

BNK FINANCIAL GROUP INC.

Separate Interim Financial Statements

June 30, 2019 and 2018

BNK FINANCIAL GROUP INC.
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Report on Review of Interim Financial Statements

(English Translation of a Report Originally Issued in Korean)

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

Reviewed Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Conclusion

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

Other Matters

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

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

Seoul, Korea
August 14, 2019

<p>This report is effective as of August 14, 2019, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying 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.</p>
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BNK FINANCIAL GROUP INC.
Separate Interim Statements of Financial Position
June 30, 2019 and December 31, 2018

(in thousands of Korean won)

	Notes	June 30, 2019 (Unaudited)	December 31, 2018
Assets			
Cash and due from banks	5,6	₩ 142,182,538	₩ 129,670,748
Investments in subsidiaries	7	5,879,457,231	5,879,457,231
Loans and receivables	4,5,6	106,664,871	55,404,016
Property and equipment	8	12,802,286	11,113,619
Intangible assets	9	2,529,689	2,466,748
Other assets	10	2,611,227	2,620,340
Total assets		<u>₩ 6,146,247,842</u>	<u>₩ 6,080,732,702</u>
Liabilities			
Debentures	5,11	₩ 1,188,660,204	₩ 1,158,622,428
Net defined benefit liabilities	12	6,394,239	4,636,345
Current tax liabilities		85,066,118	35,069,462
Other liabilities	13	13,752,130	78,440,146
Total liabilities		<u>1,293,872,691</u>	<u>1,276,768,381</u>
Equity			
Share capital	14	1,629,676,230	1,629,676,230
Hybrid equity securities	14	608,183,851	508,521,371
Other paid-in capital	14	2,276,821,837	2,276,821,837
Other components of equity	14	(4,092,266)	(3,247,059)
Retained earnings	15	341,785,499	392,191,942
Total equity		<u>4,852,375,151</u>	<u>4,803,964,321</u>
Total liabilities and equity		<u>₩ 6,146,247,842</u>	<u>₩ 6,080,732,702</u>

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

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

		Period Ended June 30			
		2019 (Unaudited)		2018 (Unaudited)	
(in thousands of Korean won, except per share amounts)	Notes	Three months	Six months	Three months	Six months
Net interest income	16				
Interest income		W 221,614	W 431,684	W 149,938	W 156,557
Interest expenses		(8,151,831)	(16,401,383)	(7,604,686)	(15,014,314)
		<u>(7,930,217)</u>	<u>(15,969,698)</u>	<u>(7,454,748)</u>	<u>(14,857,757)</u>
Net fee and commission income	17				
Commission revenues		2,643,950	5,287,900	2,536,100	5,071,850
Commission expenses		(388,045)	(618,714)	(281,073)	(746,506)
		<u>2,255,905</u>	<u>4,669,186</u>	<u>2,255,027</u>	<u>4,325,344</u>
Dividend income		-	88,983,919	-	91,081,919
General and administrative expenses	18	(8,754,467)	(17,281,889)	(8,196,832)	(15,360,668)
Operating profit (loss)		<u>(14,428,779)</u>	<u>60,401,518</u>	<u>(13,396,553)</u>	<u>65,188,838</u>
Non-operating revenue (expense)	19				
Non-operating revenue		38,736	176,866	33,134	115,775
Non-operating expense		(337,860)	(374,160)	(72,739)	(83,039)
		<u>(299,124)</u>	<u>(197,294)</u>	<u>(39,605)</u>	<u>32,736</u>
Profit (loss) before income tax		(14,727,903)	60,204,225	(13,436,158)	65,221,574
Income tax expense		-	-	-	-
Profit (loss) for the period		<u>(14,727,903)</u>	<u>60,204,225</u>	<u>(13,436,158)</u>	<u>65,221,574</u>
Other comprehensive income, net of tax		<u>(845,207)</u>	<u>(845,207)</u>	<u>48,613</u>	<u>48,613</u>
<i>Items that will not be reclassified to profit or loss</i>					
Remeasurements of net defined benefit liabilities		(845,207)	(845,207)	48,613	48,613
Total comprehensive income (loss) for the period		<u>W (15,573,110)</u>	<u>W 59,359,018</u>	<u>W (13,387,545)</u>	<u>W 65,270,187</u>
Earnings (loss) per share (in Korean won)	20				
Basic earnings (loss) and diluted earnings (loss) per share		W (69)	W 145	W (59)	W 170

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

BNK FINANCIAL GROUP INC.

