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019		2018	
Cash and cash equivalents:				
Cash	₩	556,574	₩	574,564
Foreign currencies		91,858		105,694
Time deposits and others		78,920		110,191
Other deposits		287,863		159,651
Deposits in foreign currencies		135,079		195,530
		<u>1,150,294</u>		<u>1,145,630</u>
Due from banks ¹ :				
Due from banks in local currency		2,652,672		1,952,375
Due from banks in foreign currencies		345,533		114,844
		<u>2,998,205</u>		<u>2,067,219</u>
	₩	<u>4,148,499</u>	₩	<u>3,212,849</u>

¹ The maturity is more than three months.

Due from banks in local currency and foreign currencies as at December 31, 2019 and 2018, consists of the following:

<i>(in millions of Korean won)</i>	Financial institution	2019		2018	
Due from banks in local currency:					
Due from domestic banks	The Bank of Korea (BOK)	₩	2,554,518	₩	1,811,940
Due from consigned transaction	Korea Exchange (KRX)		27,508		5,147
Others	Woori bank and others		<u>70,646</u>		<u>135,288</u>
			<u>2,652,672</u>		<u>1,952,375</u>
Due from banks in foreign currencies:					
Due from domestic banks	The BOK		229,960		66,463
Offshore due from banks	Bank of China		112,958		38,740
Others	The People's Bank of China and others		<u>2,615</u>		<u>9,641</u>
			<u>345,533</u>		<u>114,844</u>
		₩	<u>2,998,205</u>	₩	<u>2,067,219</u>

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

<i>(in millions of Korean won)</i>	Financial institution	2019	2018	Reason for restriction
Due from banks in Korean won	The BOK	₩ 2,554,518	₩ 1,811,940	The BOK Act
	The Korea Securities Finance Corporation	10,836	41,141	Deposits from investors and others
	Korea Federation of Savings Banks and others	34,956	34,308	Reserve deposits and others
	Korea Securities Depository and others	6,811	23,093	Deposits from investors and others
	KRX and others	27,560	7,044	Collective fund for default losses and others
	Securities Companies	72	4,310	Subscription deposits
		2,634,753	1,921,836	
Due from banks in foreign currencies	The BOK	229,960	66,463	Reserve deposits
	KRX and others	1,606	8,825	Reserve deposits and others
	The People's Bank of China and others	112,428	39,556	Reserve deposits for overseas affiliates and others
		<u>343,994</u>	<u>114,844</u>	
		<u>₩ 2,978,747</u>	<u>₩ 2,036,680</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 December 31, 2019 and 2018, consist of the following:

<i>(in millions of Korean won)</i>	2019	2018
Equity securities	₩ 89,802	₩ 23,471
Government and public bonds	159,368	278,824
Finance bonds	275,284	855,805
Corporate bonds	1,575,933	485,378
Other debt securities	379,423	312,449
Beneficiary certificates	606,337	876,756
Others	753,077	639,170
	<u>₩ 3,839,224</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 December 31, 2019 and 2018, consist of the following:

<i>(in millions of Korean won)</i>	2019	2018
Equity securities		
Equity securities	₩ 201,401	₩ 174,658
Equity investments	981	981
	<u>202,382</u>	<u>175,639</u>
Debt securities		
Government and public bonds	957,283	1,048,475
Finance bonds	1,003,117	819,204
Corporate bonds	2,470,040	2,291,315
Loans in securities	634,248	696,359
	<u>5,064,688</u>	<u>4,855,353</u>
	<u>₩ 5,267,070</u>	<u>₩ 5,030,992</u>

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Changes in the carrying amounts of debt securities among financial assets at fair value through other comprehensive income for the years ended December 31, 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	₩ 4,855,353	₩ -	₩ -	₩ 4,855,353
Changes in financial instruments recognized at the beginning	-	-	-	-
Transfer to 12 months expected credit losses	-	-	-	-
Transfer to lifetime expected credit losses	-	-	-	-
Transfer to credit- impaired financial assets	-	-	-	-
Acquisition	3,224,834	-	-	3,224,834
Repayment / Disposal	(3,047,496)	-	-	(3,047,496)
Gain on valuation of fair value	46,620	-	-	46,620
Amortization of effective interest	(16,712)	-	-	(16,712)
Exchange differences	1,268	-	-	1,268
Others	821	-	-	821
Ending balance	₩ 5,064,688	₩ -	₩ -	₩ 5,064,688

(in millions of Korean won)

	2018			
	12 months expected credit losses	Lifetime expected credit losses		Total
		Unrecognized impairment	Recognized impairment	
Beginning balance	₩ 4,734,875	₩ -	₩ -	₩ 4,734,875
Changes in financial instruments recognized at the beginning	-	-	-	-
Transfer to 12 months expected credit losses	-	-	-	-
Transfer to lifetime expected credit losses	-	-	-	-
Transfer to credit- impaired financial assets	-	-	-	-
Acquisition	2,085,345	-	-	2,085,345
Repayment / Disposal	(2,011,764)	-	-	(2,011,764)
Gain on valuation of fair value	48,665	-	-	48,665
Amortization of effective interest	(4,897)	-	-	(4,897)
Exchange differences	2,561	-	-	2,561
Others	568	-	-	568
Ending balance	₩ 4,855,353	₩ -	₩ -	₩ 4,855,353

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Dividend income recognized from equity securities designated as an item measured at fair value through other comprehensive income for the years ended December 31, 2019 and 2018, is as follows:

(in millions of Korean won)

	2019		2018	
	Derecognized equity securities	Equity securities on hand	Derecognized equity securities	Equity securities on hand
General stocks				
Marketable stocks	₩ -	₩ 172	₩ -	₩ 25
Non-marketable stocks	34	4,531	15	6,423
Equity investments	-	1	-	19
	<u>₩ 34</u>	<u>₩ 4,704</u>	<u>₩ 15</u>	<u>₩ 6,467</u>

Derecognized equity securities at fair value through other comprehensive income for the years ended December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019		2018	
	Disposal	Accumulated gain (loss) on valuation at disposal date	Disposal	Accumulated loss on valuation at disposal date
General stocks				
Marketable stocks	₩ 1,668	₩ 1,368	₩ 411	₩ (365)
Non-marketable stocks	437	(1,194)	188	(4,967)
	<u>₩ 2,105</u>	<u>₩ 174</u>	<u>₩ 599</u>	<u>₩ (5,332)</u>

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10. Financial Assets at amortized cost

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

<i>(in millions of Korean won)</i>	2019		2018	
Debt securities				
Government and public bonds	₩	3,257,684	₩	3,397,844
Finance bonds		527,797		307,306
Corporate bonds		3,740,692		3,094,421
Loans in securities		9,708		-
Provision for impairment		(1,120)		(803)
	₩	7,534,761	₩	6,798,768

Changes in the carrying amounts of financial assets at amortized cost for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019			
	12 months expected credit losses	Lifetime expected credit losses		Total
		Unrecognized impairment	Recognized impairment	
Beginning balance	₩ 6,799,571	₩ -	₩ -	₩ 6,799,571
Acquisition	1,934,464	-	-	1,934,464
Repayment / Disposal	(1,215,444)	-	-	(1,215,444)
Amortization of effective interest	15,621	-	-	15,621
Exchange differences	2,145	-	-	2,145
Others	(475)	-	-	(475)
Ending balance	<u>₩ 7,535,882</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 7,535,882</u>

<i>(in millions of Korean won)</i>	2018			
	12 months expected credit losses	Lifetime expected credit losses		Total
		Unrecognized impairment	Recognized impairment	
Beginning balance	₩ 6,671,317	₩ -	₩ -	₩ 6,671,317
Acquisition	1,641,921	-	-	1,641,921
Repayment / Disposal	(1,524,393)	-	-	(1,524,393)
Amortization of effective interest	13,167	-	-	13,167
Exchange differences	466	-	-	466
Others	(2,906)	-	-	(2,906)
Ending balance	<u>₩ 6,799,572</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 6,799,572</u>

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11. Assets Provided as Collateral

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

<i>(in millions of Korean won)</i>		Face value		Reason
	Provided to	2019		
Financial assets at fair value through profit or loss	KSD	₩ 891,612		Sold under repurchase agreements
	KB Asset Management Co., Ltd	13,300		Sold under repurchase agreements
	KRX	2,019		CCP, settlement agreements and others
	Samsung Futures Inc.	22,733		Margin for futures and others
	Standard Chartered Bank Korea Ltd	5,760		Collateral for Credit Support Annex
	KSFC and others	83,949		Lending transaction
Financial assets at fair value through other comprehensive income		237,182		Sold under repurchase agreements
	Nomura Finance Investment and others	34,222		Sold under repurchase agreements
	The BOK	431,006		Borrowing collateral and overdraft and settlement
	KRX	60,567		Collective funds for OTC derivatives
	Sumitomo Mitsui Banking Corporation	1,324		Foreign borrowings
	Standard Chartered Bank Korea Ltd and others	25,654		Collateral for Credit Support Annex
Financial assets at amortized cost	KSD	483,102		Sold under repurchase agreements
	The BOK	1,252,769		Borrowing collateral and overdraft and settlement
	KSD	9,792		Collective fund for default losses and others
	KRX	2,017		Collective funds for OTC derivatives
	Industrial Bank of Korea and others	54,286		Foreign borrowings, Collateral for Credit Support Annex and others
	Futures Companies	45,717		Margin for futures and others
		₩ 3,657,011		

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(in millions of Korean won)

		Face value		Reason
	Provided to	2018		
Financial assets at fair value through profit or loss	KSD	₩ 748,246		Sold under repurchase agreements
	KRX	2,005		CCP, settlement agreements and others
	Samsung Futures Inc.	21,035		Margin for futures and others
	Standard Chartered Bank Korea Ltd	27,001		Collateral for Credit Support Annex
	KSFC and others	24,533		Lending transaction
Financial assets at fair value through other comprehensive income		269,707		Sold under repurchase agreements
	Nomura Finance 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 December 31, 2019 and 2018, consist of the following:

(in millions of Korean won)

	2019			2018		
	Amortized cost	Fair value	Total	Amortized cost	Fair value	Total
Loans receivable:						
Loans in Korean won						
Corporates	₩ 48,791,205	₩ -	₩ 48,791,205	₩ 46,648,573	₩ -	₩ 46,648,573
Household	24,748,830	-	24,748,830	24,248,521	-	24,248,521
Public sector and others	1,802,302	-	1,802,302	1,737,837	-	1,737,837
Interbank loans	207,933	-	207,933	221,640	-	221,640
	<u>75,550,270</u>	<u>-</u>	<u>75,550,270</u>	<u>72,856,571</u>	<u>-</u>	<u>72,856,571</u>
Loans in foreign currencies	1,373,207	-	1,373,207	1,214,636	-	1,214,636
Call loans	202,445	-	202,445	346,297	-	346,297
Bills bought in local currency	3,459	-	3,459	11,645	-	11,645
Bills bought in foreign currencies	245,168	-	245,168	248,636	-	248,636
Advances for customers	5,977	-	5,977	4,241	-	4,241
Credit card receivables	916,829	-	916,829	972,964	-	972,964
Bonds purchased under repurchase agreement	200,500	-	200,500	152,200	-	152,200
Privately placed bonds	55,959	6,755	62,714	40,242	3,279	43,521
Finance lease receivables	697,059	-	697,059	569,241	-	569,241
Installment financing receivables	382,239	-	382,239	510,069	-	510,069
	<u>79,633,112</u>	<u>6,755</u>	<u>79,639,867</u>	<u>76,926,742</u>	<u>3,279</u>	<u>76,930,021</u>
Provision for impairment of loans receivable ¹	(817,657)	-	(817,657)	(980,013)	-	(980,013)
Deferred loan origination fees	(7,950)	-	(7,950)	(10,369)	-	(10,369)
Deferred loan origination costs	143,943	-	143,943	148,750	-	148,750
	<u>78,951,448</u>	<u>6,755</u>	<u>78,958,203</u>	<u>76,085,110</u>	<u>3,279</u>	<u>76,088,389</u>
Receivables:						
Suspense payments	3,332	-	3,332	3,008	-	3,008
Non-trade receivable	662,100	-	662,100	342,847	-	342,847
Domestic exchange settlement debits	373,860	-	373,860	502,267	-	502,267
Guarantee deposits provided	302,782	-	302,782	317,105	-	317,105
Accrued income	375,469	-	375,469	390,532	-	390,532
Deposits under regulation	871	-	871	818	-	818
Bills unsettled	415	-	415	1,833	-	1,833
Other	35	-	35	15	-	15
	<u>1,718,864</u>	<u>-</u>	<u>1,718,864</u>	<u>1,558,425</u>	<u>-</u>	<u>1,558,425</u>
Provision for impairment of	(7,104)	-	(7,104)	(5,888)	-	(5,888)

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receivables

Present value discounts

(leasehold deposits provided)	(12,737)	-	(12,737)	(11,119)	-	(11,119)
	1,699,023	-	1,699,023	1,541,418	-	1,541,418
Loans and receivables	₩ 80,650,471	₩ 6,755	₩ 80,657,226	₩ 77,626,528	₩ 3,279	₩ 77,629,807

¹ Present value discounts of ₩292 million and ₩8,419 million are included as at December 31, 2019 and present value discounts of ₩3,254 million and ₩8,387 million are included as at December 31, 2018.

