BNK FINANCIAL GROUP INC.

Separate Financial Statements
December 31, 2019 and 2018

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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 separate financial statements of BNK Financial Group Inc. (the Company), which comprise the separate statements of financial position as at December 31, 2019 and 2018, and the separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flows for the years then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

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

We also have audited, in accordance with Korean Standards on Auditing, the Company's Internal Control over Financial Reporting as at December 31, 2019, based on *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting,* and our report dated March 12, 2020, expressed an unqualified opinion.

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 Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements of the Republic of Korea that are relevant to our audit of the 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

We determined that there is no key audit matter to be reported in our audit of the separate financial statements of the current period.

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 financial statements may differ from those generally accepted and applied in other countries.

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

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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.
- 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 Company'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 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 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.

Samil PricewaterhouseCoopers

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 separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

BNK FINANCIAL GROUP INC.

Separate Statements of Financial Position

December 31, 2019 and 2018

(in thousands of Korean won)	Notes		2019		2018
Assets					
Cash and due from banks	5,6,7	₩	79,370,284	₩	129,670,748
Investments in subsidiaries	8		5,900,057,231		5,879,457,231
Loans and receivables	5,6,9		125,313,655		55,404,016
Property and equipment	10		11,753,370		11,113,619
Intangible assets	11		4,206,553		2,466,749
Other assets	12		1,816,947		2,620,340
Total assets		₩	6,122,518,040	₩	6,080,732,703
Liabilities					
Debentures	5,6,13	₩	1,028,710,380	₩	1,158,622,428
Net defined benefit liabilities	14		7,556,850		4,636,345
Current tax liabilities	16		103,589,253		35,069,462
Other liabilities	15		11,857,263		78,440,146
Total liabilities			1,151,713,746		1,276,768,381
Equity					
Share capital	17		1,629,676,230		1,629,676,230
Hybrid equity securities	17		707,874,320		508,521,371
Other paid-in capital	17		2,276,821,837		2,276,821,837
Other components of equity	17		(4,062,913)		(3,247,059)
Retained earnings	18		360,494,820		392,191,942
Total equity			4,970,804,294		4,803,964,321
Total liabilities and equity		₩	6,122,518,040	₩	6,080,732,702

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

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

(in thousands of Korean won, except per share amounts)	**Notes**		**2019**		**2018**
Net interest income(expenses)	19				
Interest income		₩	846,652	₩	861,169
Interest expenses			(31,295,409)		(31,773,381)
			(30,448,757)		(30,912,212)
Net fee and commission income	20				
Commission income			10,579,850		10,151,250
Commission expenses			(1,436,761)		(2,144,292)
			9,143,089		8,006,958
Dividend income			148,951,136		91,081,919
General and administrative expenses	21		(35,254,241)		(34,961,058)
Operating profit			92,391,227		33,215,607
Non-operating income	22				
Non-operating income			178,103		215,790
Non-operating expense			(812,213)		(4,357,703)
			(634,110)		(4,141,913)
Profit before income tax			91,757,117		29,073,694
Income tax expense			(182,151)		-
Profit for the year		₩	91,574,966	₩	29,073,694
Other comprehensive loss, net of tax					
Items that will not be reclassified to profit or loss					
Remeasurements of net defined benefit liabilities			(815,855)		(123,764)
			(815,855)		(123,764)
Total comprehensive income for the year		₩	90,759,111	₩	28,949,930
Earnings per share *(in Korean won)*	23				
Basic earnings per share		₩	203	₩	23
Diluted earnings per share			203		23

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

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

(in thousands of Korean won)		Share capital		Hybrid equity securities		Other paid-in capital		Other components of equity		Retained earnings		Total
Balance at January 1, 2018	₩	1,629,676,230	₩	259,277,011	₩	2,276,821,837	₩	(3,123,295)	₩	459,579,567	₩	4,622,231,350
Issuance of hybrid equity securities		-		249,244,360		-		-		-		249,244,360
Dividends on hybrid equity securities		-		-		-		-		(21,499,629)		(21,499,629)
Dividends		-		-		-		-		(74,961,690)		(74,961,690)
Total comprehensive income												
Profit for the year		-		-		-		-		29,073,693		29,073,693
Other comprehensive income												
Remeasurements of net defined benefit liabilities		-		-		-		(123,764)		-		(123,764)
Balance at December 31, 2018	₩	1,629,676,230	₩	508,521,371	₩	2,276,821,837	₩	(3,247,059)	₩	392,191,941	₩	4,803,964,320
Balance at January 1, 2019	₩	1,629,676,230	₩	508,521,371	₩	2,276,821,837	₩	(3,247,059)	₩	392,191,941	₩	4,803,964,320
Issuance of hybrid equity securities		-		199,352,949		-		-		-		199,352,949
Dividends on hybrid equity securities		-		-		-		-		(25,495,972)		(25,495,972)
Dividends		-		-		-		-		(97,776,117)		(97,776,117)
Total comprehensive income												
Profit for the year		-		-		-		-		91,574,968		91,574,968
Other comprehensive income												
Remeasurements of net defined benefit liabilities		-		-		-		(815,855)		-		(815,855)
Balance at December 31, 2019	₩	1,629,676,230	₩	707,874,320	₩	2,276,821,837	₩	(4,062,914)	₩	360,494,820	₩	4,970,804,293

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

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

(in thousands of Korean won)		2019		2018
Cash flows from operating activities				
Profit for the year	₩	91,574,968	₩	29,073,693
Adjustments to profit for the year:				
Interest income		(846,652)		(861,169)
Interest expense		31,295,409		31,773,381
Depreciation		1,817,400		886,075
Amortization		144,236		93,692
Loss (gain) on disposal of property and equipment		5		(12,726)
Loss on return of intangible assets		-		8,487
Post-employment benefits		2,650,132		2,348,544
Dividend income		(148,951,136)		(91,081,919)
Income tax expense		182,151		-
		(113,708,455)		(56,845,635)
Changes in operating assets and liabilities:				
Decrease (increase) in receivables		(2,556)		19,809
Decrease in net defined benefit liabilities		(545,482)		(764,414)
Decrease (increase) in other assets		803,393		(1,019,263)
Increase (decrease) in other liabilities		(65,529,230)		6,859,240
		(65,273,875)		5,095,372
Interest received		443,985		862,332
Interest paid		(31,279,325)		(30,728,525)
Dividend received		148,951,136		91,081,919
Income taxes paid		(182,151)		-
Net cash inflow from operating activities		30,526,283		38,539,156
Cash flows from investing activities				
Payments for investments in subsidiaries		(20,600,000)		(230,000,000)
Payments for property and equipment		(1,295,872)		(2,826,128)
Proceeds from disposal of property and equipment		-		12,727
Payments for intangible assets		(1,135,001)		(1,031,273)
Proceeds from disposal of intangible assets		10,000		180,000
Increase in lease deposits provided		(1,549,757)		(9,415,758)
Net cash outflow from investing activities		(24,570,630)		(243,080,432)
Cash flows from financing activities				
Proceeds from issuance of debentures		189,474,099		309,216,639
Repayment of debentures		(320,000,000)		(290,000,000)
Lease liabilities paid		(552,046)		-
Dividends paid on ordinary shares		(97,776,117)		(74,961,690)
Proceeds from issuance of hybrid equity securities		199,352,949		249,244,360
Dividends paid on hybrid equity securities		(26,755,000)		(20,953,712)
Net cash inflow (outflow) from financing activities		(56,256,115)		172,545,597
Net decrease in cash and cash equivalents		(50,300,462)		(31,995,679)
Cash and cash equivalents at the beginning of the year		129,670,746		161,666,425
Cash and cash equivalents at the end of the year	₩	79,370,284	₩	129,670,746

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

1. General Information

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

Meanwhile, the Company established BNK System Co., Ltd. and BNK Savings Bank Co., Ltd. as its subsidiaries with 100% share in 2011 and obtained 56.97% share in Kyongnam Bank in October 2014, after which the Company proceeded to take over the rest of Kyongnam Bank’s shares through general exchange of shares on June 4, 2015. In July 2015, the Company obtained 51.01% shares of BNK Asset Management Co., Ltd. through acquisition and issue of shares and incorporated it as its subsidiary. In December 2017, the Company took over the rest of BNK Asset Management Co., Ltd.’s shares, and accordingly, it became a wholly-owned subsidiary of the Company. In November 2019, the Company also obtained 100% of shares in BNK Venture Capital Co., Ltd. and established it as a wholly-owned subsidiary.

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

Meanwhile, the Company's share capital as at December 31, 2019, amounts to ₩ 1,629,676 million with 325,935,246 outstanding shares.

2. Significant Accounting Policies

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

2.1 Basis of Preparation

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

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

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

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;
- 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 Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed in Note 3.

2.2 Changes in Accounting Policies and Disclosures

(a) New and amended standards adopted by the Company

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

- Enactment of Korean IFRS 1116 *Leases*

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

With implementation of Korean IFRS 1116 *Leases*, the Company has changed accounting policy. The Company 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 Company 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 28.