Separate Interim Statements of Changes in Equity Six-Month Periods Ended June 30, 2019 and 2018

<i>(in thousands of Korean won)</i>	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		-		-		-		-		(9,843,319)		(9,843,319)
Dividends		-		-		-		-		(74,961,690)		(74,961,690)
Total comprehensive income												
Profit for the period		-		-		-		-		65,221,574		65,221,574
Other comprehensive income												
Remeasurements of net defined benefit liabilities		-		-		-		48,613		-		48,613
Balance at June 30, 2018 (Unaudited)	₩	1,629,676,230	₩	508,521,371	₩	2,276,821,837	₩	(3,074,682)	₩	439,996,132	₩	4,851,940,888
Balance at January 1, 2019	₩	1,629,676,230	₩	508,521,371	₩	2,276,821,837	₩	(3,247,059)	₩	392,191,942	₩	4,803,964,321
Issuance of hybrid equity securities		-		99,662,480		-		-		-		99,662,480
Dividends on hybrid equity securities		-		-		-		-		(12,834,549)		(12,834,549)
Dividends		-		-		-		-		(97,776,117)		(97,776,117)
Total comprehensive income												
Profit for the period		-		-		-		-		60,204,223		60,204,223
Other comprehensive income												
Remeasurements of net defined benefit liabilities		-		-		-		(845,207)		-		(845,207)
Balance at June 30, 2019 (Unaudited)	₩	1,629,676,230	₩	608,183,851	₩	2,276,821,837	₩	(4,092,266)	₩	341,785,499	₩	4,852,375,151

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

BNK FINANCIAL GROUP INC.

Separate Interim Statements of Cash Flows

Six-Month Periods Ended June 30, 2019 and 2018

	Six-Month Period Ended June 30			
	2019 (Unaudited)		2018 (Unaudited)	
<i>(in thousands of Korean won)</i>				
Cash flows from operating activities				
Profit for the period	₩	60,204,223	₩	65,221,574
Adjustments to profit for the period:				
Interest income		(431,683)		(156,557)
Interest expense		16,401,383		15,014,314
Depreciation		907,314		453,975
Amortization		46,083		47,361
Gain on disposal of property and equipment		(12)		(12,726)
Post-employment benefit		1,325,066		1,174,272
Dividend income		(88,983,919)		(91,081,919)
		<u>(70,735,768)</u>		<u>(74,561,280)</u>
Changes in operating assets and liabilities:				
Increase in receivables		-		(9,407,780)
Decrease in net defined benefit liabilities		(412,379)		(338,003)
Decrease (increase) in other assets		9,113		(101,904)
Decrease in other liabilities		(67,044,802)		(710,635)
		<u>(67,448,068)</u>		<u>(10,558,322)</u>
Interest received		156,733		156,862
Interest paid		(16,247,950)		(14,491,678)
Dividend received		88,983,919		91,081,919
Net cash inflow (outflow) from operating activities	₩	<u>(5,086,911)</u>	₩	<u>56,849,075</u>
Cash flows from investing activities				
Payments for investments in subsidiaries	₩	-	₩	(200,000,000)
Payments for property and equipment		(748,279)		(1,223,911)
Disposal of property and equipment		-		12,727
Payments for intangible assets		(118,568)		(783,361)
Disposal of intangible assets		10,000		-
Others		(1,549,757)		-
Net cash outflow from investing activities		<u>(2,406,604)</u>		<u>(201,994,545)</u>
Cash flows from financing activities				
Issuance of debentures		99,716,510		179,495,501
Repayment of debentures		(70,000,000)		(180,000,000)
Lease liabilities paid		(295,068)		-
Dividends paid		(97,776,117)		(74,961,690)
Issuance of hybrid equity securities		99,662,480		249,244,360
Dividends on hybrid equity securities		(11,302,500)		(8,171,212)
Net cash inflow from financing activities		<u>20,005,305</u>		<u>165,606,959</u>
Net increase in cash and cash equivalents		12,511,790		20,461,489
Cash and cash equivalents at the beginning of the period		<u>129,670,748</u>		<u>161,666,426</u>
Cash and cash equivalents at the end of the period	₩	<u>142,182,538</u>	₩	<u>182,127,915</u>

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

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

1. General Information

BNK Financial Group Inc. (the "Company") was established on March 15, 2011, pursuant to a "comprehensive shares transfer" under 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 addition, BNK Asset Management Co., Ltd. became a wholly owned subsidiary of the Company as the Company acquired additional shares of BNK Asset Management Co., Ltd. in December 2017.