The changes in the carrying amounts of loans and receivables for the years ended December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

	12 months expected credit losses	2019 Lifetime expected credit losses		Total
		Unrecognized impairment	Recognized impairment	
Beginning balance	₩ 67,108,097	₩ 10,567,721	₩ 936,611	₩ 78,612,429
Changes in financial instruments recognized at the beginning	(1,113,414)	627,270	486,144	-
Transfer to 12 months expected credit losses of financial assets	2,802,312	(2,774,126)	(28,186)	-
Transfer to lifetime expected credit loss with unrecognized impairment	(3,624,322)	3,690,957	(66,635)	-
Transfer to credit-impaired financial assets	(291,404)	(289,562)	580,966	-
Amortization	-	-	(45,944)	(45,944)
Disposal	(214,049)	(188,214)	(565,840)	(968,103)
Exchange differences	3,060	-	-	3,060
Net increase (decrease)	5,025,477	(1,136,476)	(15,211)	3,873,790
Ending balance	₩ 70,809,171	₩ 9,870,300	₩ 795,761	₩ 81,475,232

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

The changes in deferred loan origination fees and costs for the years ended December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019			
	Beginning balance	Increase	Decrease	Ending balance
Deferred loan origination fees	₩ (10,368)	₩ (3,891)	₩ 6,309	₩ (7,950)
Deferred loan origination costs	148,750	94,883	(99,690)	143,943
	₩ 138,382	₩ 90,992	₩ (93,381)	₩ 135,993

(in millions of Korean won)

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

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13. Provision For Impairment

Changes in provision for impairment of loans and receivables for years ended December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

(in millions of Korean won)	2019							
	12 months expected credit losses		Lifetime expected credit losses				Total	
			Unrecognized impairment		Recognized impairment			
Beginning balance	₩	231,119	₩	282,526	₩	472,256	₩	985,901
Changes in financial instruments recognized at the beginning		(1,473)		(48,561)		50,034		-
Transfer to 12 months expected credit losses of financial assets		36,315		(32,572)		(3,743)		-
Transfer to lifetime expected credit loss with unrecognized impairment		(22,903)		64,865		(41,962)		-
Transfer to credit- impaired financial assets		(14,885)		(80,949)		95,834		-
Written off during the year as uncollectible		-		-		(357,673)		(357,673)
Decrease in provision due to sales of loans		(22,661)		(63,275)		(177,152)		(263,088)
Changes from adjustments to receivables and payables		-		-		(221)		(221)
Exchange differences		(83)		86		12		15
Other		(45)		-		(12,688)		(12,733)
		206,857		170,681		(25,337)		352,201
Additional provision for impaired receivables during the year ¹		26,473		74,344		371,743		472,560
Ending balance	₩	233,330	₩	245,025	₩	346,406	₩	824,761

¹ Included collection of written-off loans amounting to ₩50,845 million

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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	₩ 261,265	₩ 271,788	₩ 410,613	₩ 943,666
Changes in financial instruments recognized at the beginning	(27,442)	(109,584)	137,026	-
Transfer to 12 months expected credit losses of financial assets	32,211	(31,344)	(867)	-
Transfer to lifetime expected credit loss with unrecognized impairment	(31,505)	38,563	(7,058)	-
Transfer to credit- impaired financial assets	(28,148)	(116,803)	144,951	-
Written off during the year as uncollectible	-	(148)	(363,831)	(363,979)
Decrease in provision due to sales of loans	(1,078)	(38,768)	(157,642)	(197,488)
Changes from adjustments to receivables and payables	-	-	(2,019)	(2,019)
Exchange differences	113	98	14	225
Other	(3,089)	(2)	(10,391)	(13,482)
	<u>229,769</u>	<u>123,384</u>	<u>13,770</u>	<u>366,923</u>
Additional provision for impaired receivables during the year ¹	1,351	159,142	458,485	618,978
Ending balance	<u>₩ 231,120</u>	<u>₩ 282,526</u>	<u>₩ 472,255</u>	<u>₩ 985,901</u>

¹ Included collection of written-off loans amounting to ₩103,225 million

The percentage of provision for impairment of loans and receivables as at December 31, 2019 and 2018, is as follows:

(in millions of Korean won)

	2019	2018
Loans and receivables	₩ 81,475,232	₩ 78,485,167
Provision for impairment	<u>824,761</u>	<u>985,901</u>
Percentage of provision for impairment (%)	<u>1.01%</u>	<u>1.26%</u>

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Changes in provision for impairment for financial assets at fair value through other comprehensive income for the years ended December 31, 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	(186)	-	-	(186)
Contribution to provision for impairment	612	-	-	612
Ending balance	₩ 1,115	₩ -	₩ -	₩ 1,115

(in millions of Korean won)

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

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Changes in provision for impairment for securities at amortized cost for the years ended December 31, 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
Contribution to provision for impairment	317	-	-	317
Ending balance	₩ 1,120	₩ -	₩ -	₩ 1,120

(in millions of Korean won)

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

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14. Financial Lease Receivables

Financial lease receivables as at December 31, 2019 and 2018, consist of the following:

<i>(in millions of Korean won)</i>	2019		2018	
Lease receivables	₩	697,054	₩	569,241
Provision for impairment		(9,679)		(10,765)
Deferred origination fees		(824)		(1,012)
Deferred origination costs		1,441		1,299
	₩	<u>687,992</u>	₩	<u>558,763</u>

The total investment of finance leases and present value of minimum lease payments as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019		2018	
	Total investment of finance leases	Present value of minimum lease payments	Total investment of finance leases	Present value of minimum lease payments
One year or less	₩ 306,865	₩ 288,387	₩ 264,546	₩ 248,680
1-5 years	<u>438,476</u>	<u>408,667</u>	<u>343,890</u>	<u>320,561</u>
	₩ <u>745,341</u>	₩ <u>697,054</u>	₩ <u>608,436</u>	₩ <u>569,241</u>

The difference between net investment in finance leases and total investment as at December 31, 2019 and 2018, is as follows:

<i>(in millions of Korean won)</i>	2019		2018	
Total investment of leases	₩	745,341	₩	608,436
Net investment in finance leases				
Present value of minimum lease payments		697,054		569,241
Unrealized interest	₩	<u>48,287</u>	₩	<u>39,195</u>

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15. Derivative Instruments and Hedge Accounting

The notional amounts outstanding for derivative contracts as at December 31, 2019 and 2018, are as follows:

(in millions of Korean won)	2019			2018		
	Trading	Hedging	Total	Trading	Hedging	Total
Currency:						
Currency forwards ¹	₩ 3,033,743	₩ -	₩ 3,033,743	₩ 3,878,680	₩ -	₩ 3,878,680
Long currency swaps	30,299	131,596	161,895	27,570	84,806	112,376
Short currency swaps	167,740	-	167,740	117,565	-	117,565
Long currency futures ²	371,654	-	371,654	34,314	-	34,314
Short currency futures ²	-	-	-	7,827	-	7,827
Long currency options	1,448,627	-	1,448,627	1,279,330	-	1,279,330
Short currency options	1,448,627	-	1,448,627	1,279,330	-	1,279,330
	<u>6,500,690</u>	<u>131,596</u>	<u>6,632,286</u>	<u>6,624,616</u>	<u>84,806</u>	<u>6,709,422</u>
Interest rate:						
Long interest rate swaps ¹	403,835	529,450	933,285	731,928	279,525	1,011,453
Short interest rate swaps ¹	559,217	-	559,217	500,157	-	500,157
Long interest rate futures	-	-	-	-	-	-
Short interest rate futures	15,114	-	15,114	32,861	-	32,861
	<u>978,166</u>	<u>529,450</u>	<u>1,507,616</u>	<u>1,264,946</u>	<u>279,525</u>	<u>1,544,471</u>
Stock:						
Stock futures purchased	-	-	-	-	-	-
Stock futures sold	-	-	-	-	-	-
Stock options purchased	-	-	-	157	-	157
Stock options sold	-	-	-	158	-	158
	<u>-</u>	<u>-</u>	<u>-</u>	<u>315</u>	<u>-</u>	<u>315</u>
	<u>₩ 7,478,856</u>	<u>₩ 661,046</u>	<u>₩ 8,139,902</u>	<u>₩ 7,889,877</u>	<u>₩ 364,331</u>	<u>₩ 8,254,208</u>

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

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

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

(in millions of Korean won)

	2019			
	Valuation gain	Valuation loss	Assets	Liabilities
Currency:				
Currency forwards	₩ 27,799	₩ 29,056	₩ 23,524	₩ 26,702
Currency swaps	1,173	1,050	651	656
Currency options	2,486	1,375	4,192	4,253
	<u>31,458</u>	<u>31,481</u>	<u>28,367</u>	<u>31,611</u>
Interest rate:				
Interest rate forwards	70	23	-	-
Interest rate swaps	3,399	275	5,716	487
	<u>3,469</u>	<u>298</u>	<u>5,716</u>	<u>487</u>
Stock:				
Stock options	1	2	12	4
	<u>1</u>	<u>2</u>	<u>12</u>	<u>4</u>
	<u>₩ 34,928</u>	<u>₩ 31,781</u>	<u>₩ 34,095</u>	<u>₩ 32,102</u>

(in millions of Korean won)

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

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The valuation of derivatives designated as a hedging instrument as at December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019			
	Valuation gain	Valuation loss	Assets	Liabilities
Interest rate:				
Interest rate swaps	₩ 20,883	₩ 313	₩ 855	₩ 5,795
Currency rate:				
Currency rate swaps	667	1,465	1,010	4,643
	<u>₩ 21,550</u>	<u>₩ 1,778</u>	<u>₩ 1,865</u>	<u>₩ 10,438</u>

(in millions of Korean won)

	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
	<u>₩ 8,475</u>	<u>₩ 6,548</u>	<u>₩ 1,415</u>	<u>₩ 30,695</u>

Gain (loss) on valuation of hedged items and hedging instrument for the years ended December 31, 2019 and 2018, are as follows

(in millions of Korean won)

	2019	2018
Gain on valuation of hedging instrument	₩ 19,772	₩ 1,927
Loss on valuation of hedged items	(20,409)	(2,735)
	<u>₩ (637)</u>	<u>₩ (808)</u>

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Amount, timing and uncertainty of future cash flows for the years ended December 31, 2019 and 2018, 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	₩	86,998	₩	44,598	₩	-	₩	-	₩	-	₩	529,450	₩	661,046
Average hedge ratio (%)		100		100		-		-		-		100		100
Risk hedges for net investments in foreign operation														
Nominal amount of risk hedge instrument	₩	103,623	₩	-	₩	-	₩	-	₩	-	₩	-	₩	103,623
Average hedge ratio (%)		100		-		-		-		-		-		100
(in millions of Korean won)	2018													
	Less than 1 year		Between 1 - 2 years		Between 2 - 3 years		Between 3 - 4 years		Between 4 - 5 year		More than 5 years		Total	
Fair value risk hedges														
Nominal amount of risk hedge instrument	₩	-	₩	-	₩	84,806	₩	-	₩	-	₩	629,525	₩	714,331
Average hedge ratio (%)		-		-		100		-		-		100		100
Risk hedges for net investments in foreign operation														
Nominal amount of risk hedge instrument	₩	-	₩	100,700	₩	-	₩	-	₩	-	₩	-	₩	100,700
Average hedge ratio (%)		-		100		-		-		-		-		100

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

Impacts of risk hedge instruments on the statements of financial position, the statements of comprehensive income and the statements of changes in equity as at December 31, 2019 and 2018, are as follows:

2019									
<i>(in millions of Korean won)</i>	Statements of financial position						Statements of comprehensive income and statements of changes in equity		
	Nominal amount	Changes in fair value	Derivative assets	Derivative liabilities	Borrowings		Profit or loss	Other Comprehensive income	
Fair value risk hedges									
Currency risk hedge	₩ 131,596	₩ (798)	₩ 1,010	₩ 4,643	₩ -	₩ (798)	₩ -		
Interest rate risk hedge	529,450	20,570	855	5,795	-	20,570	-		
Hedges for net investments in foreign operations									
Currency risk hedge	103,623	(3,446)	-	-	103,623	-	(2,560)		
	₩ 764,669	₩ 16,326	₩ 1,865	₩ 10,438	₩ 103,623	₩ 19,772	₩ (2,560)		
2018									
<i>(in millions of Korean won)</i>	Statements of financial position						Statements of comprehensive income and statements of changes in equity		
	Nominal amount	Changes in fair value	Derivative assets	Derivative liabilities	Borrowings		Profit or loss	Other Comprehensive income	
Fair value risk hedges									
Currency risk hedge	₩ 84,806	₩ (2,835)	₩ 343	₩ 3,178	₩ -	₩ (2,835)	₩ -		
Interest rate risk hedge	629,525	4,762	1,072	27,517	-	4,762	-		
Hedges for net investments in foreign operations									
Currency risk hedge	100,070	(4,180)	-	-	100,070	-	(3,093)		
	₩ 814,401	₩ (2,253)	₩ 1,415	₩ 30,695	₩ 100,070	₩ 1,927	₩ (3,093)		

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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 December 31, 2019 and 2018, are as follows:

		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	Debentures	Profit or loss	Other Comprehensive -ve income	
(in millions of Korean won)								
Fair value risk hedges								
Currency risk hedge	₩	131,596	₩ 793	₩ -	₩ 127,925	₩ 793	₩ -	₩ -
Interest rate risk hedge		529,450	(21,202)	239,565	283,986	(21,202)	-	-
Hedges for net investments in foreign operations								
Currency risk hedge		103,623	3,489	-	-	-	2,580	(1,985)
	₩	764,669	₩ (16,920)	₩ 239,565	₩ 411,911	₩ (20,409)	₩ 2,580	₩ (1,985)
		2018						
		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 Comprehensive -ve income	
(in millions of Korean won)								
Fair value risk hedges								
Currency risk hedge	₩	84,806	₩ 2,834	₩ -	₩ 81,972	₩ 2,834	₩ -	₩ -
Interest rate risk hedge		629,525	(5,569)	348,459	254,842	(5,569)	-	-
Hedges for net investments in foreign operations								
Currency risk hedge		100,070	4,585	-	-	-	3,408	575
	₩	814,401	₩ 1,850	₩ 348,459	₩ 336,814	₩ (2,735)	₩ 3,408	₩ 575

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The amounts and items recognized as profit or loss due to ineffective portion in fair value risk hedges for the years ended December 31, 2019 and 2018, are as follows:

(in millions of Korean won)	Ineffective portion of risk hedges recognized as profit or loss				Items
	2019		2018		
Fair value risk hedges					
Interest rate risk hedge	₩	(632)	₩	(807)	Loss on valuation of derivatives
Currency risk hedge		(5)		(1)	Loss on valuation of derivatives
Hedges for net investments in foreign operations					
Currency risk hedge		43		405	Gain 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 for the year ended December 31, 2019.