- Amendment to Korean IFRS 1109 *Financial Instruments*

The narrow-scope amendments made to Korean IFRS 1109 *Financial Instruments* enable entities to measure certain prepayable financial assets with negative compensation at amortized cost. When a modification of a financial liability measured at amortized cost that does not result in the derecognition, a modification gain or loss shall be recognized in profit or loss. The amendment does not have a significant impact on the financial statements.

- Amendments to Korean IFRS 1019 *Employee Benefits*

The amendments require that an entity shall calculate current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement based on updated actuarial assumptions from the date of the change. The amendments also require that a reduction in a surplus must be recognized in profit or loss even if that surplus was not previously recognized because of the impact of the asset ceiling. The amendment does not have a significant impact on the financial statements.

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

The amendments clarify that an entity shall apply Korean IFRS 1109 to financial instruments in an associate or joint venture to which the equity method is not applied. 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 Company

Certain new accounting standards and interpretations that have been published are not mandatory for annual reporting period commencing January 1, 2019 and have not been early adopted by the Company 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 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 Company. These amendments should be applied for annual periods beginning on or after January 1, 2020, and earlier application of permitted. The Company 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 Company does not expect that these amendments have a significant impact on the financial statements.

- The IFRS Interpretations Committee (IFRSIC) Agenda Decision – *Lease term*

On December 16, 2019, the IFRIC concluded that the enforceable period of a lease under Korean IFRS 1116, "Leases", reflects broader economics, not just legal rights and termination cash payments. The Company is assessing the impact that the change in accounting policy of enforceable period will have on the Company's financial statements, and the Company will apply the impact in the financial statements once the assessment is completed.

2.3 Subsidiaries

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

2.4 Foreign Currency Translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

- exchange differences on foreign currency borrowings related to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency; and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore, forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

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

2.5 Financial Assets

(a) Classification

The Company 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 Company'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 Company 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 Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. Changes in fair value of non-designated equity investment are recognized in profit or loss.

(b) Measurement

At initial recognition, the Company 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 Company's business model for managing the asset and the cash flow characteristics of the asset. The Company classifies its debt instruments into one of the following three measurement categories:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired.

- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

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

B. Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company'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 Company 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 Company recognizes 12-month expected credit losses in profit or loss where credit risk did not increase significantly.

(d) Recognition and derecognition

Regular way purchases and sales of financial assets are recognized or derecognized on trade-date, the date on which the Company 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 Company has transferred substantially all the risks and rewards of ownership. If a transfer does not result in derecognition because the Company has retained substantially all the risks and rewards of ownership of the transferred asset, the Company continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received.

2.6 Financial Liabilities and Equity Instruments

(a) Classification as debt or equity

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

(e) 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.

(f) 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 Company or the counterparty.

2.7 Non-current Assets Held for Sale

Non-current assets (or disposal group) are classified as held for sale when their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. The assets are measured at the lower amount between their carrying amount and the fair value less costs to sell.

2.8 Property and Equipment

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

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

The Company 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
Leasehold estates	5	Straight line
Business movable assets	5	Straight line

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

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

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

2.9 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.

	Amortization method	**Useful life (Years)**
Software	5	Straight line

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

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

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

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

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

(c) Intangible assets acquired in a business combination

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

(d) Derecognition of intangible assets

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

2.10 Impairment of Non-financial Assets

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

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

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

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

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

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

2.11 Financial Guarantee Contracts

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

Financial guarantee 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 and recognized in the statement of financial position within 'other financial liabilities'.

- 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*.

2.12 Compound Instruments

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

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

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

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

2.13 Provisions

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

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

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

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

(a) Onerous contracts

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

(b) Restructurings

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

(c) Contingent liabilities acquired in a business combination

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

2.14 Income Tax Expense

In accordance with the Korean Corporate Tax Act, the Company and its 100%-owned domestic subsidiaries have filed a consolidated tax return. Accordingly, the Company recognizes total corporate income tax due as a current tax liability and the amounts due from subsidiaries as loans and receivables. The Company applies the consolidated taxation system, the way that the Company reports and pays income tax based on the total amount of income regarding the Company and all domestic subsidiaries on which the Company 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 Company recognizes total amount of tax payables in accordance with the consolidated corporate tax system as a parent Company 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 separate statements of comprehensive income because of items of income or expense that are taxable or deductible in other periods. The Company’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(b) Deferred tax

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

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

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

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

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

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

(c) Current and deferred taxes for the year

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

2.15 Employee Benefits

(a) Post-employment benefit

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 separate statements of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are composed of service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), net interest expense (income) and remeasurement.

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

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

(b) Termination benefits

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

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

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

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

(c) Share-based payments

Under cash-settled share based payment plan, the Company compensates the difference of the fair value and exercise price of option as the consideration for employee services received. Total expense that will be recognized over the vesting period is determined by reference to the fair value of the option grated. Until the liability is settled, the Company 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 in profit or loss for the year.

2.16 Revenue and Expense Recognition

(a) Interest income and expense

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

The effective interest rate reconciles the expected future cash in and out through the expected life of financial instruments or, if appropriate, through shorter period and net carrying amount of financial assets or liabilities. When calculating the effective interest rate, the Company 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 separate 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 fair value though profit or loss, 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.

(c) Dividend income

Dividend income is recognized when the shareholders are entitled to receive dividends.

2.17 Leases

As explained in Note 2.2(a) above, the Company has changed its accounting policy for leases. The impact of the new accounting policies is disclosed in Note 28.

As at December 31, 2018, leases of property, plant and equipment where the Company, 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 finance lease liabilities. 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 Company 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 Company 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 basis over the period of the lease.

2.18 Approval of Issuance of the Financial Statements

The separate financial statements for the 2019 reporting period of the Company 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 Company to make estimates and assumptions concerning the future. Management also needs to exercise judgement in applying the Company's accounting policies. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As the resulting accounting estimates will, by definition, seldom equal the related actual results, it can contain a significant risk of causing a material adjustment.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. Additional information of significant judgement and assumptions of certain items are included in relevant notes.

(a) Income taxes

The Company'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 Company 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 Company's income tax is dependent on the investments, increase in wages and dividends, there is an uncertainty measuring the final tax effects.

(b) Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial 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).

(c) Net defined benefit liability

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

4. Financial Risk Management

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

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

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

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

4.1 Credit Risk

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

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

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

The Company's maximum exposure to credit risk as at December 31, 2019 and 2018, are as follows:

(in thousands of Korean won)	**2019**	**2018**
Loans and receivables	₩ 125,313,655	₩ 55,404,016

Credit risk by impairment of loans and receivables is summarized as at December 31, 2019 and 2018, as follows:

(in thousands of Korean won)	2019					
		Expected lifetime credit losses				
	12 months expected credit losses	Unrecognized impairment	Recognized impairment	Total	Allowance for credit loss	Carrying amount
Loans and receivables[1]						
Non-trade receivables	₩103,591,808	₩ -	₩ -	₩103,591,808	₩ -	₩103,591,808
Guarantee deposits provided	21,720,823	-	-	21,720,823	-	21,720,823
Accrued income	1,024	-	-	1,024	-	1,024
	₩125,313,655	₩ -	₩ -	₩125,313,655	₩ -	₩125,313,655

[1] The credit quality of all of loans and receivables is highly sound.

(in thousands of Korean won)	2018					
		Expected lifetime credit losses				
	12 months expected credit losses	Unrecognized impairment	Recognized impairment	Total	Allowance for credit loss	Carrying amount
Loans and receivables[1]						
Non-trade receivables	₩ 35,069,462	₩ -	₩ -	₩ 35,069,462	₩ -	₩ 35,069,462
Guarantee deposits provided	20,333,758	-	-	20,333,758	-	20,333,758
Accrued income	796	-	-	796	-	796
	₩ 55,404,016	₩ -	₩ -	₩ 55,404,016	₩ -	₩ 55,404,016

[1] The credit quality of all of loans and receivables is highly sound.

4.2 Liquidity Risk

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

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

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

Liabilities by term structures as at December 31, 2019 and 2018, are as follows:

(in thousands of Korean won)	2019				
	Less than 1 month	**1 month– 3 months**	**3–12 months**	**Over 1 year**	**Total**
Debentures	₩ 918,800	₩ 56,793,150	₩ 314,988,350	₩ 713,510,925	₩ 1,086,211,225
Non-trade payables	225,646	-	19,059	153	244,858
Accrued expenses	2,094,131	6,898,474	-	-	8,992,605
Import guarantee deposits	310,000	-	-	-	310,000

(in thousands of Korean won)	2018				
	Less than 1 month	**1 month– 3 months**	**3–12 months**	**Over 1 year**	**Total**
Debentures	₩ 1,548,375	₩ 58,123,600	₩ 290,357,800	₩ 853,895,200	₩ 1,203,924,975
Non-trade payables	229,307	4,724,721	-	-	4,954,028
Accrued expenses	4,316,636	5,772,122	-	-	10,088,758
Import guarantee deposits	-	-	-	310,000	310,000

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

4.3 Capital Management

In accordance with the regulation on Supervision of Financial Holding Companies, for capital risk management, the Company monitors it capital by measuring debt to equity ratio (total liabilities divided by total equity) and double leverage ratio (total capital investment in subsidiaries divided by total equity).