The Company is headquartered in Busan Nam-gu Munhyeongeumyung-ro, 30.

The Company's share capital as at June 30, 2019, amounts to ₩1,629,676 million with 325,935,246 shares outstanding.

2. Significant Accounting Policies

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

2.1 Basis of Preparation

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

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

The preparation of financial statements requires the use of critical accounting estimates. Management also needs to exercise judgement in applying the 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.

2.1.1 New and amended standards and interpretations adopted by the Company

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

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

- Enactment of Korean IFRS 1116 *Leases*

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

With implementation of Korean IFRS 1116 *Lease*, 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 24.

- Amendments 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. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The amendment does not have a significant impact on the financial statements.

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

The Interpretation explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment, and includes guidance on how to determine whether each uncertain tax treatment is considered separately or together. It also presents examples of circumstances where a judgement or estimate is required to be reassessed. The enactment does not have a significant impact on the financial statements.

2.1.2 New standards and interpretations not yet adopted by the Company

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

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.

2.2 Significant Accounting Policies

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

2.2.1 Income Tax Expense

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

2.2.2 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.

3. Critical Accounting Estimates and Assumptions

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

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

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

4. Financial Risk Management

The financial risks that the Company is exposed to are credit risk, liquidity risk, operation risk and others.

There has not been a significant change in the Company's purpose of financial risk management and risk management policy since December 31, 2018.

4.1 Credit Risk

Loans and receivables by credit risk category as at June 30, 2019 and December 31, 2018 are as follows:

<i>(in thousands of Korean won)</i>	June 30, 2019	December 31, 2018
Loans and receivables	₩ 106,664,871	₩ 55,404,016

Credit risk by impairment of loans and receivables is summarized as at June 30, 2019 and December 31, 2018, as follows:

(in thousands of Korean won)

	June 30, 2019					
	12 months expected credit losses	Expected lifetime credit losses		Total	Allowance for credit loss	Carrying amount
		Unrecognized impairment	Recognized impairment			
Loans and receivables¹						
Non-trade receivables	₩ 85,066,118	₩ -	₩ -	₩ 85,066,118	₩ -	₩ 85,066,118
Guarantee deposits provided	21,519,079	-	-	21,519,079	-	21,519,079
Accrued income	79,674	-	-	79,674	-	79,674
	<u>₩106,664,871</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩106,664,871</u>	<u>₩ -</u>	<u>₩106,664,871</u>

(in thousands of Korean won)

	December 31, 2018					
	12 months expected credit losses	Expected lifetime credit losses		Total	Allowance for credit loss	Carrying amount
		Unrecognized impairment	Recognized impairment			
Loans and receivables¹						
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
	<u>₩ 55,404,016</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 55,404,016</u>	<u>₩ -</u>	<u>₩ 55,404,016</u>

¹ All of loans and receivables have fine credit quality.

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

4.2 Capital Management

In accordance with regulation on Supervision of Financial Holding Companies, for capital risk management, the Company monitors its 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

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 six-month period ended June 30, 2019.

5.1 Fair Value of Financial Instruments by Category

Carrying amount and fair value of financial instruments by category as at June 30, 2019 and December 31, 2018, are as follows:

(in thousands of Korean won)

	June 30, 2019		December 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets at amortized cost				
Cash and due from banks	₩ 142,182,538	₩ 142,182,538	₩ 129,670,748	₩ 129,670,748
Loans and receivables	106,664,871	106,664,871	55,404,016	55,404,016
	<u>₩ 248,847,409</u>	<u>₩ 248,847,409</u>	<u>₩ 185,074,764</u>	<u>₩ 185,074,764</u>
Financial liabilities at amortized cost				
Debentures	₩ 1,188,660,204	₩ 1,212,409,890	₩ 1,158,622,428	₩ 1,175,714,750
Other financial liabilities ¹	12,240,855	12,240,855	15,352,786	15,352,786
	<u>₩ 1,200,901,059</u>	<u>₩ 1,224,650,745</u>	<u>₩ 1,173,975,214</u>	<u>₩ 1,191,067,536</u>