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16. Investments in Associates and Joint Venture

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

(in millions of Korean won)

	Main business	Location	Closing month	2019		Acquisition cost	Book amount
				Percentage of ownership (%)			
Investments in associates:							
BNK Winning Securities Investment Trust 1	Financial investment	The Republic of Korea	December	29.49	₩	9,362	₩ 9,355
BNK 'Strong' Dividend Securities Investment Trust-1	Financial investment	The Republic of Korea	December	-		-	-
Orion Mezzanine Multi Private Equity Fund	Financial investment	The Republic of Korea	December	38.16		5,000	4,996
Anda Mezzanine Private Equity Fund No. 7	Financial investment	The Republic of Korea	December	27.03		14,000	14,054
BNK Yeouido Core Office Private Investment Trust No. 2	Financial investment	The Republic of Korea	December	25.00		30,000	29,993
HDC Presto Private Securities Investment Trust 8 th	Financial investment	The Republic of Korea	December	40.00		40,000	40,759
IBK Private Securities Investment Trust S2 nd	Financial investment	The Republic of Korea	December	23.08		30,000	30,511
NH-Amundi Enhanced Bond Private Securities Investment Trust	Financial investment	The Republic of Korea	December	23.08		30,000	30,588
Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 1 st	Financial investment	The Republic of Korea	December	27.18		30,000	30,128
Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 6 th	Financial investment	The Republic of Korea	December	30.00		30,000	30,092
Samsung Repo Professional Connection Private Securities Investment Trust 1 st	Financial investment	The Republic of Korea	December	50.00		50,000	50,321
Shinhan BNPP SGrail Private Securities Investment Asset No. 1-2	Financial investment	The Republic of Korea	December	46.17		1,352	1,364
KIAMCO KDB OCEAN Value-up Private Securities Investment Trust No. 12	Financial investment	The Republic of Korea	December	49.99		6,300	6,193
Multi-Esset KDB Ocean Value Company No. 13	Financial investment	The Republic of Korea	December	53.37		17,056	16,898
Multi-Esset KDB Ocean Value-up Private Securities Investment Trust No. 15	Financial investment	The Republic of Korea	December	50.00		16,269	16,760
Shinhan BNPP Private Securities Investment Trust 6 th	Financial investment	The Republic of Korea	December	-		-	-
IBK Private Securities Investment Trust RP2	Financial investment	The Republic of Korea	December	-		-	-
Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 3 rd	Financial investment	The Republic of Korea	December	-		-	-
Hanhwa Private Securities Investment Trust 104 th	Financial investment	The Republic of Korea	December	-		-	-

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Consus Clean Water Private Special Asset Fund-1	Financial investment	The Republic of Korea	December	50.00	11,551	11,695
Shinhan BNPP Private Securities Investment Trust for Corporates 8 th	Financial investment	The Republic of Korea	December	50.00	50,000	51,071
Yuri Repo Alpha Private Securities Investment Trust 1 st	Financial investment	The Republic of Korea	December	44.86	40,000	40,853
Kiwoom Frontier Private Securities Investment Trust 11 th	Financial investment	The Republic of Korea	December	50.00	50,000	51,380
Kiwoom Frontier Private Securities Investment Trust 12 th	Financial investment	The Republic of Korea	December	49.58	50,000	50,627
Petra 7 alpha Private Equity Partnership	Financial investment	The Republic of Korea	December	21.79	10,938	10,661
KIAMCO Aviation Private Fund Special Asset Trust 1 Hedge Fund	Financial investment	The Republic of Korea	December	20.00	10,688	10,575
BNK Stocks for Public Subscription Plus 10	Financial investment	The Republic of Korea	December	-	-	-
BNK Smart Korea Private Investment Trust	Financial investment	The Republic of Korea	December	28.57	2,000	2,224
BNKGO Private Securities Investment Trust 1 st C-S	Financial investment	The Republic of Korea	December	22.40	1,534	1,367
UQIP New Growth Power Venture Association 1 st	Investment Association	The Republic of Korea	December	-	83	-
UQIP Agro-Fisheries & Food Investment Association No. 1	Investment Association	The Republic of Korea	December	15.00	83	308
Future Creation Fund UQIP Future Creation 1 st Account Union	Investment Association	The Republic of Korea	December	5.00	687	672
Energy Convergence UQIP Investment Association	Investment Association	The Republic of Korea	December	3.00	932	1,189
UQIP Agro-Fisheries & Food Trade Investment Union No. 2	Investment Association	The Republic of Korea	December	6.67	633	595
2019 UQIP Innovation Growth Follow-on Investment Union	Investment Association	The Republic of Korea	December	15.63	876	851
IGIS Real Asset Solar Private Securities Investment Trust - J 1 st	Financial investment	The Republic of Korea	December	25.00	2,142	2,142
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	2,886
				-	W 547,486	W 551,108

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(in millions of Korean won)	2018							
	Main business	Location	Closing month	Percentage of ownership (%)	Acquisition cost	Book 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		
Orion Mezzanine Multi Private Equity Fund	Financial investment	The Republic of Korea	December	-	-	-		
Anda Mezzanine Private Equity Fund No. 7	Financial investment	The Republic of Korea	December	-	-	-		
BNK Yeouido Core Office Private Investment Trust No. 2	Financial investment	The Republic of Korea	December	-	-	-		
HDC Presto Private Securities Investment Trust 8 th	Financial investment	The Republic of Korea	December	42.87	30,000	30,784		
IBK Private Securities Investment Trust S2 nd	Financial investment	The Republic of Korea	December	-	-	-		
NH-Amundi Enhanced Bond Private Securities Investment Trust	Financial investment	The Republic of Korea	December	-	-	-		
Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 1 st	Financial investment	The Republic of Korea	December	27.27	30,000	30,278		
Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 6 th	Financial investment	The Republic of Korea	December	-	-	-		
Samsung Repo Professional Connection Private Securities Investment Trust 1 st	Financial investment	The Republic of Korea	December	50.00	50,000	50,838		
Shinhan BNPP SGrail Private Securities Investment Asset No. 1-2	Financial investment	The Republic of Korea	December	-	-	-		
KIAMCOKDBOCEAN Value-up Private Securities Investment Trust No. 12	Financial investment	The Republic of Korea	December	-	-	-		
Multi-Esset KDB Ocean Value Company No. 13	Financial investment	The Republic of Korea	December	-	-	-		
Multi-Esset KDB Ocean Value-up Private Securities Investment Trust No. 15	Financial investment	The Republic of Korea	December	-	-	-		
Shinhan BNPP Private Securities Investment Trust 6 th	Financial investment	The Republic of Korea	December	23.08	30,000	30,807		
IBK Private Securities Investment Trust RP2	Financial investment	The Republic of Korea	December	23.08	30,000	30,581		
Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 3 rd	Financial investment	The Republic of Korea	December	30.00	30,000	30,120		
Hanhwa Private Securities Investment Trust 104 th	Financial investment	The Republic of Korea	December	23.08	30,000	30,050		
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 8 th	Financial investment	The Republic of Korea	December	50.00	50,000	51,231		
Yuri Repo Alpha Private Securities Investment Trust	Financial investment	The Republic of Korea	December	44.71	40,000	40,705		

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^{1st}							
Kiwoom Frontier Private Securities Investment Trust 11 th	Financial investment	The Republic of Korea	December	50.00	50,000	51,027	
Kiwoom Frontier Private Securities Investment Trust 12 th	Financial investment	The Republic of Korea	December	49.90	50,000	50,212	
Petra 7 alpha Private Equity Partnership	Financial investment	The Republic of Korea	December	-	-	-	
KIAMCO Aviation Private Fund Special Asset Trust 1 Hedge Fund	Financial investment	The Republic of Korea	December	-	-	-	
BNK Stocks for Public Subscription Plus 10	Financial investment	The Republic of Korea	December	24.67	2,000	2,008	
BNK Smart Korea Private Investment Trust	Financial investment	The Republic of Korea	December	-	-	-	
BNKGO Private Securities Investment Trust 1 st C-S	Financial investment	The Republic of Korea	December	-	-	-	
UQIP New Growth Power Venture Association 1 st	Investment Association	The Republic of Korea	December	-	-	-	
UQIP Agro-Fisheries & Food Investment Association No. 1	Investment Association	The Republic of Korea	December	-	-	-	
Future Creation Fund UQIP Future Creation 1 st Account Union	Investment Association	The Republic of Korea	December	-	-	-	
Energy Convergence UQIP Investment Association	Investment Association	The Republic of Korea	December	-	-	-	
UQIP Agro-Fisheries & Food Trade Investment Union No. 2	Investment Association	The Republic of Korea	December	-	-	-	
2019 UQIP Innovation Growth Follow-on Investment Union	Investment Association	The Republic of Korea	December	-	-	-	
IGIS Real Asset Solar Private Securities Investment Trust - J 1 st	Financial investment	The Republic of Korea	December	-	-	-	
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	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.

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Changes in investments in associates and joint venture for the years ended December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

	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	₩ 9,870	₩ (2,000)	₩ 1,325	₩ -	₩ 160	₩ 9,355
BNK 'Strong' Dividend Securities Investment Trust-1	10,229	(10,513)	284	-	-	-
Orion Mezzanine Multi Private Equity Fund	-	5,000	(4)	-	-	4,996
Anda Mezzanine Private Equity Fund No. 7	-	14,000	54	-	-	14,054
BNK Yeouido Core Office Private Investment Trust No. 2	-	30,000	(7)	-	-	29,993
HDC Presto Private Securities Investment Trust 8 th	30,784	9,216	759	-	-	40,759
IBK Private Securities Investment Trust S2 nd	-	30,000	511	-	-	30,511
NH-Amundi Enhanced Bond Private Securities Investment Trust	-	30,000	588	-	-	30,588
Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 1 st	30,278	-	922	(1,072)	-	30,128
Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 6 th	-	30,000	92	-	-	30,092
Samsung Repo Professional Connection Private Securities Investment Trust 1 st	50,838	-	1,292	(1,809)	-	50,321
Shinhan BNPP SGrail Private Securities Investment Asset No. 1-2	-	1,352	21	(9)	-	1,364
KIAMCO KDB OCEAN Value-up Private Securities Investment Trust No. 12	-	6,300	256	(363)	-	6,193
Multi-Esset KDB Ocean Value Company No. 13	-	17,056	30	(188)	-	16,898
Multi-Esset KDB Ocean Value-up Private Securities Investment Trust No. 15	-	16,269	921	(430)	-	16,760
Shinhan BNPP Private Securities Investment Trust 6 th	30,807	(30,807)	-	-	-	-
IBK Private Securities Investment Trust RP2	30,581	(30,581)	-	-	-	-
Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 3 rd	30,120	(30,120)	-	-	-	-

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Hanhwa Private Securities Investment Trust 104 th	30,050	(30,050)	-	-	-	-
Consus Clean Water Private Special Asset Fund-1	13,274	(1,863)	856	(572)	-	11,695
Shinhan BNPP Private Securities Investment Trust for Corporates 8 th	51,231	-	1,249	(1,409)	-	51,071
Yuri Repo Alpha Private Securities Investment Trust 1 st	40,705	-	984	(836)	-	40,853
Kiwoom Frontier Private Securities Investment Trust 11 th	51,028	-	1,351	(999)	-	51,380
Kiwoom Frontier Private Securities Investment Trust 12 th	50,213	-	1,621	(1,207)	-	50,627
Petra 7 alpha Private Equity Partnership	-	10,938	(277)	-	-	10,661
KIAMCO Aviation Private Fund Special Asset Trust 1 Hedge Fund	-	10,688	189	(302)	-	10,575
BNK Stocks for Public Subscription Plus 10	2,008	(2,008)	-	-	-	-
BNK Smart Korea Private Investment Trust	-	2,000	224	-	-	2,224
BNKGO Private Securities Investment Trust 1 st C-S	-	1,534	(167)	-	-	1,367
UQIP New Growth Power Venture Association 1 st	-	1	(1)	-	-	-
UQIP Agro-Fisheries & Food Investment Association No. 1	-	83	225	-	-	308
Future Creation Fund UQIP Future Creation 1 st Account Union	-	687	63	-	(78)	672
Energy Convergence UQIP Investment Association	-	1,142	(12)	-	59	1,189
UQIP Agro-Fisheries & Food Trade Investment Union No. 2	-	632	(37)	-	-	595
2019 UQIP Innovation Growth Follow-on Investment Union	-	876	(9)	-	(16)	851
IGIS Real Asset Solar Private Securities Investment Trust - J 1 st	-	2,142	-	-	-	2,142
KC Co., Ltd.	-	-	-	-	-	-
Investments in joint venture:						
M-park Capital Co., Ltd.	3,083	-	(197)	-	-	2,886
	<u>₩ 465,099</u>	<u>₩ 81,974</u>	<u>₩ 13,106</u>	<u>₩ (9,196)</u>	<u>₩ 125</u>	<u>₩ 551,108</u>