5. Fair Value of Financial Instruments

There are no significant changes in the business and economic environments that affect the fair value of the Company's financial assets and liabilities for the year ended December 31, 2019.

5.1 Fair Value of Financial Instruments by Category

Carrying amount and fair value of financial instruments by category as at December 31, 2019 and 2018, are as follows:

(in thousands of Korean won)	2019		2018	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Cash and due from banks	₩ 79,370,284	₩ 79,370,284	₩ 129,670,748	₩ 129,670,748
Loans and receivables	125,313,655	125,313,655	55,404,016	55,404,016
	₩ 204,683,939	₩ 204,683,939	₩ 185,074,764	₩ 185,074,764
Financial liabilities				
Debentures	₩ 1,028,710,380	₩ 1,048,026,790	₩ 1,158,622,428	₩ 1,175,714,750
Other financial liabilities[1]	10,367,384	10,367,384	15,352,786	15,352,786
	₩ 1,039,077,764	₩ 1,058,394,174	₩ 1,173,975,214	₩ 1,191,067,536

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

5.2 Fair Value Assessment Method and Assumptions

Fair value assessment method and assumptions are as follows:

Classification	**Fair value measurement technique**
Cash and due from banks	The carrying amount of cash is regarded as fair value. Carrying amount of demand deposit is regarded as fair value as it does not have maturity and the amount approximates the fair value. The Discounted Cash Flow model is used to determine the fair value of general deposits. For those general deposits with the residual maturities of less than three months as at the closing date and the ones with a reset period of less than three months, the carrying amount is regarded as fair value.
Loans and receivables	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. Among receivables, deposits provided are mostly considered as intragroup transactions, so any new or renewed lease transactions are subject to the approval of the Board of Directors in pursuant to the Article No. 398 of the Commercial Law and the policy of the Board of Directors. The carrying amounts of deposits provided are regarded as fair value since the contracts have been kept considering fluctuation rate of officially assessed individual land price, comparisons with local lease cases and others for fair trade.
Debentures	Fair value is determined by using the valuation of independent third-party pricing

Classification	Fair value measurement technique
	services in accordance with the market prices that are quoted in active markets.
Other financial liabilities	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. However, the fair value of finance lease liabilities is determined by the Discounted Cash Flow method.

5.3 Fair Value Hierarchy of Financial Instruments Subsequently not Measured at Fair Value

The fair value hierarchy of financial assets and liabilities subsequently not measured at fair value as at December 31, 2019 and 2018, are as follows:

(in thousands of Korean won)	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Cash and due from banks	₩ -	₩ 79,370,284	₩ -	₩ 79,370,284
Loans and receivables[1]	-	-	125,313,655	125,313,655
	₩ -	₩ 79,370,284	₩ 125,313,655	₩ 204,683,939
Financial liabilities				
Debentures	₩ -	₩ 1,048,026,790	₩ -	₩ 1,048,026,790
Other financial liabilities[1]	-	-	10,367,384	10,367,384
	₩ -	₩ 1,048,026,790	₩ 10,367,384	₩ 1,058,394,174

(in thousands of Korean won)	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Cash and due from banks	₩ -	₩ 129,670,748	₩ -	₩ 129,670,748
Loans and receivables[1]	-	-	55,404,016	55,404,016
	₩ -	₩ 129,670,748	₩ 55,404,016	₩ 185,074,764
Financial liabilities				
Debentures	₩ -	₩ 1,175,714,750	₩ -	₩ 1,175,714,750
Other financial liabilities[1]	-	-	15,352,786	15,352,786
	₩ -	₩ 1,175,714,750	₩ 15,352,786	₩ 1,191,067,536

[1] The carrying amount of loans and receivables and other financial liabilities at amortized cost which are classified to Level 3, are disclosed in approximation of fair value.

Valuation techniques and inputs of financial assets and liabilities subsequently not measured at fair value whose fair values are disclosed and classified as Level 2 as at December 31, 2019 and 2018, are as follows. However, fair value hierarchy, valuation technique and inputs of items whose carrying amount is a reasonable approximation of fair value are not disclosed.

(in thousands of Korean won)	Fair value		Valuation techniques	Input
	2019	2018		
Financial liabilities				
Debentures	₩ 1,048,026,790	₩ 1,175,714,750	DCF Model	Discount rate

6. Financial Instruments by Category

(a) The carrying amount of financial instruments by category

All financial instruments (financial assets and financial liabilities) are measured at fair value or at amortized cost. The carrying amounts of financial assets and financial liabilities by each category as at December 31, 2019 and 2018, are as follows:

(in thousands of Korean won)	2019			2018		
	Financial assets at amortized cost	Financial liabilities at amortized cost	Total	Financial assets at amortized cost	Financial liabilities at amortized cost	Total
Financial assets:						
Due from banks	₩ 79,370,284	₩ -	₩ 79,370,284	₩ 129,670,748	₩ -	₩ 129,670,748
Loans and receivables	125,313,655	-	125,313,655	55,404,016	-	55,404,016
	₩ 204,683,939	₩ -	₩ 204,683,939	₩ 185,074,764	₩ -	₩ 185,074,764
Financial liabilities:						
Debentures	₩ -	₩ 1,028,710,380	₩ 1,028,710,380	₩ -	₩ 1,158,622,428	₩ 1,158,622,428
Other financial liabilities[1]	-	10,367,384	10,367,384	-	15,352,786	15,352,786
	₩ -	₩ 1,039,077,764	₩ 1,039,077,764	₩ -	₩ 1,173,665,214	₩ 1,173,665,214

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

(b) Net gains or losses by category of financial instruments

Net gains or losses on each category of financial instruments for the years ended December 31, 2019 and 2018, are as follows:

(in thousands of Korean won)	2019	2018
Financial assets at amortized cost		
Interest income	₩ 846,652	₩ 861,169
Financial liabilities at amortized cost		
Interest expenses	(31,295,408)	(31,773,381)

(c) Credit quality of financial assets

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

(in thousands of Korean won)		2019		2018
Counterparties with external credit rating				
AAA	₩	178,459,013	₩	173,189,732
AA+		-		-
		178,459,013		173,189,732
Counterparties without external credit rating		26,224,926		11,885,032
		26,224,926		11,885,032
	₩	204,683,939	₩	185,074,764

7. Cash and Due from Banks

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

(in thousands of Korean won)	Financial institution	Interest rate (%)		2019		2018
Checking deposits	Busan Bank	0.01	₩	77,971,188	₩	128,974,800
Corporate savings deposits	Busan Bank	0.01~0.30		1,399,096		695,948
			₩	79,370,284	₩	129,670,748

The maturity structures of due from banks as at December 31, 2019 and 2018, are as follows:

(in thousands of Korean won)	2019									
		Less than 1 month		1-3 months		3-12 months		Over 1 year		Total
Due from banks	₩	79,370,284	₩	-	₩	-	₩	-	₩	79,370,284

(in thousands of Korean won)	2018									
		Less than 1 month		1-3 months		3-12 months		Over 1 year		Total
Due from banks	₩	129,670,748	₩	-	₩	-	₩	-	₩	129,670,748

There is no restricted due from banks as at December 31, 2019 and 2018.

8. Investments in Subsidiaries

Details of investments in subsidiaries as at December 31, 2019 and 2018, are as follows:

(in thousands of Korean won)	2019				
Name of subsidiaries	**Location**	**Closing month**	**Percentage of ownership**	**Carrying amount**	
Busan Bank Co., Ltd.	Korea	December	100.00%	₩	2,968,140,154
Kyongnam Bank Co., Ltd.	Korea	December	100.00%		1,949,160,438
BNK Capital Co., Ltd.	Korea	December	100.00%		378,488,236
BNK Securities Co., Ltd.	Korea	December	100.00%		384,166,758
BNK Savings Bank Co., Ltd.	Korea	December	100.00%		115,000,600
BNK Asset Management Co., Ltd.	Korea	December	100.00%		77,050,000
BNK Credit Information Co., Ltd.	Korea	December	100.00%		4,451,045
BNK System Co., Ltd.	Korea	December	100.00%		3,000,000
BNK Venture Capital Co., Ltd.	Korea	December	100.00%		20,600,000
				₩	5,900,057,231

(in thousands of Korean won)	2018				
Name of subsidiaries	**Location**	**Closing month**	**Percentage of ownership**	**Carrying amount**	
Busan Bank Co., Ltd.	Korea	December	100.00%	₩	2,968,140,154
Kyongnam Bank Co., Ltd.	Korea	December	100.00%		1,949,160,438
BNK Capital Co., Ltd.	Korea	December	100.00%		378,488,236
BNK Securities Co., Ltd.	Korea	December	100.00%		384,166,758
BNK Savings Bank Co., Ltd.	Korea	December	100.00%		115,000,600
BNK Asset Management Co., Ltd.	Korea	December	100.00%		77,050,000
BNK Credit Information Co., Ltd.	Korea	December	100.00%		4,451,045
BNK System Co., Ltd.	Korea	December	100.00%		3,000,000
				₩	5,879,457,231