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

BNK FINANCIAL GROUP INC.
Notes to the Separate Interim Financial Statements
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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. DCF Model is used to determine the fair value of general deposits. For those general deposits with the residual maturities of less than three months as at the closing date and the ones with a reset period of less than three months, the carrying amount is regarded as fair value.
Loans and receivables	DCF is used to determine the fair value of loans and receivables. Fair value is determined by using appropriate discount rate to calculate the expected cash flows by contractual cash flows with prepayment rate taken into account. For those loans and receivables with the residual maturities of less than three months as of the closing date and the ones with a reset period of less than three months, the carrying amount is regarded as fair value.
Debentures	Fair value is determined by using the valuation of independent third-party pricing services in accordance with the market prices that are quoted in active markets.
Other financial liabilities	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 June 30, 2019 and December 31, 2018, are as follows:

(in thousands of Korean won)

	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and due from banks	₩ 142,182,538	₩ -	₩ -	₩ 142,182,538
Loans and receivables ¹	-	-	106,664,871	106,664,871
	<u>₩ 142,182,538</u>	<u>₩ -</u>	<u>₩ 106,664,871</u>	<u>₩ 248,847,409</u>
Financial liabilities				
Debentures	₩ -	₩ 1,212,409,890	₩ -	₩ 1,212,409,890
Other financial liabilities ¹	-	-	12,240,855	12,240,855
	<u>₩ -</u>	<u>₩ 1,212,409,890</u>	<u>₩ 12,240,855</u>	<u>₩ 1,224,650,745</u>

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

(in thousands of Korean won)

	December 31, 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
	<u>₩ 129,670,748</u>	<u>₩ -</u>	<u>₩ 55,404,016</u>	<u>₩ 185,074,764</u>
Financial liabilities				
Debentures	₩ -	₩ 1,175,714,750	₩ -	₩ 1,175,714,750
Other financial liabilities ¹	-	-	15,352,786	15,352,786
	<u>₩ -</u>	<u>₩ 1,175,714,750</u>	<u>₩ 15,352,786</u>	<u>₩ 1,191,067,536</u>

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 classified as Level 2 as at June 30, 2019 and December 31, 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 variables
	June 30, 2019	December 31, 2018		
Financial liabilities				
Debentures	₩ 1,212,409,890	₩ 1,175,714,750	DCF Model	Discount rate

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6. Financial Assets

6.1 Cash and Due from Banks

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

(in thousands of Korean won)

Classification	Financial institution	Interest rate (%)	June 30, 2019		December 31, 2018	
Cash in bank	Busan Bank	-	₩	138,574,139	₩	128,974,800
Corporate savings deposits	Busan Bank	-		3,608,399		695,948
			₩	<u>142,182,538</u>	₩	<u>129,670,748</u>

6.2 Loans and Receivables

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

(in thousands of Korean won)

	June 30, 2019		December 31, 2018	
Accounts receivable	₩	85,066,117	₩	35,069,462
Guarantee deposits provided		21,519,080		20,333,758
Accrued income		79,674		796
	₩	<u>106,664,871</u>	₩	<u>55,404,016</u>

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7. Investments in Subsidiaries

The details of investments in subsidiaries as at June 30, 2019 and December 31, 2018, are as follows:

(in thousands of Korean won)

Name of subsidiaries	Location	June 30, 2019		
		Closing month	Percentage of ownership	Carrying amount
Busan Bank Co., Ltd.	Korea	December	100%	₩ 2,968,140,154
Kyongnam Bank Co., Ltd.	Korea	December	100%	1,949,160,438
BNK Capital Co., Ltd.	Korea	December	100%	378,488,236
BNK Securities Co., Ltd.	Korea	December	100%	384,166,758
BNK Savings Bank Co., Ltd.	Korea	December	100%	115,000,600
BNK Asset Management Co., Ltd.	Korea	December	100%	77,050,000
BNK Credit Information Co., Ltd.	Korea	December	100%	4,451,045
BNK System Co., Ltd.	Korea	December	100%	3,000,000
				<u>₩ 5,879,457,231</u>