(in millions of Korean won)

2018

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

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Investments in associates:

BNK 'Strong' Korea Securities Investment Trust-1	₩	9,342	₩	(4,197)	₩	(1,123)	₩	-	₩	(4,022)	₩	-
BNK Winning Securities Investment Trust 1		-		11,363		(1,492)		-		-		9,871
BNK 'Strong' Dividend Securities Investment Trust-1		5,996		3,992		486		-		(245)		10,229
Hanhwa Private Securities Investment Trust 102 nd		30,031		(30,748)		717		-		-		-
Hanhwa Private Securities Investment Trust 104 th		-		30,000		50		-		-		30,050
Shinhan BNPP Private Securities Investment Trust 6 th		-		30,000		807		-		-		30,807
HDC Presto Private Securities Investment Trust 8 th		-		30,000		784		-		-		30,784
IBK Private Securities Investment Trust RP2		-		30,000		581		-		-		30,581
Samsung Repo Professional Connection Private Securities Investment Trust 1 st		-		50,000		838		-		-		50,838
Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 1 st		-		30,000		278		-		-		30,278
Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 3 rd		-		30,000		120		-		-		30,120
Consus Clean Water Private Special Asset Fund-1		13,706		(6,483)		619		5,433		-		13,275
Shinhan BNPP Private Securities Investment Trust for Corporates 8 th		-		50,000		1,231		-		-		51,231
Mirae Asset Smart Q Income Plus Private Securities		-		(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

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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 December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

(in millions of Korean won)

2019

	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	₩	32,880	₩	1,156	₩	31,724	₩	6,709	₩	2,421	₩	2,421
Orion Mezzanine Multi Private Equity Fund		13,125		31		13,094		299		(9)		(9)
Anda Mezzanine Private Equity Fund No. 7		52,004		-		52,004		211		201		201
BNK Yeouido Core Office Private Investment Trust No. 2		119,974		1		119,973		5		(27)		(27)
HDC Presto Private Securities Investment Trust 8 th		200,915		99,017		101,898		3,423		1,898		1,898
IBK Private Securities Investment Trust S2 nd		252,744		120,530		132,214		5,032		2,214		2,214
NH-Amundi Enhanced Bond Private Securities Investment Trust		264,329		131,779		132,550		5,320		2,550		2,550
Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 1 st		196,124		85,295		110,829		5,719		4,416		4,416
Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 6 th		194,774		94,466		100,308		460		308		308
Samsung Repo Professional Connection Private Securities Investment Trust 1 st		241,876		141,235		100,641		5,811		4,261		4,261
Shinhan BNPP SGrail Private Securities Investment Asset No. 1-2		3,440		486		2,954		37		36		36
KIAMCO KDB OCEAN Value-up Private Securities Investment Trust No. 12		12,397		8		12,389		790		787		787
Multi-Esset KDB Ocean Value Company No. 13		31,722		63		31,659		351		304		304
Multi-Esset KDB Ocean Value-up Private Securities Investment Trust No. 15		33,910		390		33,520		1,250		1,234		1,234
Consus Clean Water Private Special Asset Fund-1		23,416		26		23,390		295		269		269
Shinhan BNPP Private Securities Investment Trust for Corporates 8 th		171,381		69,238		102,143		7,447		2,143		2,143
Yuri Repo Alpha Private		174,082		83,016		91,066		2,810		1,405		1,405

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Securities Investment Trust 1 st						
Kiwoom Frontier Private Securities Investment Trust 11 th	241,091	138,332	102,759	3,322	1,914	1,914
Kiwoom Frontier Private Securities Investment Trust 12 th	232,233	130,126	102,107	526	723	723
Petra 7 alpha Private Equity Partnership	49,054	128	48,926	19	(1,274)	(1,274)
KIAMCO Aviation Private Fund Special Asset Trust 1 Hedge Fund	54,410	28	54,382	300	251	251
BNK Smart Korea Private Investment Trust	7,261	31	7,230	8,693	(747)	(747)
BNKGO Private Securities Investment Trust 1 st C-S	7,435	53	7,382	11,979	(1,946)	(1,946)
UQIP Agro-Fisheries & Food Investment Association No. 1	2,854	801	2,053	4	(1)	(1)
Future Creation Fund UQIP Future Creation 1 st Account Union	13,785	353	13,432	3,629	1,571	1,571
Energy Convergence UQIP Investment Association	40,174	540	39,634	20	(6,994)	(6,994)
UQIP Agro-Fisheries & Food Trade Investment Union No. 2	9,032	105	8,927	-	(297)	(297)
2019 UQIP Innovation Growth Follow-on Investment Union	5,535	89	5,446	-	(209)	(209)
IGIS Real Asset Solar Private Securities Investment Trust - J 1 st	8,569	4	8,565	1	1	1
KC Co., Ltd.	1,625	1,996	(371)	6,708	(688)	(774)
Investments in joint venture:						
M-park Capital Co., Ltd.	18,784	747	18,037	8,907	(392)	(392)
	<u>₩ 2,710,935</u>	<u>₩ 1,100,070</u>	<u>₩ 1,610,865</u>	<u>₩ 90,077</u>	<u>₩ 16,323</u>	<u>₩ 16,237</u>

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(in millions of Korean won)

(in millions of Korean won)

2018											

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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 book amount of investments in associates and joint venture as at December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

		2019			
		Net assets of associates and joint venture (A)	The Group's ownership (B) (%)	Net assets owned (AXB)	Book amount
Investments in associates:					
BNK Winning Securities					
Investment Trust 1	₩	31,724	29.49	₩ 9,354	₩ 9,355
Orion Mezzanine Multi Private					
Equity Fund		13,094	38.16	4,996	4,996
Anda Mezzanine Private Equity					
Fund No. 7		52,004	27.03	14,054	14,054
BNK Yeouido Core Office Private					
Investment Trust No. 2		119,973	25.00	29,993	29,993
HDC Presto Private Securities					
Investment Trust 8 th		101,898	40.00	40,759	40,759
IBK Private Securities					
Investment Trust S2 nd		132,214	23.08	30,511	30,511
NH-Amundi Enhanced Bond					
Private Securities Investment					
Trust		132,550	23.08	30,588	30,588
Kyobo-Axa Investment Alpha					
Plus Private Securities					
Investment Trust - J 1 st		110,829	27.18	30,128	30,128
Kyobo-Axa Investment Alpha					
Plus Private Securities					
Investment Trust - J 6 th		100,308	30.00	30,092	30,092
Samsung Repo Professional					
Connection Private Securities					
Investment Trust 1 st		100,641	50.00	50,321	50,321
Shinhan BNPP SGrail Private					
Securities Investment Asset No. 1-					
2		2,954	46.17	1,364	1,364
KIAMCO KDB OCEAN Value-up					
Private Securities Investment Trust					
No. 12		12,389	49.99	6,193	6,193
Multi-Esset KDB Ocean Value					
Company No. 13		31,659	53.37	16,898	16,898
Multi-Esset KDB Ocean Value-up					
Private Securities Investment Trust					
No. 15		33,520	50.00	16,760	16,760
Consus Clean Water Private					
Special Asset Fund-1		23,390	50.00	11,695	11,695
Shinhan BNPP Private		102,143	50.00	51,071	51,071

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Securities Investment Trust for Corporates 8 th					
Yuri Repo Alpha Private					
Securities Investment Trust 1 st	91,066	44.86	40,853		40,853
Kiwoom Frontier Private					
Securities Investment Trust 11 th	102,759	50.00	51,380		51,380
Kiwoom Frontier Private					
Securities Investment Trust 12 th	102,107	49.58	50,627		50,627
Petra 7 alpha Private Equity Partnership	48,926	21.79	10,661		10,661
KIAMCO Aviation Private Fund					
Special Asset Trust 1 Hedge Fund	54,382	20.00	10,876		10,575
BNK Smart Korea Private Investment Trust	7,230	28.57	2,066		2,224
BNKGO Private Securities Investment Trust 1 st C-S	7,382	22.40	1,654		1,367
UQIP Agro-Fisheries & Food Investment Association No. 1	2,053	15.00	308		308
Future Creation Fund UQIP Future Creation 1 st Account Union	13,432	5.00	672		672
Energy Convergence UQIP Investment Association	39,634	3.00	1,189		1,189
UQIP Agro-Fisheries & Food Trade Investment Union No. 2	8,927	6.67	595		595
2019 UQIP Innovation Growth Follow-on Investment Union	5,446	15.63	851		851
IGIS Real Asset Solar Private Securities Investment Trust - J 1 st	8,565	25.01	2,142		2,142
KC Co., Ltd.	(371)	0.00	-		-
Investments in joint venture:					
M-park Capital Co., Ltd.	₩ 18,037	30.00	₩ 5,411	₩	2,886

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(in millions of Korean won)

	2018			
	Net assets of associates and joint venture (A)	The Group's ownership (B) (%)	Net assets owned (AXB)	Book 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.	₩ 18,568	30.00	₩ 5,570	₩ 3,083

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17. Property and Equipment

Property and equipment as at December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book amount
Land	₩ 283,344	₩ -	₩ -	₩ 283,344
Building	529,330	(85,103)	-	444,227
Leasehold improvements	125,906	(96,688)	-	29,218
Equipment and vehicles	476,561	(388,756)	-	87,805
Construction in progress	33,246	-	-	33,246
Right-of-use assets	111,618	(31,089)	-	80,529
Others	26,171	-	(6,912)	19,259
	<u>₩ 1,586,176</u>	<u>₩ (601,636)</u>	<u>₩ (6,912)</u>	<u>₩ 977,628</u>

(in millions of Korean won)

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

Changes in property and equipment for the years ended December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019				
	Beginning balance	Changes due to business combination	Changes in accounting policy	Acquisition	Disposal
Land	₩ 272,724	₩ -	₩ -	₩ 706	₩ (1,535)
Building	449,954	-	-	2,931	(1,110)
Leasehold improvements	29,712	-	-	4,999	(467)
Equipment and vehicles	93,141	61	-	22,501	(196)
Construction in progress	22,755	-	-	78,103	(294)
Right-of-use assets	-	78	55,770	68,071	(5,762)
Others	19,259	-	-	-	-
	<u>₩ 887,545</u>	<u>₩ 139</u>	<u>₩ 55,770</u>	<u>₩ 177,311</u>	<u>₩ (9,364)</u>

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(in millions of Korean won)

	2019					Ending Balance
	Reclassifi- cation	Depreciation	Impairment loss	Others		
Land	₩ 11,449	₩ -	₩ -	₩ -	₩	283,344
Building	3,641	(11,199)	-	10		444,227
Leasehold improvements	6,079	(11,374)	-	269		29,218
Equipment and vehicles	10,810	(37,814)	-	(698)		87,805
Construction in progress	(68,054)	-	-	736		33,246
Right-of-use assets	66	(33,492)	-	(4,202)		80,529
Others	-	-	-	-		19,259
	₩ (36,009)	₩ (93,879)	₩ -	₩ (3,885)	₩	977,628

(in millions of Korean won)

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

Details of right-to-use assets as at December 31, 2019, as follows:

(in millions of Korean won)

	2019			
	Properties	Vehicles	Others	Total
Cost of right-of-use asset	₩ 102,683	₩ 3,056	₩ 2,532	₩ 108,271
Accumulated depreciation	(26,004)	(522)	(1,216)	(27,742)
Book amount of right-of-use asset	₩ 76,679	₩ 2,534	₩ 1,316	₩ 80,529

Land and buildings of ₩49,159 million and ₩49,440 million are provided as collateral for leasehold deposits provided as at December 31, 2019 and 2018.

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18. Intangible Assets

Intangible assets as at December 31, 2019 and 2018, consisted of the following:

(in millions of Korean won)

	2019			
	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Book amount
Software	₩ 223,217	₩ (172,611)	₩ -	₩ 50,606
Goodwill	50,518	-	(22,057)	28,461
Core deposits	177,470	(94,537)	(1,891)	81,042
Others	232,868	(126,239)	(361)	106,268
	<u>₩ 684,073</u>	<u>₩ (393,387)</u>	<u>₩ (24,309)</u>	<u>₩ 266,377</u>

(in millions of Korean won)

	2018			
	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Book amount
Software	₩ 188,777	₩ (146,151)	₩ -	₩ 42,626
Goodwill	48,082	-	(22,057)	26,025
Core deposits	177,470	(77,020)	(1,891)	98,559
Others	233,924	(129,192)	(290)	104,442
	<u>₩ 648,253</u>	<u>₩ (352,363)</u>	<u>₩ (24,238)</u>	<u>₩ 271,652</u>

Changes in intangible assets for the years ended December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019									
	Beginning balance	Changes due to business combination	Acquisition	Disposal	Reclassification¹	Amortization	Impairment loss	Others	Ending Balance	
Software	₩ 42,626	₩ 3	₩ 9,958	₩ (74)	₩ 21,117	₩ (22,838)	₩ -	₩ (186)	₩ 50,606	
Goodwill	26,025	2,436	-	-	-	-	-	-	28,461	
Core deposits	98,559	-	-	-	-	(17,517)	-	-	81,042	
Others	104,442	-	48,877	(66)	(13,740)	(33,297)	(71)	123	106,268	
	<u>₩ 271,652</u>	<u>₩ 2,439</u>	<u>₩ 58,835</u>	<u>₩ (140)</u>	<u>₩ 7,377</u>	<u>₩ (73,652)</u>	<u>₩ (71)</u>	<u>₩ (63)</u>	<u>₩ 266,377</u>	

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(in millions of Korean won)

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

¹ Transferred from construction in progress.