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

(in thousands of Korean won)		**2019**		**2018**
Beginning balance	₩	5,879,457,231	₩	5,649,457,231
Acquisition		20,600,000		230,000,000
Ending balance	₩	5,900,057,231	₩	5,879,457,231

9. Loans and Receivables

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

(in thousands of Korean won)		**2019**		**2018**
Non-trade receivables	₩	103,591,808	₩	35,069,462
Accrued income		1,024		796
Guarantee deposits provided		21,883,515		20,333,758
Present value discounts (Lease deposits - prepaid lease payments)		(162,692)		-
	₩	125,313,655	₩	55,404,016

10. Property and Equipment

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

(in thousands of Korean won)	2019			
	Acquisition cost	**Accumulated depreciation**	**Accumulated impairment loss**	**Carrying amount**
Leasehold improvements	₩ 1,119,341	₩ (517,042)	₩ -	₩ 602,299
Equipment and vehicles	5,327,851	(3,692,468)	-	1,635,383
Right-of-use assets	1,886,555	(904,656)	-	981,899
Construction in progress	8,533,788	-	-	8,533,788
	₩ 16,867,535	₩ (5,114,166)	₩ -	₩ 11,753,369

(in thousands of Korean won)	2018			
	Acquisition cost	**Accumulated depreciation**	**Accumulated impairment loss**	**Carrying amount**
Leasehold improvements	₩ 1,055,813	₩ (311,125)	₩ -	₩ 744,688
Equipment and vehicles	4,668,803	(3,022,540)	-	1,646,263
Construction in progress	8,722,668	-	-	8,722,668
	₩ 14,447,284	₩ (3,333,665)	₩ -	₩ 11,113,619

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

(in thousands of Korean won)	2019						
	Beginning balance	**Changes in accounting policy**	**Acquisition**	**Disposal**	**Depreciation**	**Transfer**	**Ending Balance**
Leasehold improvements	₩ 744,688	₩ -	₩ 63,528	₩ -	₩ (205,917)	₩ -	₩ 602,299
Equipment and vehicles	1,646,263	-	369,400	-	(669,927)	289,647	1,635,383
Right-of-use assets	-	1,671,529	270,026	(18,101)	(941,555)	-	981,899
Construction in progress	8,722,668	-	859,806	-	-	(1,048,686)	8,533,788
	₩ 11,113,619	₩ 1,671,529	₩ 1,562,760	₩ (18,101)	₩ (1,817,400)	₩ (759,039)	₩ 11,753,369

(in thousands of Korean won)	2018					
	Beginning balance	**Acquisition**	**Disposal**	**Depreciation**	**Transfer**	**Ending Balance**
Leasehold improvements	₩ 286,938	₩ 631,155	₩ -	₩ (173,405)	₩ -	₩ 744,688
Equipment and vehicles	1,764,584	594,350	(1)	(712,670)	-	1,646,263
Construction in progress	7,034,710	1,687,958	-	-	-	8,722,668
	₩ 9,086,232	₩ 2,913,463	₩ (1)	₩ (886,075)	₩ -	₩ 11,113,619

Depreciation expense of ₩ 1,817 million (2018: ₩ 886 million) was charged to administrative expenses for the year ended December 31, 2019.

11. Intangible Assets

Intangible assets as of December 31, 2019 and 2018, are as follows:

(in thousands of Korean won)	2019			
	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Carrying amount
Software	₩ 1,378,116	₩ (579,079)	₩ -	₩ 799,037
Right of membership	3,302,924	-	-	3,302,924
Trademark	104,591	-	-	104,591
	₩ 4,785,631	₩ (579,079)	₩ -	₩ 4,206,553

(in thousands of Korean won)	2018			
	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Carrying amount
Software	₩ 521,632	₩ (434,842)	₩ -	₩ 86,790
Right of membership	2,276,318	-	-	2,276,318
Trademark	103,640	-	-	103,640
	₩ 2,901,590	₩ (434,842)	₩ -	₩ 2,466,749

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

(in thousands of Korean won)	2019					
	Beginning balance	Acquisition	Amortization	Disposal	Transfer	Ending Balance
Software	₩ 86,790	₩ 97,900	₩ (144,236)	₩ -	₩ 758,583	₩ 799,037
Right of membership	2,276,318	1,036,606	-	(10,000)	-	3,302,924
Trademark	103,640	495	-	-	456	104,591
	₩ 2,466,748	₩ 1,135,001	₩ (144,236)	₩ (10,000)	₩ 759,039	₩ 4,206,553

(in thousands of Korean won)	2018					
	Beginning balance	Acquisition	Amortization	Disposal	Transfer	Ending Balance
Software	₩ 179,887	₩ 595	₩ (93,692)	₩ -	₩ -	₩ 86,790
Right of membership	1,434,127	1,030,678	-	(188,487)	-	2,276,318
Trademark	103,640	-	-	-	-	103,640
	₩ 1,717,655	₩ 1,031,273	₩ (93,692)	₩ (188,487)	₩ -	₩ 2,466,749

12. Other Assets

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

(in thousands of Korean won)		**2019**		**2018**
Advance payments and others	₩	1,816,947	₩	2,620,340

13. Debentures

Debentures as at December 31, 2019 and 2018, are as follows:

(in thousands of Korean won)	**Issuance date**	**Maturity date**	**Interest rate (%) as at December 31, 2019**		**2019**		**2018**
5th non-guaranteed subordinated bonds	2013-08-29	2020-08-29	4.05	₩	150,000,000	₩	150,000,000
6th non-guaranteed subordinated bonds	2013-11-07	2020-11-07	4.09		30,000,000		30,000,000
7th non-guaranteed subordinated bonds	2013-11-19	2020-11-19	4.18		20,000,000		20,000,000
9th non-guaranteed coupon bonds	2014-07-16	2019-07-16	3.02		-		100,000,000
10th non-guaranteed coupon bonds	2014-09-24	2019-09-24	2.80		-		150,000,000
13th non-guaranteed coupon bonds	2015-03-25	2020-03-25	2.02		50,000,000		50,000,000
14th non-guaranteed coupon bonds	2015-07-15	2020-07-15	2.40		50,000,000		50,000,000
16th non-guaranteed coupon bonds	2016-01-15	2021-01-15	2.07		50,000,000		50,000,000
20th non-guaranteed coupon bonds	2017-04-21	2019-04-21	1.88		-		50,000,000
21-1st non-guaranteed coupon bonds	2017-05-30	2019-05-30	1.90		-		20,000,000
21-2nd non-guaranteed coupon bonds	2017-05-30	2020-05-30	2.11		50,000,000		50,000,000
21-3rd non-guaranteed coupon bonds	2017-05-30	2022-05-30	2.37		30,000,000		30,000,000
22nd non-guaranteed coupon bonds	2017-09-26	2022-09-26	2.46		100,000,000		100,000,000
23rd non-guaranteed coupon bonds	2018-05-25	2023-05-25	2.89		100,000,000		100,000,000
24th non-guaranteed coupon bonds	2018-06-26	2021-06-26	2.62		80,000,000		80,000,000
25-1th non-guaranteed coupon bonds	2018-08-23	2023-08-23	2.54		100,000,000		100,000,000
25-2nd non-guaranteed coupon bonds	2018-08-23	2028-08-23	2.75		30,000,000		30,000,000
26th non-guaranteed	2019-06-14	2024-06-14	1.78		100,000,000		-

(in thousands of Korean won)	Issuance date	Maturity date	Interest rate (%) as at December 31, 2019	2019	2018
coupon bonds					
27th non-guaranteed coupon bonds	2019-07-26	2024-07-26	1.60	90,000,000	-
				1,030,000,000	1,160,000,000
Less: present value discounts				(1,377,572)	(1,385,962)
				₩ 1,028,710,380	₩ 1,158,622,428

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

Details of issuance and repayment of debentures for the years ended December 31, 2019 and 2018, are as follows:

(in thousands of Korean won)	2019			
	Beginning balance	Issuance	Repayment	Ending balance
Debentures in Korean won	₩ 1,160,000,000	₩ 190,000,000	₩ (320,000,000)	₩ 1,030,000,000

(in thousands of Korean won)	2018			
	Beginning balance	Issuance	Repayment	Ending balance
Debentures in Korean won	₩ 1,140,000,000	₩ 310,000,000	₩ (290,000,000)	₩ 1,160,000,000

14. Post-employment Benefits

Details of net defined benefit liabilities recognized in the statements of financial position as at December 31, 2019 and 2018, are as follows:

(in thousands of Korean won)		2019		2018
Present value of funded defined benefit obligations	₩	12,701,468	₩	12,551,457
Fair value of plan assets		(5,144,618)		(7,915,112)
Net defined benefit liabilities	₩	7,556,850	₩	4,636,345

Income and expenses related to net defined benefit liabilities for the years ended December 31, 2019 and 2018, are as follows:

(in thousands of Korean won)	2019					
		Present value of defined benefit obligation		**Plan assets**		**Total**
Beginning balance	₩	12,551,457	₩	(7,915,112)	₩	4,636,345
Current service cost		2,536,987		-		2,536,987
Interest expenses (Interest income)		324,893		(211,748)		113,145
		2,861,880		(211,748)		2,650,132
Remeasurements:						
Expected return on plan assets		-		74,110		74,110
Actuarial gain from change in demographic assumptions		(7,122)		-		(7,122)
Actuarial loss arising from changes in financial assumptions		318,018		-		318,018
Actuarial loss from experience adjustments		430,849		-		430,849
Actuarial loss from changes in assumptions for retirement date		-		-		-
		741,745		74,110		815,855
Benefits paid		(530,993)		-		(530,993)
Transfer of employees between the Company and the related companies		(2,922,621)		2,908,132		(14,489)
Ending balance	₩	12,701,468	₩	(5,144,618)	₩	7,556,850

(in thousands of Korean won)	2018		
	Present value of defined benefit obligation	**Plan assets**	**Total**
Beginning balance	₩ 10,076,768	₩ (7,148,316)	₩ 2,928,452
Current service cost	2,238,380	-	2,238,380
Interest expenses (Interest income)	330,433	(220,269)	110,164
	2,568,813	(220,269)	2,348,544
Remeasurements:			
Expected return on plan assets	-	137,451	137,451
Actuarial loss from change in demographic assumptions	39,905	-	39,905
Actuarial loss arising from changes in financial assumptions	363,699	-	363,699
Actuarial gain from experience adjustments	(417,291)	-	(417,291)
Actuarial loss from changes in assumptions for retirement date	-	-	-
	(13,687)	137,451	123,764
Benefits paid	(764,414)	-	(764,414)
Transfer of employees between the Company and the related companies	683,978	(683,978)	-
Ending balance	₩ 12,551,457	₩ (7,915,112)	₩ 4,636,345

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

(in thousands of Korean won)	**2019**	**2018**
Time deposits	₩ 5,144,618	₩ 7,915,112

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

(in percentage)	**2019**	**2018**
Discount rate	2.89	3.10
Weighted-average rate of salary increase	1.20	1.20
Mortality ratio	Standardized mortality ratio by Korea Insurance Development Institute	
Retirement ratio	Retirement ratio per age group	

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

(in thousands of Korean won)		**1% increase**		**1% decrease**
Change in discount rate	₩	(995,921)	₩	1,150,964
Change in salary growth rate		1,159,798		(1,021,067)

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

The Company 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 10.50 years.

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

(in thousands of Korean won)		**Less than 1 year**		**Between 1-2 years**		**Between 2-5 years**		**Over 5 years**		**Total**
Post-employment benefits	₩	287,265	₩	467,123	₩	1,458,725	₩	12,123,252	₩	14,336,365

15. Other Liabilities

Other liabilities as at December 31, 2019 and 2018, are as follows:

(in thousands of Korean won)		2019		2018
Non-trade payables	₩	244,858	₩	4,954,028
Accrued expenses		8,992,605		10,088,758
Lease liabilities		819,920		-
Import guarantee deposits		310,000		310,000
Others[1]		1,179,879		62,777,360
	₩	11,547,262	₩	78,130,146

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

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

(in thousands 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	₩	44,219	₩	83,515	₩	300,405	₩	419,058	₩	-	₩	847,197

16. Tax Expense and Deferred Tax

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

(in thousands of Korean won)		2019		2018
Current tax:	₩	182,151	₩	-
Changes in deferred tax liabilities by temporary difference		-		-
Changes in deferred tax by taxable loss		-		-
Tax effect		-		-
Changes in deferred tax liabilities reflected directly in equity		-		-
Income tax expense	₩	182,151	₩	-

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

(in thousands of Korean won)		2019		2018
Profit before income tax	₩	91,757,119	₩	29,073,693
Taxes payable[1]		21,743,223		5,976,212
Tax effect of:				
Non-taxable income		(30,285,372)		(14,501,793)
Non-deductible expenses		693,720		548,164
Consolidated tax and others		7,848,429		7,977,417
Adjustment in respect of prior years		182,151		-
Income tax expense	₩	182,151	₩	-
Effective tax rate (income tax expense/profit before income tax)		0.20%		-

[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 more than ₩ 20 billion) to profit before income tax.

Changes in accumulated temporary differences and tax loss carried forward as at December 31, 2019 and 2018, are as follows:

(in thousands of Korean won)	2019				
	Beginning balance	**Decrease**	**Increase[1]**	**Ending balance**	**Deferred tax assets (liabilities)**
Taxable temporary differences					
Pension plan asset	₩ (7,428,136)	₩ (4,739,022)	₩ (2,455,504)	₩ (5,144,618)	₩ (1,322,167)
Leasehold estates	(87,335)	-	-	(87,335)	(22,445)
Right-of-use assets	-	-	(981,899)	(981,899)	(252,348)
	₩ (7,515,471)	₩ (4,739,022)	₩ (3,437,403)	₩ (6,213,852)	(1,596,960)
Deductible temporary differences and tax loss carried forward					
Unconfirmed costs	₩ 5,145,261	₩ 5,145,261	₩ 4,684,532	₩ 4,684,532	1,203,925
Defined benefit obligations	6,780,943	4,739,023	3,603,625	5,645,545	1,450,905
Stock compensation cost	710,776	710,776	883,584	883,584	227,081
Accumulated depreciation	216,856	80,529	111,045	247,372	63,575
Provision for restoration costs	88,453	88,453	90,717	90,717	23,314
Present value discounts for lease deposits	-	-	162,692	162,692	41,812
Lease liabilities	-	-	819,920	819,920	210,719
Non-trade payables	19,059	-	-	19,059	4,898
Commission paid	374,000	-	-	374,000	96,118
Miscellaneous loss	-	-	3,406,198	3,406,198	875,393
Intangible assets	-	-	239,050	239,050	61,436
Tax loss carried forward	4,620,123	-	-	4,620,123	1,187,372
	₩ 17,955,471	₩ 10,764,042	₩ 14,001,363	₩ 21,192,792	5,446,548
Not recognized as deferred tax assets					₩ 3,849,588
Recognized as deferred tax assets					₩ 1,596,960

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

(in thousands of Korean	2018

won)

	Beginning balance	Decrease	Increase[1]	Ending balance	Deferred tax assets (liabilities)
Taxable temporary differences					
Pension plan asset	₩ (4,225,817)	₩ -	₩ (3,202,319)	₩ (7,428,136)	₩ (1,931,315)
Structures for lease	-	-	(87,335)	(87,335)	(22,707)
	₩ (4,225,817)	₩ -	₩ (3,289,654)	₩ (7,515,471)	(1,954,022)
Deductible temporary differences and tax loss carried forward					
Unconfirmed costs	₩ 2,711,284	₩ 2,711,284	₩ 5,145,261	₩ 5,145,261	1,337,768
Defined benefit obligations	4,225,817	-	2,555,126	6,780,943	1,763,045
Stock compensation cost	364,965	364,965	710,776	710,776	184,802
Accumulated depreciation	125,947	29,213	120,122	216,856	56,383
Provision for restoration costs	-	-	88,453	88,453	22,998
Non-trade payables	119,059	100,000	-	19,059	4,955
Commission paid	341,000	-	33,000	374,000	97,240
Tax loss carried forward	4,620,123	-	-	4,620,123	1,201,232
	₩ 12,508,195	₩ 3,205,462	₩ 8,652,738	₩ 17,955,471	4,668,422
Not recognized as deferred tax assets					₩ 2,714,400
Recognized as deferred tax assets					₩ 1,954,022

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

Deferred tax liabilities are recognized for taxable temporary differences. Deferred tax assets are recognized up to taxable temporary differences for tax loss carried forward and deductible temporary differences in consideration of their realizability.

The amounts of deferred tax assets and deferred tax liabilities are identical as at December 31, 2019, and the deferred tax assets and liabilities are offset as the deferred tax balances relate to the same taxation authority; therefore, no deferred tax is presented in the financial statement.

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

(in thousands of Korean won)

Year incurred	Loss incurred[1]	Lapse amount	December 31, 2019	Offset period
2011	₩ 4,620,123	₩ -	₩ 4,620,123	Until the end of 2021

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

The Company, as the parent company on behalf of its subsidiaries, recognizes total corporate income tax payables as a current tax liability amounting to ₩ 103,589,253 thousand as at December 31, 2019, in accordance with the consolidated corporate tax system.

17. Share Capital and Other Paid-in Capital

(a) Share capital

As at December 31, 2019, the Company has 700 million ordinary shares authorized with a par value per share of ₩ 5,000 and 325,935,246 shares have been issued. Share capital is ₩ 1,629,676 million.