(in thousands of Korean won)

Name of subsidiaries	Location	December 31, 2018		
		Closing month	Percentage of ownership	Carrying amount
Busan Bank Co., Ltd.	Korea	December	100%	₩ 2,968,140,154
Kyongnam Bank Co., Ltd.	Korea	December	100%	1,949,160,438
BNK Capital Co., Ltd.	Korea	December	100%	378,488,236
BNK Securities Co., Ltd.	Korea	December	100%	384,166,758
BNK Savings Bank Co., Ltd.	Korea	December	100%	115,000,600
BNK Asset Management Co., Ltd.	Korea	December	100%	77,050,000
BNK Credit Information Co., Ltd.	Korea	December	100%	4,451,045
BNK System Co., Ltd.	Korea	December	100%	3,000,000
				<u>₩ 5,879,457,231</u>

Changes in investments in subsidiaries for the six-month period ended June 30, 2019 and year ended December 31, 2018, are as follows:

(in thousands of Korean won)

	June 30, 2019		December 31, 2018	
Beginning balance	₩	5,879,457,231	₩	5,649,457,231
Acquisition		-		230,000,000
Ending balance	₩	<u>5,879,457,231</u>	₩	<u>5,879,457,231</u>

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8. Property and Equipment

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

<i>(in thousands of Korean won)</i>	2019						
	Beginning balance	Changes in accounting policy	Acquisition	Disposal	Depreciation	Transfer	Ending balance
Leasehold improvements	₩ 744,688	₩ -	₩ 45,018	₩ -	₩ (105,245)	₩ -	₩ 684,461
Equipment and vehicles	1,646,263	-	284,832	-	(334,361)	289,647	1,886,381
Right-of-use assets	-	1,671,529	185,447	(6,938)	(467,708)	-	1,382,330
Construction in progress	8,722,668	-	416,549	-	-	(290,103)	8,849,114
	<u>₩ 11,113,619</u>	<u>₩ 1,671,529</u>	<u>₩ 931,847</u>	<u>₩ (6,938)</u>	<u>₩ (907,314)</u>	<u>₩ (456)</u>	<u>₩ 12,802,286</u>

<i>(in thousands of Korean won)</i>	2018						
	Beginning balance	Changes in accounting policy	Acquisition	Disposal	Depreciation	Transfer	Ending balance
Leasehold improvements	₩ 286,939	₩ -	₩ 408,800	₩ -	₩ (75,878)	₩ -	₩ 619,861
Equipment and vehicles	1,764,583	-	397,372	(1)	(378,097)	-	1,783,857
Construction in progress	7,034,711	-	417,739	-	-	-	7,452,450
	<u>₩ 9,086,233</u>	<u>₩ -</u>	<u>₩ 1,223,911</u>	<u>₩ (1)</u>	<u>₩ (453,975)</u>	<u>₩ -</u>	<u>₩ 9,856,168</u>

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9. Intangible Assets

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

<i>(in thousands of Korean won)</i>	2019					
	Beginning balance	Acquisition	Amortization	Disposal	Transfer	Ending balance
Software	₩ 86,790	₩ -	₩ (46,083)	₩ -	₩ -	₩ 40,707
Membership rights	2,276,318	118,073	-	(10,000)	-	2,384,391
Trademark	103,640	495	-	-	456	104,591
	₩ 2,466,748	₩ 118,568	₩ (46,083)	₩ (10,000)	₩ 456	₩ 2,529,689

<i>(in thousands of Korean won)</i>	2018					
	Beginning balance	Acquisition	Amortization	Disposal	Transfer	Ending balance
Software	₩ 179,888	₩ -	₩ (47,361)	₩ -	₩ -	₩ 132,527
Membership rights	1,434,127	783,361	-	-	-	2,217,488
Trademark	103,640	-	-	-	-	103,640
	₩ 1,717,655	₩ 783,361	₩ (47,361)	₩ -	₩ -	₩ 2,453,655

10. Other Assets

The details of other assets as at June 30, 2019 and December 31, 2018, consist of the following:

<i>(In thousands of Korean won)</i>	June 30, 2019	December 31, 2018
Advance payments and others	₩ 2,611,227	₩ 2,620,340