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

BNK Savings Bank Co., Ltd.

Input	Applied rate	Basis
Risk free interest rate	1.64%	Average of one year from the valuation date
Corporate Beta	0.45	Reflecting capital structure of similar companies
Market rate premium (MRP)	10.30%	Average MRP of one year from the valuation date
Cost of capital	6.27%	

BNK Asset Management Co., Ltd.

Input	Applied rate	Basis
Risk free interest rate	1.83%	Average of one year from the valuation date
Corporate Beta	0.677	Reflecting capital structure of similar companies
Market rate premium (MRP)	11.70%	Average MRP of one year from the valuation date
Cost of capital	11.62%	

As a result of the impairment test of goodwill, it is determined that the book amount of the cash generating unit (CGU) does not exceed the recoverable amount.

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19. Investment Properties

Investment properties as at December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book amount
Land	₩ 113,749	₩ -	₩ -	₩ 113,749
Building	130,134	(19,700)	-	110,434
	<u>₩ 243,883</u>	<u>₩ (19,700)</u>	<u>₩ -</u>	<u>₩ 224,183</u>

(in millions of Korean won)

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

Rental income from investment properties is ₩3,706 million and ₩2,856 million for the years ended December 31, 2019 and 2018, respectively.

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

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

(in millions of Korean won)

	2019	2018	Valuation techniques	Input variables
Land	₩ 161,424	₩ 119,953	- The evaluation method of using officially assessed land pricing - Sales comparison approach	- Officially assessed land pricing - Sales history
Building	89,780	98,739	- Evaluation by the prime cost	- Repurchase cost - Durable years
	<u>₩ 251,204</u>	<u>₩ 218,692</u>		

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

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Changes in investment properties for the years ended December 31, 2019 and 2018, are as follows:

(in millions of
Korean won)

	2019					
	Beginning balance	Acquisition	Reclassification	Depreciation	Others	Ending Balance
Land	₩ 99,857	₩ 3	₩ 13,889	₩ -	₩ -	₩ 113,749
Building	98,315	-	14,743	(2,625)	-	110,433
	<u>₩ 198,172</u>	<u>₩ 3</u>	<u>₩ 28,632</u>	<u>₩ (2,625)</u>	<u>₩ -</u>	<u>₩ 224,182</u>

(in millions of Korean won)

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

Operating lease

The Group entered in to various operating lease agreements for land and buildings which are classified as investment properties. The remaining periods of non-cancellable operating lease are within five years. The lease payments can be increased annually depending on the market condition under all operating lease agreements. The future minimum lease payments expected to be received in relation to the non-cancellable operating lease agreement for investment properties as at December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019	2018
Within one year	₩ 1,596	₩ 1,143
Later than one year but not later than five years	1,021	1,008
Later than five years	-	-
	<u>₩ 2,617</u>	<u>₩ 2,151</u>

Land and buildings of ₩49,159 million and ₩49,440 million are provided as collateral for leasehold deposits provided as at December 31, 2019 and 2018.

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20. Other assets

Other assets as at December 31, December 31, 2019 and 2018, consist of:

<i>(in millions of Korean won)</i>	2019	2018
Guarantee deposits	₩ 1,457	₩ 1,072
Articles for consumption	1,418	1,216
Prepaid expenses	39,132	36,586
Operating lease assets	964,460	724,753
Prepaid lease assets	17,471	10,334
Others	12,799	22,522
	<u>₩ 1,036,737</u>	<u>₩ 796,483</u>

Details of prepaid lease assets as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019	2018
Operating lease assets:		
Operating lease assets	₩ 1,245,040	₩ 958,137
Accumulated depreciation	(316,708)	(260,058)
Accumulated impairment loss	(3,400)	(4,615)
	<u>924,932</u>	<u>693,464</u>
Hedge lease assets:		
Hedge lease assets	12,412	12,412
Accumulated depreciation	(1,471)	(1,471)
Accumulated impairment loss	(10,941)	(10,941)
	<u>-</u>	<u>-</u>
Initial direct costs	39,527	31,289
Prepaid lease assets	17,472	10,334
	<u>₩ 981,931</u>	<u>₩ 735,087</u>

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Operating lease assets

Lessee of operating lease assets by industry based on the acquisition cost as at December 31, 2019 and 2018, is as follows:

<i>(in millions of Korean won)</i>	2019			2018		
	Transport equipment	General industrial equipment	Total	Transport equipment	General industrial equipment	Total
Cost	₩ 1,203,571	₩ 53,881	₩ 1,257,452	₩ 884,909	₩ 85,640	₩ 970,549
Accumulated depreciation	(286,677)	(31,502)	(318,179)	(210,817)	(50,712)	(261,529)
Accumulated impairment losses	-	(14,341)	(14,341)	-	(15,556)	(15,556)
Book amount	₩ 916,894	₩ 8,038	₩ 924,932	₩ 674,092	₩ 19,372	₩ 693,464

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

<i>(in millions of Korean won)</i>	2019	2018
Within one year	₩ 281,344	₩ 229,132
Later than one year but not later than five years	853,224	622,298
	₩ 1,134,568	₩ 851,430

21. Deposits

Deposits as at December 31, 2019 and 2018, consist of the followings:

<i>(in millions of Korean won)</i>	2019	2018
Deposits in Korean won:		
Demand deposits	₩ 8,960,973	₩ 7,836,648
Term deposits	64,042,260	62,125,119
Mutual installment deposits	2,198	2,766
Mutual installment for housing	5,997	8,823
Others	308	238
	73,011,736	69,973,594
Deposits in foreign currencies	1,148,337	1,061,359
Negotiable certificates of deposit	2,449,467	2,345,157
	₩ 76,609,540	₩ 73,380,110

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22. Borrowings

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

<i>(in millions of Korean won)</i>	<u>Annual interest rate (%)</u>			2019	2018
	Minimum	Maximum			
Borrowings in Korean won:					
The BOK	0.50	0.75	₩	595,750	₩ 624,579
Others	1.01	2.74		<u>2,120,809</u>	<u>2,388,002</u>
				<u>2,716,559</u>	<u>3,012,581</u>
Borrowings in foreign currencies:					
Overdraft on our account	2.34	2.44		65,664	70,469
Banks	0.45	11.80		460,235	394,362
Relending loans	2.31	2.50		51,777	50,002
Others	2.30	3.49		<u>348,501</u>	<u>313,342</u>
				<u>926,177</u>	<u>828,175</u>
Call money	4.20	4.70		47,172	231,132
Bonds sold under repurchase agreement:					
Korean won	0.65	2.92		1,284,623	1,457,262
Foreign currencies	0.37	0.37		<u>27,650</u>	<u>26,342</u>
				<u>1,312,273</u>	<u>1,483,604</u>
Bills sold	0.45	1.91		25,201	30,962
Deferred expenses from borrowings				<u>(234)</u>	<u>(375)</u>
			₩	<u>5,027,148</u>	₩ <u>5,586,079</u>

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

<i>(in millions of Korean won)</i>	<u>Annual interest rate (%)</u>			2019	2018
	Minimum	Maximum			
Securities sold	1.25	1.88	₩	52,080	₩ 29,810

Details of borrowings of financial institution as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019			
	The BOK	Other banks	Others	Total
Borrowings in Korean won	₩ 595,750	₩ 746,820	₩ 240,001	₩ 1,582,571
Borrowings in foreign currencies	-	874,400	51,777	926,177
Call money	-	47,172	-	47,172
Bonds sold under repurchase agreement	-	-	638,701	638,701
	<u>₩ 595,750</u>	<u>₩ 1,668,392</u>	<u>₩ 930,479</u>	<u>₩ 3,194,621</u>

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

23. Debentures

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

(in millions of Korean won)

	Annual interest rate (%)			2019	2018
	Minimum	Maximum			
Debentures in Korean won:					
Unsecured coupon bond	1.39	3.43	₩	7,622,519	₩ 5,542,144
Subordinated bond	3.05	4.40		1,950,000	2,610,000
Present value discounts				(9,431)	(9,658)
				<u>9,563,088</u>	<u>8,142,486</u>
Debentures in foreign currencies:					
Senior bond	2.44	4.85		344,599	198,668
Subordinated bond	3.63	3.63		289,450	279,525
Gain on fair value hedge				(9,135)	(27,517)
Present value discounts				(2,246)	(2,504)
				<u>622,668</u>	<u>448,172</u>
			₩	<u>10,185,756</u>	<u>₩ 8,590,658</u>

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24. Net Defined Benefit Liabilities

Defined benefit plan

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

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

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

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

As at December 31, 2019 and 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>	2019		2018	
Present value of funded defined benefit obligations	₩	581,943	₩	525,328
Fair value of plan assets		(497,407)		(453,328)
Net defined benefit liabilities	₩	<u>84,536</u>	₩	<u>72,000</u>

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Movements in the net defined benefit liabilities for the years ended December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019		
	Present value of defined benefit obligation	Plan assets	Total
Beginning balance	₩ 525,577	₩ (453,489)	₩ 72,088
Current service cost	63,965	-	63,965
Interest expenses (interest revenues)	14,123	(13,381)	742
	<u>603,665</u>	<u>(466,870)</u>	<u>136,795</u>
Remeasurements:			
Expected return on plan assets	-	6,166	6,166
Actuarial gains arising from changes in demographic assumptions	(277)	-	(277)
Actuarial losses arising from changes in financial assumptions	7,047	-	7,047
Others	2,742	-	2,742
	<u>9,511</u>	<u>6,166</u>	<u>15,677</u>
Contributions from the employer	-	(66,554)	(66,554)
Benefits paid	(30,196)	28,828	(1,368)
Effect of business combination and business disposal	(1,037)	1,023	(14)
Ending balance	<u>₩ 581,943</u>	<u>₩ (497,407)</u>	<u>₩ 84,536</u>

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(in millions of Korean won)

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

Details of fair values of plan assets as at December 31, 2019 and 2018, are as follows:

(in millions of Korean won
in percentage, %)

	2019		2018	
	Amount	Ratio (%)	Amount	Ratio (%)
Time deposits	₩ 497,384	100.00	₩ 451,908	99.69
Others	23	0.00	1,421	0.31
	<u>₩ 497,407</u>	<u>100.00</u>	<u>₩ 453,328</u>	<u>100.00</u>

The significant actuarial assumptions as at December 31, 2019 and 2018, are as follows:

(in percentage, %)

	2019	2018
Discount rate	1.81 ~ 2.94	2.22 ~ 3.10
Salary growth rate (including Inflation)	1.20 ~ 6.06	1.20 ~ 6.06

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

<i>(in millions of Korean won)</i>	1% increase		1% decrease	
Change in discount rate	₩	(311,019)	₩	384,587
Change in salary growth rate		384,603		(310,434)

The Group reviews the funding level on an annual basis and has a policy of eliminating deficit from the fund.

The weighted average duration of the defined benefit obligation is 11.05 years.

The expected maturity analysis of undiscounted pension benefits as at December 31, 2019, is as follows:

<i>(in millions of Korean won)</i>	Less than 1 year		Between 1-2 years		Between 2-5 years		Over 5 years		Total
Pension benefits	₩	20,252	₩	33,240	₩	93,980	₩	644,163	₩ 791,635

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25. Provisions

Details of provisions for other liabilities and charges for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019		2018	
Provision for acceptances and guarantees	₩	6,148	₩	6,487
Provision for unused credit limit		28,673		27,433
Provision for restoration costs		7,372		6,791
Provision for credit card point		1,689		1,774
Provision for litigation		458		-
Others		918		171
	₩	<u>45,258</u>	₩	<u>42,656</u>

Changes in provision for acceptances and guarantees and provision for unused credit limit for the years ended December 31, 2019 and 2018, are as follows:

(in millions of Korean won)	2019							
	12 months		Expected lifetime credit losses		Total			
	expected credit losses		Unrecognized impairment	Recognized impairment				
Beginning balance	₩	18,827	₩	10,562	₩	4,531	₩	33,920
Changes in financial instruments recognized at the beginning balance		2,094		(2,096)		2		-
Transfer to 12-months expected loss		3,031		(3,010)		(21)		-
Transfer to credit-unimpaired financial liabilities		(928)		939		(11)		-
Transfer to credit-impaired financial liabilities		(9)		(25)		34		-
Foreign currency translation and others		15		4		3		22
		20,936		8,470		4,536		33,942
Provision (reversal)		(252)		3,529		(2,398)		879
Ending balance	₩	20,684	₩	11,999	₩	2,138	₩	34,821

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(in millions of Korean won)

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

Changes in other provisions for the years ended December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019					
	Beginning balance	Increase	Decrease	Others	Ending balance	
Provision for restoration costs	₩ 6,790	₩ 143	₩ -	₩ 439	₩ 7,372	
Provision for credit card point	1,774	147	(232)	-	1,689	
Provision for litigation	-	458	-	-	458	
Others	172	769	(7)	(16)	918	
	₩ 8,736	₩ 1,517	₩ (239)	₩ 423	₩ 10,437	

(in millions of Korean won)

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

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26. Other Liabilities

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

<i>(in millions of Korean won)</i>	2019		2018	
Other financial liabilities:				
Due to trust accounts	₩	685,035	₩	377,096
Due to fund accounts		370		(274)
Foreign exchange remittances pending		39,520		44,303
Prepaid card liabilities		11,403		10,996
Debit card liabilities		20,627		24,020
Deposits for letter of guarantees and others		299,908		269,357
Present value discounts		(16,424)		(16,847)
Accounts payable		767,618		464,662
Accrued expenses		710,920		686,562
Financial guarantee contract liabilities		5,974		3,896
Agency business accounts		166,197		205,023
Unsettled domestic exchange liabilities		68,911		60,576
Deposits held by agency relationship		108,008		156,366
Guarantee deposits for securities subscription		7,865		39,514
Lease liabilities		68,399		-
Accrued marketable securities		136		-
Remittance pending		14		521
		<u>2,944,481</u>		<u>2,325,771</u>
Other non-financial liabilities:				
Withholding taxes		19,344		17,651
Unearned revenues		43,293		41,836
Others		138,601		142,617
		<u>201,238</u>		<u>202,104</u>
	₩	<u>3,145,719</u>	₩	<u>2,527,875</u>

Lease liabilities by term structures as at December 31, 2019, are as follows:

(in millions of Korean won)		2019										
		Less than 1 month	1 month ~ 3 months	3 ~ 12 months	1 year ~ 5 years	More than 5 years	Total					
Lease liabilities	₩	3,117	₩	4,640	₩	17,382	₩	42,764	₩	3,203	₩	71,106

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27. Equity

(a) Share capital

As at December 31, 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 December 31, 2019, amounts to ₩1,629,676 million.