(b) Hybrid equity securities

Hybrid equity securities classified as equity as at December 31, 2019, are as follows:

(in thousands of Korean won)	Issue date	Maturity	Annual interest rate (%)	2019	2018
Hybrid equity securities in Korean won	2015-06-24	2045-06-24	4.60	₩ 80,000,000	₩ 80,000,000
	2015-06-24	2045-06-24	5.10	30,000,000	30,000,000
	2015-08-31	2045-08-31	4.48	150,000,000	150,000,000
	2019-02-13	-	4.83	100,000,000	100,000,000
	2019-03-02	-	4.26	150,000,000	150,000,000
	2019-02-20	-	3.74	100,000,000	-
	2019-08-29	-	3.20	100,000,000	-
Issuance cost				(2,125,680)	(1,478,629)
				₩ 707,874,320	₩ 508,521,371

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

Company may not pay interest on the hybrid equity securities.

(c) Other paid-in capital

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

(in thousands of Korean won)	2019	2018
Share premium	₩ 2,277,035,810	₩ 2,277,035,810
Treasury shares	(213,973)	(213,973)
	₩ 2,276,821,837	₩ 2,276,821,837

(d) Other components of equity

Other components of equity for the years ended December 31, 2019 and 2018, are as follows:

(in thousands of Korean won)	2019		
	Beginning balance	**Decrease**	**Ending balance**
Remeasurements of net defined benefit liabilities	₩ (3,247,059)	₩ (815,854)	₩ (4,062,913)

(in thousands of Korean won)	2018		
	Beginning balance	**Decrease**	**Ending balance**
Remeasurements of net defined benefit liabilities	₩ (3,123,295)	₩ (123,764)	₩ (3,247,059)

18. Retained Earnings

Retained earnings as at December 31, 2019 and 2018, consist of:

(in thousands of Korean won)	2019	2018
Reserves:		
Earned profit reserves	₩ 86,325,407	₩ 83,417,407
Reserve for credit losses	175,000	169,000
Reserve for claims liability	2,000,000	2,000,000
Discretionary reserves	205,915,417	299,031,000
	294,415,824	384,617,407
Retained earnings before appropriation	66,078,996	7,574,535
	₩ 360,494,820	₩ 392,191,942

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.

The appropriation of retained earnings for the years ended December 31, 2019 and 2018, is as follows:

(in thousands of Korean won)		**2019**		**2018**
Unappropriated retained earnings				
Unappropriated retained earnings carried over from prior year	₩	-	₩	470
Dividends from hybrid equity securities		(25,495,972)		(21,499,629)
Profit for the year		91,574,968		29,073,693
		66,078,996		7,574,534
Transfers such as discretionary reserves				
Discretionary reserves		60,753,345		93,115,583
Reversal of reserve for credit losses		-		-
		60,753,345		93,115,583
Appropriation of retained earnings				
Legal reserve		9,158,000		2,908,000
Reserve for credit losses		343,000		6,000
Discretionary reserves		-		-
Cash dividends (Cash dividend(%)): ₩ 360 (7.20%) in 2019 ₩ 300 (6.00%) in 2018		117,331,341		97,776,117
		126,832,341		100,690,117
Unappropriated retained earnings to be carried forward	₩	-	₩	-

The appropriation of retained earnings for the year ended December 31, 2019, is expected to be appropriated March 20, 2020. The appropriation date for the year ended December 31, 2018, was March 28, 2019.

Regulatory reserve for credit losses

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

Balances of regulatory reserve for credit losses as at December 31, 2019 and 2018, are as follows:

(in thousands of Korean won)		**2019**		**2018**
Provided regulatory reserve	₩	175,000	₩	169,000
Expected provision of reserve for credit losses		343,000		6,000
	₩	518,000	₩	175,000

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

(in thousands of Korean won)		**2019**		**2018**
Profit for the year	₩	91,574,968	₩	29,073,693
Provision of reserve for credit losses		(343,000)		(6,000)
Adjusted profit after the provision of regulatory reserve[1]	₩	91,231,968	₩	29,067,693
Adjusted earnings per(share after the provision of regulatory reserve[1] *(in Korean won)*	₩	203	₩	23

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

19. Net Interest expenses

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

(in thousands of Korean won)		2019		2018
Interest income:				
Cash and due from banks	₩	444,213	₩	861,169
Other interest income:				
Present value discounts		402,439		-
		846,652		861,169
Interest expenses:				
Debentures		(31,276,369)		(31,772,263)
Lease liabilities		(16,775)		-
Miscellaneous interest:				
(provision for restoration costs)		(2,264)		(1,118)
		(31,295,408)		(31,773,381)
Net interest expenses	₩	(30,448,756)	₩	(30,912,212)

20. Net Commission Income

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

(in thousands of Korean won)		2019		2018
Commission income:				
Brand income	₩	10,575,000	₩	10,143,000
Other commission income		4,850		8,250
		10,579,850		10,151,250
Commission expenses:				
Other commission expenses		(1,436,761)		(2,144,292)
Net commission income	₩	9,143,089	₩	8,006,958

21. General and Administrative Expenses

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

(in thousands of Korean won)		2019		2018
Employee benefits:				
Salaries	₩	15,764,050	₩	17,819,148
Employee benefits		3,485,493		3,906,876
Post-employment benefits		2,650,132		2,348,544
		21,899,675		24,074,568
Rent expense		377,892		1,055,734
Business promotion expenses		2,044,352		1,527,387
Depreciation		1,817,400		886,075
Amortization		144,236		93,692
Taxes and dues[1]		343,776		223,096
Advertisement expenses		4,290,223		2,963,564
Service fees		1,646,611		1,911,207
Others		2,690,076		2,225,735
	₩	35,254,241	₩	34,961,058

[1] Comprised of other taxes and dues

(a) Share-based payments

The Company 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 and the executive director, 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.

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

i) Linked to short-term performance

	2015	2016	2017	2018	2019
Number of shares granted	3,177	14,466	38,994	48,641	110,980
Residual shares	1,059	8,271	28,604	36,812	110,980
Date of grant	2015-02-27	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

	2014	2015	2016	2017	2018	2019
Number of shares granted	2,592	2,472	9,612	65,960	27,520	9,293
Residual shares	864	1,547	8,706	59,333	15,371	9,293
Date of grant	2014-03-28	2015-01-01	2016-01-01	2017-01-01	2018-01-01	2019-01-01
Grant method	Cash-settled share-based payment	Cash-settled share-based payment	Cash-settled share-based payment	Cash-settled share-based payment	Cash-settled share-based payment	Cash-settled share-based payment
Exercise price	₩0	₩0	₩0	₩0	₩0	₩0
Vesting conditions	Service period / Non-market performance	Service period / Non-market performance	Service period / Non-market performance	Service period / Non-market performance	Service period / Non-market performance	Service period / Non-market performance
Settlement method	Cash	Cash	Cash	Cash	Cash	Cash
Service period	3 years	3 years	3 years	3 years	3 years	3 years

	Deferred grant in 2020	Deferred grant in 2021	Deferred grant in 2022
Residual shares[1]	14,961	3,856	1,652
Grant method	Cash-settled share-based payment	Cash-settled share-based payment	Cash-settled share-based payment
Exercise price	₩0	₩0	₩0
Settlement method	Cash	Cash	Cash
Vesting conditions	Vested	Vested	Vested

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

the end of reporting period.

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

(in shares)	**2019**	**2018**
Beginning balance	91,770	52,253
Granted	110,980	48,641
Exercised	18,397	9,124
Ending balance	184,353	91,770

ii) Linked to long-term performance

(in shares)	**2019**	**2018**
Beginning balance	106,015	103,225
Granted	9,293	27,520
Exercised	3,615	1,708
Others	(16,579)	(23,022)
Ending balance	95,114	106,015

(in shares)	**Deferred grant**	
	2019	**2018**
Beginning balance	19,138	14,243
Granted	4,946	6,603
Exercised	3,615	1,708
Ending balance	20,469	19,138

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:

(in thousands of Korean won)		**2019**		**2018**
Linked to short-term performance	₩	1,900,306	₩	748,550
Linked to long-term performance		274,095		443,481

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

(in thousands of Korean won)		**2019**		**2018**
Accrued expenses (short-term performance)	₩	3,658,673	₩	814,723
Accrued expenses (long-term performance)		883,585		710,776

22. Non-operating Income and Expenses

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

(in thousands of Korean won)		**2019**		**2018**
Non-operating income:				
Miscellaneous income	₩	178,040	₩	203,063
Gain on disposal of property and equipment		63		12,726
		178,103		215,789
Non-operating expenses:				
Donations		(764,017)		(936,447)
Loss on disposal of property and equipment		(68)		-
Loss on retirement of intangible assets		-		(8,487)
Miscellaneous expense		(48,127)		(3,412,769)
		(812,213)		(4,357,703)
	₩	(634,110)	₩	(4,141,914)