(b) Other paid-in capital

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

<i>(in millions of Korean won)</i>	2019		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 December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	Issue date	Maturity	Interest rate (%)	2019		2018	
Hybrid equity securities in Korean won	2015.06.24	2045.06.24	4.60	₩	80,000	₩	80,000
	2015.06.24	2045.06.24	5.10		30,000		30,000
	2015.08.31	2045.08.31	4.48		150,000		150,000
	2018.02.13	-	4.83		100,000		100,000
	2018.03.02	-	4.26		150,000		150,000
	2019.02.20	-	3.74		100,000		-
	2019.08.29	-	3.20		100,000		-
Issuance cost					(2,126)		(1,479)
				₩	<u>707,874</u>	₩	<u>508,521</u>

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

<i>(in millions of Korean won)</i>	Issue date	Maturity	Interest rate (%)		2019		2018
Hybrid equity securities in Korean won	2013.04.25	2043.04.25	4.75	₩	60,000	₩	60,000
	2013.05.27	2043.05.27	4.83		40,000		40,000
	2013.10.25	2043.10.25	5.55		90,000		90,000
	2013.11.07	2043.11.07	5.72		10,000		10,000
	2013.11.11	2043.11.11	6.00		37,000		37,000
	2013.11.28	2043.11.28	6.14		63,000		63,000
	2017.07.24	-	4.58		150,000		150,000
	2017.09.19	2047.09.19	4.79		150,000		150,000
	2018.05.04	-	4.50		100,000		100,000
	2018.06.26	-	4.65		100,000		100,000
	2019.04.29	-	3.60		100,000		-
Issuance cost					(2,543)		(2,210)
				₩	<u>897,457</u>	₩	<u>797,790</u>

The Group can exercise its right to early repayment after 5 or 10 years after issuing hybrid equity securities, and at the date of maturity, the contractual agreements allow the 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.

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(d) Other components of equity

Other components of equity as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019		2018	
Gain on valuation of financial instruments at fair value through other comprehensive income	₩	126,722	₩	90,233
Exchange differences on translation of foreign operations		902		(5,013)
Remeasurements of net defined benefit liabilities		(171,536)		(155,859)
Gain (loss) on valuation of hedges of net investments in foreign operations		(2,787)		659
Share of other comprehensive income of associates		(121)		(87)
Tax effects		14,296		19,062
	₩	<u>(32,524)</u>	₩	<u>(51,005)</u>

Changes in accumulated other comprehensive income for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	2019									
	Beginning balance		Changes (excluded from reclassification)		Reclassification		Tax effects		Ending balance	
Gain on valuation of financial instruments at fair value through other comprehensive income	₩	65,623	₩	34,205	₩	2,283	₩	(9,131)	₩	92,980
Exchange differences on translation of foreign operations		(5,224)		5,915		-		(78)		613
Remeasurements of net defined benefit liabilities		(111,913)		(15,677)		-		3,558		(124,032)
Loss on valuation of hedges of net investments in foreign operations		575		(3,446)		-		886		(1,985)
Share of other comprehensive income of associates		(66)		(34)		-		-		(100)
	₩	(51,005)	₩	20,963	₩	2,283	₩	(4,765)	₩	(32,524)

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

(e) Retained earnings

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

(in millions of Korean won)

	2019	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
	3,627,295	3,342,611
Retained earnings before appropriation	1,564,609	1,410,392
	₩ 5,191,904	₩ 4,753,003

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.

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Regulatory reserve for credit loss

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

Regulatory reserve for credit loss as at December 31, 2019 and 2018, is as follows:

<i>(in millions of Korean won)</i>	2019		2018	
Provided reserve for credit loss ¹	₩	490,074	₩	548,168
Changes in accounting policy		-		(67,122)
Expected provision of reserve for credit loss		53,829		9,028
Regulatory reserve for credit loss	₩	543,903	₩	490,074
Owners of the Parent Company	₩	543,903	₩	490,074
Non-controlling interests		-		-

¹ Provided reserve for credit loss as at December 31, 2019 and 2018, is the amount after appropriations of retained earnings.

Expected provision of reserve for credit losses, adjusted profit after the provision of regulatory reserve and adjusted earnings per share after the provision of regulatory reserve for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019		2018	
Profit for the year of owners of the Parent Company	₩	562,225	₩	502,095
Provision of reserve for credit losses		53,829		9,028
Adjusted profit after the provision of regulatory reserve ¹	₩	508,396	₩	493,067
Adjusted earnings per share after the provision of regulatory reserve ¹ <i>(in Korean won)</i>	₩	1,482	₩	1,447

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.

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28. Net Interest Income

Net interest income, interest income and expenses for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019	2018
Interest income		
Due from banks	₩ 11,075	₩ 8,048
Financial instruments at fair value through profit or loss	58,856	44,474
Financial instruments at fair value through other comprehensive income	87,439	80,481
Financial assets at amortized cost	157,709	159,647
Loans receivable	3,314,182	3,336,153
	<u>3,629,261</u>	<u>3,628,803</u>
Interest expense:		
Deposit liabilities	(1,070,063)	(941,040)
Borrowings	(95,380)	(87,659)
Debentures	(259,627)	(241,634)
Others	(17,417)	(14,929)
	<u>(1,442,487)</u>	<u>(1,285,262)</u>
Net interest income	<u>₩ 2,186,774</u>	<u>₩ 2,343,541</u>

29. Net Commission Income

Net commission income, commission income and expenses for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019	2018
Commission income:		
Commission received	₩ 346,970	₩ 332,054
Guarantees	13,795	14,854
Credit card	8,878	6,349
Others	328	303
	<u>369,971</u>	<u>353,560</u>
Commission expenses:		
Commission paid	(64,299)	(63,184)
Credit card	(59,235)	(86,429)
	<u>(123,534)</u>	<u>(149,613)</u>
Net commission income	<u>₩ 246,437</u>	<u>₩ 203,947</u>

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

Gain or loss on financial assets at fair value through profit or loss for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019	2018
Gain on financial assets at fair value through profit or loss:		
Gain on disposal of financial assets at fair value through profit or loss	₩ 286	₩ 267
Gain on sale of financial assets at fair value through profit or loss	75,835	49,086
Gain on valuation of financial assets at fair value through profit or loss	45,132	24,319
Dividend income of shares and beneficiary certificate	31,064	31,421
	<u>152,317</u>	<u>105,093</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	(1,183)	(532)
Loss on sale of financial assets at fair value through profit or loss	(23,715)	(33,165)
Loss on valuation of financial assets at fair value through profit or loss	(25,917)	(26,962)
Purchase expenses of financial assets at fair value through profit or loss	(1)	(2)
	<u>(50,816)</u>	<u>(60,661)</u>
Net gain on financial assets at fair value through profit or loss	<u>₩ 101,501</u>	<u>₩ 44,432</u>

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31. 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 years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019	2018
Gain on financial assets at fair value through other comprehensive income:		
Gain on sale of financial assets at fair value through other comprehensive income	₩ 14,531	₩ 7,748
Reversal of impairment loss	143	182
Dividend income	4,738	6,486
	<u>19,412</u>	<u>14,416</u>
Loss on financial assets at fair value through other comprehensive income:		
Loss on sale of financial assets at fair value through other comprehensive income	(329)	(82)
Impairment loss on financial assets at fair value through other comprehensive income	(756)	(212)
	<u>(1,085)</u>	<u>(294)</u>
Net gain on financial assets at fair value through other comprehensive income	<u>₩ 18,327</u>	<u>₩ 14,122</u>

32. Gain or Loss on Financial Assets at Amortized Cost

Gain or loss on financial assets at amortized cost for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019	2018
Gain on financial assets at amortized cost:		
Gain on sale of financial assets at amortized cost	₩ 18	₩ 10
Reversal of impairment loss on financial assets at amortized cost	177	145
	<u>195</u>	<u>155</u>
Loss on financial assets at amortized cost:		
Loss on sale of financial assets at amortized cost	(10)	-
Impairment loss on financial assets at amortized cost	(495)	(176)
	<u>(505)</u>	<u>(176)</u>
Net loss on financial assets at amortized cost	<u>₩ (310)</u>	<u>₩ (21)</u>

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33. Provision For Credit Loss

Provision for credit loss for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019	2018
Reversal of provision for credit loss and others:		
Reversal of provisions:		
Reversal of provision for impairment	₩ 5	₩ 151
Reversal of provision for credit loss on acceptances and guarantees	351	4,782
Reversal of provision for credit loss on financial guarantee contract	133	-
Reversal of provision for credit loss on unused credit limits	1,215	8,581
	<u>1,704</u>	<u>13,514</u>
Gain on disposal of loans receivable	149,641	154,114
Gain on loans receivable at fair value through profit or loss	977	1,034
	<u>152,322</u>	<u>168,662</u>
Contribution to provision for credit loss and others:		
Contribution to provisions:		
Impairment loss	(421,720)	(515,905)
Contribution to provision for credit loss on unused credit limits	(2,445)	(88)
Contribution to provision for credit loss on financial guarantee contract	(2,010)	(390)
	<u>(426,175)</u>	<u>(516,383)</u>
Loss on disposal of loans receivable	(50,217)	(114,879)
Loss on loans receivable at fair value through profit or loss	(200)	-
	<u>(476,592)</u>	<u>(631,262)</u>
Contribution to provision for credit loss	₩ (324,270)	₩ (462,600)

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34. General and Administrative Expenses

General and administrative expenses for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019	2018
Employee benefits:		
Salaries	₩ 573,390	₩ 550,073
Employee benefit expenses	149,092	153,587
Post-employment benefits	64,892	58,200
Severance pay	18,089	56,103
	<u>805,463</u>	<u>817,963</u>
Rent	12,924	42,260
Business promotion expenses	23,290	20,418
Depreciation	96,504	64,240
Amortization	73,652	74,047
Taxes and dues	43,239	41,495
Other administrative expenses	218,293	204,317
	<u>₩ 1,273,365</u>	<u>₩ 1,264,740</u>

(a) Share-based Payments

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

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

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The terms and conditions of granted share options as at December 31, 2019, are as follows:

i) Linked to short-term performance

<i>(in shares)</i>	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 grant	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	Service period / Non-market performance	Service period / Non-market performance	Service period / Non-market performance	Service period / Non-market performance
Settlement method	Cash	Cash	Cash	Cash	Cash
Service period	1 year	1 year	1 year	1 year	1 year

ii) Linked to long-term performance

<i>(in shares)</i>	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 grant	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

<i>(in shares)</i>	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 the end of reporting period.

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Changes in granted number of share options for the years ended December 31, 2019 and 2018, are as follows:

i) Linked to short-term performance

<i>(in shares)</i>	2019	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>	2019	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	
	2019	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 December 31, 2019, are as follows:

(in Korean won)		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	₩ 7,660	-	23.19%	1 year	1.34%	₩ 7,435	
Grant expected in 2021	Black-Scholes Model	7,660	-	22.22%	2 years	1.37%	7,218	
Grant expected in 2022	Black-Scholes Model	7,660	-	21.05%	3 years	1.36%	7,006	
Linked to short-term performance								
Share granted in 2017	Black-Scholes Model	7,660	-	23.19%	1 year	1.34%	7,435	
Share granted in 2018	Black-Scholes Model	7,660	-	22.22%	2 years	1.37%	7,218	
Share granted in 2019	Black-Scholes Model	7,660	-	21.05%	3 years	1.36%	7,006	

Expenses recognized related to the share option granted for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019	2018
Linked to short-term performance	₩ 8,152	₩ 1,893
Linked to long-term performance	(171)	579

Liabilities recognized related to the share option granted for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019	2018
Accrued expenses (short-term performance)	₩ 11,727	₩ 7,559
Accrued expenses (long-term performance)	2,411	2,368

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35. Other Operating Income and Expenses

Gains and losses on foreign currency transactions for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019	2018
Gains on foreign currency transactions:		
Gain on foreign currency transactions	₩ 267,703	₩ 240,326
Foreign currency translation gains	125,346	86,078
	<u>393,049</u>	<u>326,404</u>
Losses on foreign currency transactions:		
Loss on foreign currency transactions	(238,307)	(215,147)
Foreign currency translation losses	(120,041)	(83,760)
	<u>(358,348)</u>	<u>(298,907)</u>
	<u>₩ 34,701</u>	<u>₩ 27,497</u>

Net income and loss related to derivatives for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019	2018
Gains on financial derivatives:		
Gains on derivative transactions	₩ 185,020	₩ 199,478
Gains on valuation of derivatives	56,478	40,185
Gains on settlement of derivatives	17	-
	<u>241,515</u>	<u>239,663</u>
Losses on financial derivatives:		
Losses on derivative transactions	(178,523)	(182,424)
Losses on valuation of derivatives	(33,559)	(32,143)
Losses on settlement of derivatives	(8)	(3)
	<u>(212,090)</u>	<u>(214,570)</u>
	<u>₩ 29,425</u>	<u>₩ 25,093</u>

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Other operating revenues and expenses for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019	2018
Other operating revenue:		
Gain on fair value hedged items	₩ 3,642	₩ 5,570
Trust fees and commissions received from trust account	28,778	32,626
Reversal of other provisions	239	766
Operating lease income	281,660	221,320
Others	7,164	1,570
	<u>321,483</u>	<u>261,852</u>
Other operating expenses:		
Loss on fair value hedged items	(24,050)	(8,305)
Trust management fees	(91)	(91)
Credit card charges	(27)	(22)
Contribution to credit guarantee fund	(92,728)	(86,386)
Contribution to housing credit guarantee fund	(28,495)	(31,434)
Insurance fees on deposits	(97,286)	(97,892)
Other provisions	(1,517)	(127)
Operating lease expense	(256,968)	(202,329)
Others	(32,658)	(16,704)
	<u>(533,820)</u>	<u>(443,290)</u>
	<u>₩ (212,337)</u>	<u>₩ (181,438)</u>

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36. Non-operating Income and Expenses

Non-operating income and expenses for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019	2018
Income from investments in associates		
Share of profit of associates	₩ 13,502	₩ 7,868
Gain on disposal of investments in associates	2,097	785
Share of loss of associates	(861)	(2,973)
	<u>14,738</u>	<u>5,680</u>
Non-operating income:		
Gain on disposal of property and equipment	1,840	3,171
Gain on disposal of intangible assets	-	239
Reversal of impairment loss on intangible assets	9	37
Rental income	3,706	2,856
Restoration income	85	163
Gain on collection of charge-offs	849	1,049
Gain on changes in leases	517	-
Other non-operating income (other interest income and others)	26,770	19,952
	<u>33,776</u>	<u>27,467</u>
Non-operating expenses:		
Expenses on collection of charge-offs	(467)	(517)
Loss on disposal of property and equipment	(831)	(1,274)
Loss on retirement of property and equipment	(77)	(92)
Loss on disposal of intangible assets	(146)	(152)
Donations	(37,507)	(36,676)
Miscellaneous expenses	(22,254)	(18,042)
Regulation penalty	(1)	(41)
Loss on changes in leases	(152)	-
Restoration loss	(588)	(636)
	<u>(62,023)</u>	<u>(64,342)</u>
	<u>₩ (13,509)</u>	<u>₩ (31,195)</u>

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37. Income Tax Expense

Income tax expense for the years ended December 31, 2019 and 2018, consists of:

<i>(in millions of Korean won)</i>	2019		2018	
Current tax:	₩	184,994	₩	128,066
Changes in deferred tax liabilities by temporary difference:				
Opening balance of deferred tax liabilities		14,347		59,874
Ending balance of deferred tax liabilities		(47,088)		12,786
		<u>(61,435)</u>		<u>(47,088)</u>
Tax effect		199,341		187,940
Changes in deferred tax liabilities reflected directly in equity:		(4,914)		(7,443)
Income tax expense	₩	<u>194,427</u>	₩	<u>180,497</u>

Changes in accumulated temporary differences as at December 31, 2019 and 2018, is as follows:

<i>(in millions of Korean won)</i>	2019		2018	
	Accumulated temporary difference	Deferred tax assets (liabilities)	Accumulated temporary difference	Deferred tax assets (liabilities)
Temporary difference to be deducted:				
Loss on valuation of financial assets	₩ 126,713	₩ 32,565	₩ 115,146	₩ 29,938
Accrued expenses	54,090	13,901	49,283	12,814
Adjustment of acquisition value for debt-to-equity swap	72,089	18,527	71,505	18,591
Deferred loan origination fees	7,660	1,969	9,280	2,413
Provision for losses on unused credit limits	28,467	7,316	26,950	7,007
Honorary retirement benefits	18,089	4,649	56,103	14,587
Loss on valuation of derivative instruments	33,578	8,630	52,268	13,590
Deposits that the statute of limitation expired	7,934	2,039	8,094	2,105
Guarantee deposits for leases (discounted present value)	3,889	1,000	4,932	1,282
Unearned point revenues	12,678	3,258	12,751	3,315
Other provision	9,301	2,390	7,752	2,016
Loss on valuation of unsettled spot transactions	297	76	183	48
Provision for possible losses on acceptances and guarantees	6,934	1,782	7,626	1,983
Provision for retirement benefits disallowance	419,921	107,920	376,804	97,841
Unearned revenues (leasehold	59,748	15,355	14,541	3,781

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deposits provided)				
Impairment of AFS financial assets	11,957	3,073	12,185	3,168
Claim for reimbursement	66,924	17,200	117,604	30,577
Others	191,148	49,125	128,524	33,245
Tax deficit	4,953	1,273	17,575	4,569
	<u>1,136,370</u>	<u>292,048</u>	<u>1,089,106</u>	<u>282,870</u>
Temporary difference to be added:				
Interest receivables on securities	(174,108)	(44,746)	(135,069)	(35,132)
Revaluation of excess of land	(49,067)	(12,610)	(50,210)	(13,055)
Gain on valuation of debentures invested (adjustment of book amount)	(272,848)	(70,122)	(129,291)	(33,616)
Gain on valuation of derivative instruments	(29,880)	(7,679)	(27,337)	(7,108)
Investments in credit rehabilitation fund	(23,721)	(6,096)	(23,721)	(6,167)
Deferred loan origination costs	(145,118)	(37,295)	(149,089)	(38,763)
Guarantee deposits for leases (prepaid rent)	(123)	(32)	(5,002)	(1,301)
Discounted present value	(14,778)	(3,798)	(107,833)	(28,037)
Initial direct costs of lease	(396,212)	(101,826)	(31,289)	(8,135)
Remeasurements of defined benefit plan	33,263	8,549	(242,642)	(63,087)
Fair value adjustment by business combination	(99,977)	(25,694)	(143,988)	(37,437)
Others	(202,721)	(52,134)	(224,081)	(58,120)
	<u>(1,375,290)</u>	<u>(353,483)</u>	<u>(1,269,552)</u>	<u>(329,958)</u>
Net of temporary difference	<u>₩ (238,920)</u>	<u>₩ (61,435)</u>	<u>₩ (180,446)</u>	<u>₩ (47,088)</u>

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Details of temporary difference reflected directly in equity as at December 31, 2019 and 2018, is as follows:

(in millions of Korean won)	2019		2018	
	Other comprehensive income	Tax effect	Other comprehensive income	Tax effect
Temporary difference reflected directly in equity:				
Loss on valuation of debt instruments at fair value through other comprehensive income	₩ (126,722)	₩ (33,742)	₩ (90,233)	₩ (24,610)
Foreign currency translation gains (losses) on overseas operations	(902)	(289)	5,013	(211)
Remeasurements of defined benefit plan	171,536	47,505	155,859	43,946
Gain (loss) on valuation of hedges of net investments in foreign operations	2,787	801	(659)	(84)
Share of other comprehensive income of associates	121	21	87	21
	<u>₩ 46,820</u>	<u>₩ 14,296</u>	<u>₩ 70,067</u>	<u>₩ 19,062</u>

Reconciliation between profit before income tax and income tax expense for the years ended December 31, 2019 and 2018, is as follows:

(in millions of Korean won)	2019	2018
Profit before income tax	₩ 793,374	₩ 718,638
Taxes payable ¹	207,816	187,263
Tax effect of:		
Non-taxable income (₩ 74,541 million in 2019, ₩ 65,222 million in 2018)	(19,525)	(16,996)
Non-deductible expenses (₩ 26,396 million in 2019, ₩ 37,289 million in 2018)	6,914	9,717
Consolidated tax	(8,748)	(17,054)
Others	7,970	17,567
Income tax expense	<u>₩ 194,427</u>	<u>₩ 180,497</u>
Effective tax rate (income tax expense/profit before income tax)	24.51%	25.12%

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.

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

(in millions of Korean won)

<u>Year incurred</u>	<u>Loss incurred</u>	<u>Lapse amount</u>	<u>December 31, 2019</u>	<u>Offset period</u>
2011	₩ 4,620	₩ -	₩ 4,620	Until the end of 2021

Details of current tax liabilities (income tax payable) and current tax assets (income tax refundable) before offsetting as at December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019	2018
Income tax refundable prior to offsetting	₩ 88,347	₩ 83,721
Tax payables prior to offsetting	191,936	118,791
Deferred tax liabilities	<u>₩ 103,589</u>	<u>₩ 35,069</u>

38. Earnings Per Share

Basic earnings per share are calculated by dividing profit attributable to owners of Parent Company by weighted average number of ordinary shares outstanding for the years ended December 31, 2019 and 2018.

Weighted average number of ordinary shares for the years ended December 31, 2019 and 2018, are as follows:

(in shares)

	Three-month period ended December 31, 2019		
	Number of ordinary shares	Days	Weighted average number of shares
Beginning	325,920,391	92	<u>29,984,675,972</u>
Weighted average number of ordinary shares			<u>325,920,391</u>

(in shares)

	2019		
	Number of ordinary shares	Days	Weighted average number of shares
Beginning	325,920,391	365	<u>118,960,942,715</u>
Weighted average number of ordinary shares			<u>325,920,391</u>

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<i>(in shares)</i>	Three-month period ended December 31, 2018		
	Number of ordinary shares	Days	Weighted average number of shares
Beginning	325,920,391	92	<u>29,984,675,972</u>
Weighted average number of ordinary shares			<u>325,920,391</u>

<i>(in shares)</i>	2018		
	Number of ordinary shares	Days	Weighted average number of shares
Beginning	325,920,391	365	<u>118,960,942,715</u>
Weighted average number of ordinary shares			<u>325,920,391</u>

Basic earnings per share attributable to owners of the Parent Company for the years ended December 31, 2019 and 2018, are as follows:

<i>(in Korean won and in shares)</i>	2019	2018
Profit for the year attributable to owners of the Parent Company	₩ 562,224,650,247	₩ 502,094,859,921
Dividends on hybrid equity securities	<u>(25,495,972,222)</u>	<u>(21,499,628,995)</u>
Profit attributable to the ordinary equity holders	536,728,678,025	480,595,230,926
Weighted average number of ordinary shares outstanding	<u>325,920,391</u>	<u>325,920,391</u>
Basic earnings per share	<u>₩ 1,647</u>	<u>₩ 1,475</u>

Diluted earnings per share for the years ended December 31, 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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39. Contingencies and Commitments

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

<i>(in millions of Korean won)</i>	Type	2019	2018
Confirmed acceptances and guarantees:			
Confirmed acceptances and guarantees in Korean won	Payment guarantee for loans	₩ 126,754	₩ 121,982
	Others	489,471	504,710
		<u>616,225</u>	<u>626,692</u>
Confirmed acceptances and guarantees in foreign currencies	Acceptances on letters of credit	8,529	7,180
	Acceptances on letters of guarantee for importers	19,488	24,109
	Others	269,284	240,012
		<u>297,301</u>	<u>271,301</u>
		<u>913,526</u>	<u>897,993</u>
Unconfirmed acceptances and guarantees:	Letters of credit	249,379	255,923
	Others	7,148	10,126
		<u>256,527</u>	<u>266,049</u>
Others:	Endorsed bill	20	19
		<u>₩ 1,170,073</u>	<u>₩ 1,164,061</u>

Confirmed and unconfirmed acceptances and guarantees by customer as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019		2018	
	Amount	Percentage (%)	Amount	Percentage (%)
Confirmed acceptances and guarantees:				
Large corporate	₩ 313,945	34.37	₩ 311,043	34.64
Small- and middle-sized corporate ¹	562,377	61.56	552,170	61.49
Household	37,204	4.07	34,780	3.87
	<u>₩ 913,526</u>	<u>100.00</u>	<u>₩ 897,993</u>	<u>100.00</u>
Unconfirmed acceptances and guarantees:				
Large corporate	₩ 124,064	48.36	₩ 64,982	24.42
Small- and middle-sized corporate ¹	132,463	51.64	201,067	75.58
Households	-	-	-	-
	<u>₩ 256,527</u>	<u>100.00</u>	<u>₩ 266,049</u>	<u>100.00</u>

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

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Confirmed and unconfirmed acceptances and guarantees by country as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019		2018	
	Amount	Percentage (%)	Amount	Percentage (%)
Confirmed acceptances and guarantees:				
Korea	₩ 913,496	100.00	₩ 897,963	99.90
Others	30	0.00	30	0.10
	<u>₩ 913,526</u>	<u>100.00</u>	<u>₩ 897,993</u>	<u>100.00</u>
Unconfirmed acceptances and guarantees:				
Korea	₩ 254,592	99.25	₩ 263,415	99.01
China	1,935	0.75	134	0.05
Others	-	-	2,500	0.94
	<u>₩ 256,527</u>	<u>100.00</u>	<u>₩ 266,049</u>	<u>100.00</u>

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

<i>(in millions of Korean won)</i>	2019	2018
Corporates	₩ 8,066,341	₩ 7,757,830
Households	6,752,305	5,201,707
Credit card	4,745,406	4,353,358
Securities purchase agreement	557,452	354,300
	<u>₩ 20,121,504</u>	<u>₩ 17,667,195</u>

Lawsuits

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

<i>(in millions of Korean won)</i>	2019		2018	
	As a plaintiff	As a defendant	As a plaintiff	As a defendant
Number (case)	49 cases	86 cases	44 cases	67 cases
Amount	₩ 186,511	₩ 109,762	₩ 177,383	₩ 31,094
Provisions related to these lawsuits		₩ 458		₩ -

The Group recognized ₩458 million of provisions related to these lawsuits as at December 31, 2019.