23. Earnings per Share

Basic earnings per share for the years ended December 31, 2019 and 2018, are as follows:

(in Korean won and in shares)		**2019**		**2018**
Profit attributable ordinary shares	₩	91,574,967,736	₩	29,073,693,326
Dividends from hybrid equity securities		(25,495,972,222)		(21,499,628,995)
Profit for the year attributable ordinary shares		66,078,995,514		7,574,064,331
Weighted average number of ordinary shares outstanding		325,920,391		325,920,391
Basic earnings per share	₩	203	₩	23

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

(in shares)

	2019				
	Beginning	Ending	Days	Number of shares	Accumulation of days
Beginning	2019-01-01	2019-12-31	365	325,920,391	118,960,942,715
Total			365		118,960,942,715
Weighted average number of ordinary shares outstanding					325,920,391

(in shares)

	2018				
	Beginning	Ending	Days	Number of shares	Accumulation of days
Beginning	2018-01-01	2018-12-31	365	325,920,391	118,960,942,715
Total			365		118,960,942,715
Weighted average number of ordinary shares outstanding					325,920,391

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

24. Dividends

A dividend in respect of the year ended December 31, 2019, of ₩ 117,331,341 thousand for ordinary shares, is to be proposed to shareholders at the annual general meeting on March 20, 2020. These financial statements do not reflect this dividend payable (2018: ₩ 97,776,117 thousand).

25. Statements of Cash Flows

The cash and cash equivalents in the separate statements of cash flows include cash, bank deposits and investment in money market, which mature within three months after the date of acquisition. The Company's cash and cash equivalents in the separate statements of cash flows as at December 31, 2019 and 2018, are as follows:

(in thousands of Korean won)		2019		2018
Cash and due from banks	₩	79,370,284	₩	129,670,747

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

(in thousands of Korean won)		2019		2018
Remeasurements of net defined benefit liabilities	₩	815,855	₩	123,764
Offsetting of receivables and tax payables due to consolidated tax system		68,735,240		1,209,025
Offsetting of right-of-use assets and lease liabilities		1,355,191		-

Chances in liabilities arising from financial activities for the years ended December 31, 2019 and 2018, are as follows:

(in thousands of Korean won)	2019					
			Non-cash movements			
	Beginning balance	Cash flows	Exchange rate changes	Fair value hedge	Others	Ending balance
Debentures	₩ 1,158,622,428	₩ (130,525,901)	₩ -	₩ -	₩ 613,853	₩ 1,028,710,380

(in thousands of Korean won)	2018					
			Non-cash movements			
	Beginning balance	Cash flows	Exchange rate changes	Fair value hedge	Others	Ending balance
Debentures	₩ 1,138,614,038	₩ 19,216,639	₩ -	₩ -	₩ 791,751	₩ 1,158,622,428

26. Contingencies and Commitments

The Company filed a lawsuit against Korea Deposit Insurance Corporation to seek compensation for loss (litigation value: ₩ 53.2 billion) as at December 31, 2019. On December 15, 2017, the court ordered Korea Deposit Insurance Corporation to pay ₩ 53.2 billion to the Company in the first trial. In respect of the first court decision, Korea Deposit Insurance Corporation paid ₩ 53.2 billion in advance and the Company recognized the corresponding amount as other liabilities. In the second trial held on January 24, 2019, the Company has decided to return back certain amount to Korea Deposit Insurance Corporation, and the amount of the liability has been revised including the interest paid. In addition, although the Company 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 as at December 31, 2019.

BNK Financial Group, 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.

27. Transactions with Related Parties

Related parties as at December 31, 2019, are as follows:

Relationship	Name of the related party
Subsidiaries	Busan Bank Co., Ltd., Kyongnam Bank Co., Ltd., BNK Capital Co., Ltd., BNK Securities Co., Ltd., BNK Savings Bank Co., Ltd., BNK Asset Management Co., Ltd., BNK Credit Information Co., Ltd., BNK System Co., Ltd., BNK Venture Capital Co., Ltd. BNK REPO PLUS Private Investment Trust No. 1, BNK KOSDAQ Venture Investment Trust No. 1, BNK-KN Southeast Region Job Creation Fund1, BNK K200 Index Securities Investment Trust, BNK Tuna Private investment Trust1, BNK Luxembourg Core Office Real Estate Investment Trust, BNK Teun Teun Short-term Government Bond 1st, Multi-Asset Professional Private Equity Fund No. 1, BNK Seonbo-Booulkyung Start-up New Technology No. 1, Busan Bank trust accounts guaranteeing a fixed rate of return and the repayment of principal, Busan Bank trust accounts guaranteeing the repayment of principal, Kyongnam Bank trust accounts guaranteeing a fixed rate of return and the repayment of principal, Kyongnam Bank trust accounts guaranteeing the repayment of principal, HDC Dual Private Securities Investment Trust 1st, HDC Dual Private Securities Investment Trust 3rd, BNKC (Cambodia) MFI PLC, BNK Capital Myanmar Co.,Ltd, BNK Capital Lao Leasing Co., Ltd, MFO BNK Finance Kazakhstan LLP, BNK Open Innovation Investment Association, BNK Brave New KOREA No.1, BNK Global AI Securities Feeder Investment Trust H
Associates	BNK 'Winning' Securities Investment Trust 1st, Orion Mezzanine Multi Private Equity Fund, Anda Mezzanine Private Equity Fund No. 7, BNK Yeouido Core Office Private Investment Trust No. 2, HDC Presto Private Securities Investment Trust 8th, IBK Private Securities Investment Trust RP 2nd, NH-Amundi Enhanced Bond Private Securities Investment Trust, Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 1st, Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 6th, Samsung Repo Professional Connection Private Securities Investment Trust 1st, Shinhan BNPP SGrail Private Securities Investment Asset No. 1-2, KIAMCO KDB OCEAN Value-up Private Securities Investment Trust No. 12, Multi-Asset KDB Ocean Value Company No. 13, Multi-Asset KDB Ocean Value Private Securities Investment Trust No. 15, Consus Clean water Private Securities Investment Trust 1st, SHBNPP Corporate Private Security Investment Trust 8th, Yurie REPO Alpha Private Security Investment Trust 1st, Kiwoom Frontier Private Security Investment Trust 11th, Kiwoom Frontier Private Security Investment Trust 12th, Petra 7 alpha Private Equity Partnership, KIAMCO Aviation Private Fund Special Asset Trust 1 Hedge Fund, BNK Smart Korea Private investment Trust, BNKGO Private Securities Investment Trust 1st C-S, UQIPI Agro-Fisheries & Food Investment Association No. 1, Future Creation Fund UQIP Future Creation 1st Account Union, Energy Convergence UQIP Investment Association, UQIPI Agro-Fisheries & Food Trade Investment Union No. 2, 2019UQIP Innovation Growth Follow-on Investment Union,, IGIS Real

Assets Solar Private Equity Fund No. 1, M-Park Capital Co., Ltd.

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

(in thousands of Korean won)		2019				
		Revenues		Expenses		Acquisition of property and equipment
Type	Name of entity	Interest income	Other revenues	Interest expenses	Other expenses	
Subsidiaries	Busan Bank Co., Ltd.	₩ 836,295	₩ 95,483,196	₩ -	₩ 79,155	₩ 120,964
	Kyongnam Bank Co., Ltd.	-	52,462,636	-	-	-
	BNK Capital Co., Ltd.	-	11,163,000	7,115	1,234,000	93,453
	BNK Securities Co., Ltd.	-	313,000	-	250,158	-
	BNK Saving Bank Co., Ltd.	-	121,200	-	-	-
	BNK Asset Management Co., Ltd.	-	13,000	-	-	-
	BNK Credit Information Co., Ltd.	-	13,100	-	-	-
	BNK System Co., Ltd.	-	36,300	-	512,215	401,448
		₩ 836,295	₩ 159,605,432	₩ 7,115	₩ 2,075,528	₩ 615,865

(in thousands of Korean won)		2018				
		Revenues		Expenses		Acquisition of property and equipment
Type	Name of entity	Interest income	Other revenues	Interest expenses	Other expenses	
Subsidiaries	Busan Bank Co., Ltd.	₩ 861,169	₩ 40,579,423	₩ -	₩ 254,234	₩ -
	Kyongnam Bank Co., Ltd.	-	49,267,547	-	-	-
	BNK Capital Co., Ltd.	-	11,034,000	-	255,539	-
	BNK Securities Co., Ltd.	-	290,782	-	-	-
	BNK Saving Bank Co., Ltd.	-	108,400	-	6,366	-
	BNK Asset Management Co., Ltd.	-	11,000	-	-	-
	BNK Credit Information Co., Ltd.	-	10,000	-	-	-
	BNK System Co., Ltd.	-	31,350	-	931,904	480,420
		₩ 861,169	₩ 101,332,502	₩ -	₩ 1,448,043	₩ 480,420

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

(in thousands of Korean won)