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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 December 31, 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 and January 29, 2019. And, second court decision was made on November 20, 2019, and February 5, 2020, and an appeal will be held at the Supreme Court. 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. First court decision was made on February 7, 2020, and an appeal is in progress as at the reporting date. The financial effect cannot be predicted at the end of the reporting period.

The Financial Supervisory Service (FSS) authorities are conducting an inspection of Lime Asset Management that manages private equity trust funds that Busan Bank and Kyongnam Bank sold to the customers as a seller, and dispute resolution and damage relief procedures for incomplete sales may be carried out depending on the results of inspection. As at December 2019, the Banks' sale of Lime Asset Management's repurchase deferred fund amounts to ₩52.7 billion and ₩27.6 billion, respectively, and the provisions are not recognized because the compensatory payment due to incomplete sales and others cannot be reliably estimated as at December 31, 2019.

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

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

Financial summary of trust accounts for which the Group provides the guarantees for a fixed rate of return and the repayment of principal as at December 31, 2019 and 2018, is as follows:

<i>(in millions of Korean won)</i>	2019		2018	
	Total assets	Operating income	Total assets	Operating income
Trust accounts guaranteeing a fixed rate of return and the repayment of principal	₩ 2,217	₩ 67	₩ 2,219	₩ 55
Trust accounts guaranteeing the repayment of principal	534,205	17,976	513,444	19,363
Mixed trust accounts	4,257	139	4,478	156
Performance-based trust Account	23,939,047	175,681	20,489,872	163,779
	<u>₩ 24,479,726</u>	<u>₩ 193,863</u>	<u>₩ 21,010,013</u>	<u>₩ 183,353</u>

The transactions between the Group and trust accounts for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019	2018
Revenues:		
Gain on trust account	₩ 28,762	₩ 32,623
Retirement pension management fee	7,179	6,421
	<u>35,941</u>	<u>39,044</u>
Expenses:		
Interest expense related to borrowings from trust account	6,256	6,451
Trust management fee	-	91
	<u>₩ 6,256</u>	<u>₩ 6,542</u>

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Assets and liabilities of trust accounts as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019	2018
Assets:		
Accrued income	₩ 8,908	₩ 8,354
Retirement pension management fee	3,619	3,171
	<u>12,527</u>	<u>11,525</u>
Liabilities:		
Borrowings from trust account	685,035	377,096
Accrued expenses	657	593
Unearned revenue	282	326
	<u>₩ 685,974</u>	<u>₩ 378,015</u>

Details of trust accounts for which the Group provides the guarantees for a fixed rate of return and the repayment of principal as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019	2018
Trust accounts guaranteeing the repayment of principal:		
Elderly living pension trust	₩ 782	₩ 844
Personnel pension trust	173,651	176,202
Retirement trust	3,738	3,801
New personnel pension trust	5,211	5,097
Pension trust	339,091	315,988
	<u>522,473</u>	<u>501,932</u>
Trust accounts guaranteeing a fixed rate of return and the repayment of principal:		
Unspecified monetary trust	20	35
Borrowings from trust account	20	35
Interest payable - borrowings from trust account	1	1
	<u>₩ 41</u>	<u>₩ 71</u>

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41. Transactions with Related Parties

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

Outstanding balances arising from sales/purchases of goods and services as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>			2019		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
BNK Stocks for Public Subscription Plus 10	Other assets		30		3
BNK 'Winning' Securities Investment Trust 1 st	Other assets		48		16
BNKGO Private Securities Investment Trust 1st C-S	Other assets		13		-
Anda Mezzanine Private Equity Fund No. 7	Other assets		1		-
IBK Private Securities Investment Trust RP 2 nd	Other assets		1		1
Key management	Other liabilities		1		1
	Credit card receivable		2		4
	Deposit liabilities		634		325

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Transactions with related parties for the years ended December 31, 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 revenues	₩ 157	₩ 107
BNK 'Strong' Korea Securities Investment Trust 1 st	Commission revenues	-	63
BNK Stocks for Public Subscription Plus 10	Commission revenues	181	15
BNK New Start Target Conversion 1 st	Commission revenues	11	-
BNKGO Private Securities Investment Trust 1st C-S	Commission revenues	173	-
BNK 'Winning' Securities Investment Trust 1 st	Commission revenues	305	79
HDC Presto Private Securities Investment Trust 8 th	Commission revenues	-	3
IBK Private Securities Investment Trust RP 2 nd	Commission revenues	4	3
Anda Mezzanine Private Equity Fund No. 7	Commission revenues	11	-
Hanhwa Private Securities Investment Trust 104 th	Commission revenues	2	-
Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 3 rd	Commission revenues	2	-
BNK Smart Korea Private Investment Trust 6 th	Commission revenues	99	-
Key management	Commission expenses	2	1
	Commission revenues	4	2
	Interest expenses	7	1
	Interest income	4	1

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Fund transactions with related parties for the years ended December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

		2019			
		Beginning balance	Increase	Decrease	Ending balance
Key management	Loans receivable	₩ -	₩ 213	₩ 213	₩ -
	Deposit liabilities	325	444	135	634

(in millions of Korean won)

		2018			
		Beginning balance	Increase	Decrease	Ending balance
Key management	Loans receivable	₩ 100	₩ -	₩ 100	₩ -
	Deposit liabilities	193	238	107	325

Details of payment guarantees provided by the Group to the related parties as at December 31, 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 years ended December 31, 2019 and 2018.

Compensation for key management for the years ended December 31, 2019 and 2018, is as follows:

(in millions of Korean won)

	2019	2018
Short-term employee benefits	₩ 3,258	₩ 2,262
Share-based payment	1,866	1,157
Post-employment benefits	656	833
	<u>₩ 5,780</u>	<u>₩ 4,252</u>

The Group purchased loans receivable ₩176,129 million (2018: ₩140,084 million) from M-park Capital Co., Ltd., a joint venture, for the years ended December 31, 2019 and 2018.

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42. Statements of Cash Flows

The Group's cash and cash equivalents in the consolidated statements of cash flows as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019		2018	
Bank deposit	₩	556,574	₩	574,564
Foreign currencies		91,858		105,694
Deposits in local currency		2,855,608		2,100,581
Deposits in foreign currencies		637,659		432,010
Offshore due from banks in foreign currencies		6,800		-
		<u>4,148,499</u>		<u>3,212,849</u>
Due from banks (Note 7)		<u>(2,998,205)</u>		<u>(2,067,219)</u>
	₩	<u>1,150,294</u>	₩	<u>1,145,630</u>

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

Details of material transactions without cash inflows and outflows as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019		2018	
Reclassification of construction in process	₩	7,377	₩	-
Reclassification between property and equipment, investment properties and assets held for sale		28,631		13,758
Changes in accumulated other comprehensive income from valuation of financial assets		(36,006)		(68,295)
Remeasurements of net defined benefit liabilities		9,511		31,220

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Changes in net debt for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	At January 1, 2019	Cash flows	Exchange differences	Fair value hedge	Others	At December 31, 2019
Borrowings	₩ 5,615,889	₩ (611,729)	₩ (6,443)	₩ -	₩ 81,511	₩ 5,079,228
Debentures	<u>8,590,658</u>	<u>1,559,754</u>	<u>11,722</u>	<u>19,303</u>	<u>4,319</u>	<u>10,185,756</u>
Total debt arising from financial activities	<u>₩ 14,206,547</u>	<u>₩ 948,025</u>	<u>₩ 5,279</u>	<u>₩ 19,303</u>	<u>₩ 85,830</u>	<u>₩ 15,264,984</u>

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

43. Dividends

A dividend in respect of the year ended December 31, 2019, of ₩ 360 per share, amounting to a total dividend of ₩117,331 million, is to be proposed to shareholders at the annual general meeting on March 20, 2020. These financial statements do not reflect this dividend payable.

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44. Business Combination

On November 15, 2019, the Group acquired 100.0% (2,120,000 shares) of the issued share capital of BNK Venture Capital Co., Ltd (formerly, UQI Partners Co., Ltd).

The fair value of the purchase consideration in the business combination incurred for the year ended December 31, 2019, is as follows:

<i>(in millions of Korean won)</i>		Amount
Cash	₩	10,600

Acquisition-related costs of ₩272 million were excluded from the consideration paid and recognized as an expense under a 'commission expenses' in the consolidated statement of comprehensive income for the year ended December 31, 2019.

Details of the purchase consideration, the assets and liabilities recognized as a result of the acquisition, and fair value at the acquisition date are as follows:

<i>(in millions of Korean won)</i>		Amount
Identifiable assets acquired		
Cash and cash equivalents	₩	3,000
Financial investments		4,136
Loans and receivables		950
Property and equipment		139
Intangible assets		82
Other assets		8
		<u>8,315</u>
Identifiable liabilities acquired		
Net defined benefit liabilities		28
Provisions		32
Other liabilities		92
		<u>151</u>
Net identifiable assets acquired	₩	<u>8,164</u>

Goodwill arising from business combination for the year ended December 31, 2019, is as follows:

<i>(in millions of Korean won)</i>		Amount
Purchase consideration	₩	10,600
Less: Net identifiable assets acquired		<u>8,164</u>
Goodwill	₩	<u>2,436</u>

Net cash outflows arising from business combination for the year ended December 31, 2019, are

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as follows:

<i>(in millions of Korean won)</i>	Amount	
Consideration paid	₩	10,600
Less: Net identifiable assets acquired		3,000
	₩	<u>7,600</u>

45. Unconsolidated Structured Entities

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

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

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

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

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Total asset size of the unconsolidated structured entities, book amount for the line items as recognized in the consolidated financial statements, maximum exposure to loss and loss incurred for the years ended December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019			
	Investment fund	Structual financing	Asset-backed securitization	Project financing
Total assets of unconsolidated structured entity	₩ 11,920,472	₩ 193,341,536	₩ 46,754,410	₩ -
Recognized assets related to unconsolidated structured entities:				
Financial assets at fair value through profit or loss	981,692	190,796	-	-
Financial assets at fair value through other comprehensive income	-	-	91,060	-
Financial assets at amortized cost	-	-	518,605	-
Equity method investments	345,455	-	-	-
Loans and receivables	-	4,419,262	-	686,619
(Provision for impairment)	-	20,791	-	(3,988)
	1,327,147	4,630,849	609,665	682,631
Recognized liabilities related to unconsolidated structured entities:				
Financial guarantee contract	-	76	-	-
Provisions for debt guarantees	-	12	-	-
Maximum exposure to loss ¹				
Investments	1,327,147	4,567,163	609,665	-
Investment commitments	80,030	7,035	-	-
Loan commitments	-	1,128,447	-	682,631
Financial guarantee contract	-	230,892	-	-
Purchase commitment	-	158,500	70,000	-
	1,407,177	6,092,125	679,665	682,631
Loss on unconsolidated structured entity	₩ 11,257	₩ 12,026	₩ 104	₩ -

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

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(in millions of Korean won)

	2018			
	Investment fund	Structural financing	Asset-backed securitization	Project financing
Total assets of unconsolidated structured entity	₩ 11,930,164	₩ 193,233,536	₩ 46,889,806	₩ -
Recognized assets related to unconsolidated structured entities:				
Financial assets at fair value through profit or loss	981,692	190,796	-	-
Financial assets at fair value through other comprehensive income	-	-	91,060	-
Financial assets at amortized cost	-	-	518,605	-
Equity method investments	345,455	-	-	-
Loans and receivables	-	4,401,562	-	686,619
(Provision for impairment)	-	20,898	-	(3,988)
	<u>1,327,147</u>	<u>4,613,256</u>	<u>609,665</u>	<u>682,631</u>
Recognized liabilities related to unconsolidated structured entities:				
Financial guarantee contract	-	76	-	-
Provisions for debt guarantees	-	12	-	-
Maximum exposure to loss ¹				
Investments	1,327,147	4,549,570	609,665	-
Investment commitments	80,030	7,035	-	-
Loan commitments	-	1,116,147	-	682,631
Financial guarantee contract	-	230,892	-	-
Purchase commitment	-	158,500	196,000	-
	<u>1,407,177</u>	<u>6,062,232</u>	<u>805,665</u>	<u>682,631</u>
Loss on unconsolidated structured entity	₩ 11,257	₩ 11,881	₩ 684	₩ -

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

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46. 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)

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)

2019

Right-of-use assets ¹		
Properties	₩	76,679
Vehicles		2,534
Others		1,316
	₩	<u>80,529</u>
Lease liabilities ²		
Lease liabilities	₩	71,106
Lease liabilities – present value discounts		(2,707)
	₩	<u>68,399</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	₩	30,851	₩	507	₩	2,134	₩ 33,492
Interest expense relating to lease liabilities		924		24		18	966
Expense relating to short-term leases		4		-		-	4
Expense relating to leases of low-value assets that are not short-term leases		61		-		452	513
Expense relating to variable lease payments not included in lease liabilities		116		-		-	116
	₩	<u>31,956</u>	₩	<u>531</u>	₩	<u>2,604</u>	₩ <u>35,091</u>

The total cash outflow for leases in 2019 was ₩28,658 million.

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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
- 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.

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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
- 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.