		2019			
		Loan transactions		Investment	
Type	**Name of entity**	**Loans**	**Repayments**	**Capital increase**	**Capital reduction**
Subsidiaries	Busan Bank Co., Ltd.	₩ 534,153,687	₩ 584,454,151	₩ -	₩ -
	BNK Venture Capital Co., Ltd.	-	-	20,600,000	-
		₩ 534,153,687	₩ 584,454,151	₩ 20,600,000	₩ -

(in thousands of Korean won)

		2018			
		Loan transactions		Investment	
Type	**Name of entity**	**Loans**	**Repayments**	**Capital increase**	**Capital reduction**
Subsidiaries	Busan Bank Co., Ltd.	₩ 994,493,736	₩ 1,026,489,414	₩ -	₩ -
	BNK Securities Co., Ltd.	-	-	200,000,000	-
	BNK Asset Management Co., Ltd.	-	-	30,000,000	-
		₩ 994,493,736	₩ 1,026,489,414	₩ 230,000,000	₩ -

Outstanding receivables and payables from related parties as at December 31, 2019 and December 31, 2018, are as follows:

(in thousands of Korean won)		2019			
		Receivables		Payables	
Type	Name of entity	Loans / due from banks	Other assets	Deposit liabilities	Other liabilities
Subsidiaries	Busan Bank Co., Ltd.	₩ 79,370,284	₩ 72,238,456	₩ -	₩ 525,032
	Kyongnam Bank Co., Ltd.	-	27,012,932	-	-
	BNK Capital Co., Ltd.	-	21,869,345	-	239,694
	BNK Securities Co., Ltd.	-	-	-	1,046,684
	BNK Saving Bank Co., Ltd.	-	3,664,931	-	-
	BNK Asset Management Co., Ltd.	-	220,219	-	-
	BNK Credit Information Co., Ltd.	-	234,330	-	-
	BNK System Co., Ltd.	-	361,505	-	-
		₩ 79,370,284	₩ 125,601,718	₩ -	₩ 1,811,410

(in thousands of Korean won)		2018			
		Receivables		Payables	
Type	Name of entity	Loans / due from banks	Other assets	Deposit liabilities	Other liabilities
Subsidiaries	Busan Bank Co., Ltd.	₩ 129,670,748	₩ 66,445,333	₩ -	₩ 227,463
	Kyongnam Bank Co., Ltd.	-	-	-	22,926,349
	BNK Capital Co., Ltd.	-	5,102,717	-	-
	BNK Securities Co., Ltd.	-	5,265,366	-	-
	BNK Saving Bank Co., Ltd.	-	134,131	-	-
	BNK Asset Management Co., Ltd.	-	10,121	-	-
	BNK Credit Information Co., Ltd.	-	102,544	-	-
	BNK System Co., Ltd.	-	371,395	-	-
		₩ 129,670,748	₩ 77,431,607	₩ -	₩ 23,153,812

The Company paid ₩ 198,704 thousand for the lease payments in relation to related parties for the year ended December 31, 2019.

Compensation for key executives for the years ended December 31, 2019 and 2018, are as follows:

(in thousands of Korean won)		**2019**		**2018**
Short-term employee benefits	₩	1,186,439	₩	1,046,726
Performance compensation		890,527		335,332
Post-employment benefits		240,000		259,100

28. Changes in Accounting Policies

As explained in Note 2.2.(a), the Company 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 separate statement of financial position on January 1, 2019.

On adoption of Korean IFRS 1116, the Company 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 weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 1.99 ~ 2.26%.

For leases previously classified as 'finance leases', the Company recognized the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of Korean IFRS 1116 are only applied after that date. The remeasurements to the lease liabilities were recognized as adjustments to the related right-of-use assets immediately after the date of initial application.

(in thousands of Korean won)

Operating lease commitments disclosed as at December 31, 2018	₩	1,178,064
Discounted using the lessee's incremental borrowing rate of at the date of initial application		1,138,362
Lease liability recognized as at January 1, 2019	₩	1,138,362

The associated right-of-use assets for leases 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 separate 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.

(a) Amounts recognized in the separate statement of financial position

(in thousands of Korean won)		**December 31, 2019**
Right-of-use assets[1]		
Properties	₩	740,188
Vehicles		241,711
	₩	981,899
Lease liabilities[2]		
Lease liabilities	₩	847,197
Lease liabilities – present value discounts		(27,277)
	₩	819,920

[1] Included in the line item 'property and equipment' in the separate statement of financial position
[2] Included in the line item 'other liabilities' in the separate statement of financial position

(b) Amounts recognized in the separate statement of profit or loss

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

(in thousands of Korean won)	**2019**			
	Property	**Vehicles**	**Others**	**Total**
Depreciation of right-of-use assets	₩ 742,796	₩ 198,760	₩ -	₩ 941,556
Interest expense relating to lease liabilities	9,435	7,340	-	16,775
	₩ 752,231	₩ 206,100	₩ -	₩ 958,331
Expense relating to leases of low-value assets that are not short-term leases	₩ -	₩ -	₩ 27,001	₩ 27,001

The total cash outflow for leases in 2019 was ₩ 582,184.

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

(in thousands of Korean won)		**January 1, 2019**
Right-of-use assets	₩	1,671,529
Prepayments		(533,167)
Lease liabilities		1,138,362

(i) Practical expedients applied

In applying Korean IFRS 1116 for the first time, the Company 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 Company 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 Company relied on its assessment made applying Korean IFRS 1017 and Interpretation 2104 *Determining whether an Arrangement contains a Lease*.

(c) The Company's leasing activities and how these are accounted for

The Company leases various offices, equipment and cars. Rental contracts are typically made for fixed periods of 1 to 5 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 Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

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

29. Events After the Reporting Period

The Company determined issuance terms and conditions of write-down contingent capital securities amounting to ₩ 150,000 million for capital increase of its affiliated companies and operating fund for its holding companies, and issued them on February 19, 2020.

Report on Independent Auditor's Audit of Internal Control over Financial Reporting

(English Translation of a Report Originally Issued in Korean)

To the Chief Executive Officer of
BNK Financial Group Inc.

Opinion on Internal Control over Financial Reporting

We have audited BNK Financial Group Inc.'s (the Company) Internal Control over Financial Reporting as at December 31, 2019, based on *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting*.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at December 31, 2019, based on the *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting*.

We also have audited, in accordance with Korean Standards on Auditing, the separate financial statements of the Company, which comprise the separate statement of financial position as at December 31, 2019, and the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flow for the year then ended, and notes to the separate financial statements including a summary of significant accounting policies, and our report dated March 12, 2020, expressed an unqualified opinion.

Basis for Opinion on Internal Control over Financial Reporting

We conducted our audit in accordance with Korean Standards on Auditing. Our responsibility under these standards are further described in the *Auditor's Responsibilities for the Audit of Internal Control over Financial Reporting* section of our report. We are independent of the Company in accordance with the ethical requirements of the Republic of Korea that are relevant to our audit of internal control over financial reporting 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.

Responsibilities of Management and Those Charged with Governance for Internal Control over Financial Reporting

Management is responsible for designing, implementing and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying *Report on the Effectiveness of the Internal Control over Financial Reporting*.

Those charged with governance have the responsibilities for overseeing internal control over financial reporting.

Auditor's Responsibilities for the Audit of Internal Control over Financial Reporting

Our responsibility is to express opinion on the Company's internal control over financial reporting based on our audit. We conducted the audit in accordance with Korean Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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 Company's internal control over financial reporting 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.

Report on the Effectiveness of Internal Control over Financial Reporting

(English Translation of a Report Originally Issued in Korean)

To the Shareholders, Board of Directors and Audit Committee of
BNK FINANCIAL GROUP Inc.

We, as the Chief Executive Officer (CEO) and the Internal Control over Financial Reporting Officer of BNK FINANCIAL GROUP Inc. (the Company), assessed the effectiveness of the design and operation of the Company's Internal Control over Financial Reporting (ICFR) for the year ended December 31, 2019.

The Company's management, including ourselves, is responsible for designing and operating ICFR. We assessed the design and operating effectiveness of the ICFR in the prevention and detection of an error or fraud which may cause material misstatements in the preparation and disclosure of reliable financial statements. We designed and operated ICFR in accordance with *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting* established by the Operating Committee of Internal Control over Financial Reporting in Korea (the ICFR Committee). And, we conducted an evaluation of ICFR based on *Best Practice Guideline for Evaluating and Reporting Effectiveness of Internal Control over Financial Reporting* established by the ICFR Committee.

Based on the assessment results, we believe that the Company's ICFR, as at December 31, 2019, is designed and operating effectively, in all material respects, in accordance with *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting*.

We certify that this report does not contain any untrue statement of a fact, or omit to state a fact necessary to be presented herein. We also certify that this report does not contain or present any statement which cause material misunderstandings, and we have reviewed and verified this report with sufficient due care.

February 27, 2020

Ji Wan Kim,
Chief Executive Officer

Hyung Kook Myung,
Internal Control over Financial Reporting Officer