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11. Debentures

The details of debentures as at June 30, 2019 and December 31, 2018, are as follows:

<i>(in thousands of Korean won)</i>	Issuance date	Maturity date	Interest rate (%)		June 30, 2019	December 31, 2018
			as at June 30,			
			2019			
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	100,000,000
10th non-guaranteed coupon bonds	2014-09-24	2019-09-24	2.80		150,000,000	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
22th non-guaranteed coupon bonds	2017-09-26	2022-09-26	2.46		100,000,000	100,000,000
23th 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
25-1st 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 coupon bonds	2019-06-14	2024-06-14	1.78		100,000,000	-
					1,190,000,000	1,160,000,000
					(1,339,796)	(1,377,572)
					₩ 1,188,660,204	₩ 1,158,622,428

Less: present value discounts

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

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Details of issuance and repayment of debentures for the six-month periods ended June 30, 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	₩ 100,000,000	₩ (70,000,000)	₩ 1,190,000,000

(in thousands of Korean won)

	2018			
	Beginning balance	Issuance	Repayment	Ending balance
Debentures in Korean won	₩ 1,140,000,000	₩ 180,000,000	₩ (180,000,000)	₩ 1,140,000,000

12. Post-employment Benefits

Details of net defined benefit liabilities recognized in the statements of financial position as at June 30, 2019 and December 31, 2018, are as follows:

(in thousands of Korean won)

	June 30, 2019		December 31, 2018	
Present value of defined benefit obligations	₩	14,536,259	₩	12,551,457
Fair value of plan assets		(8,142,020)		(7,915,112)
Net defined benefit liabilities	₩	6,394,239	₩	4,636,345

Income and expenses related to net defined benefit liabilities for the six-month periods ended June 30, 2019 and 2018, are as follows:

(in thousands of Korean won)

	2019		
	Present value of defined benefit obligations	Fair value of plan assets	Total
Current service cost	₩ 1,268,493	₩ -	₩ 1,268,493
Interest expense (income)	162,447	(105,874)	56,573
	₩ 1,430,940	₩ (105,874)	₩ 1,325,066

(in thousands of Korean won)

	2018		
	Present value of defined benefit obligation	Fair value of plan assets	Total
Current service cost	₩ 1,119,190	₩ -	₩ 1,119,190
Interest expense (income)	165,216	(110,134)	55,082
	₩ 1,284,406	₩ (110,134)	₩ 1,174,272

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13. Other Liabilities

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

<i>(in thousands of Korean won)</i>	June 30, 2019		December 31, 2018	
Non-trade payables	₩	2,823,268	₩	4,954,028
Accrued expenses		8,105,959		10,088,758
Lease liabilities		1,001,628		-
Others ¹		1,821,275		63,397,360
	₩	13,752,130	₩	78,440,146

¹ Others consist of suspense payables in Korean won, value added tax withheld, and miscellaneous liabilities.

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

<i>(in thousands of Korean won)</i>	2019					Total
	Less than 1 month	1 month ~ 3 months	3 ~ 12 months	1 year ~ 5 years	More than 5 years	
Lease liabilities	₩ 49,069	₩ 97,138	₩ 311,035	₩ 578,773	₩ -	₩1,036,015

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14. Share Capital and Other Paid-in Capital

(a) Share Capital

As at June 30, 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 June 30, 2019, are as follows:

(in thousands of Korean won)

	Issue date	Maturity	Interest rates (%)	June 30, 2019
	2015-06-24	2045-06-24	4.60	₩ 80,000,000
	2015-06-24	2045-06-24	5.10	30,000,000
Hybrid equity securities in	2015-08-31	2045-08-31	4.48	150,000,000
Korean won	2018-02-13	-	4.83	100,000,000
	2018-03-02	-	4.26	150,000,000
	2019-02-20	-	3.74	100,000,000
Issuance cost				(1,816,149)
				<u>₩ 608,183,851</u>

The Company can exercise its right to early repayment after 5 or 10 years from issuance of hybrid equity securities and the Company, on the maturity date, at its discretion may extend the maturity with the same term. In addition, if the Company decides not to pay dividends on the ordinary shares, 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.

(d) Other components of equity

Other components of equity for the six-month periods ended June 30, 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)	₩ (845,207)	₩ (4,092,266)

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<i>(in thousands of Korean won)</i>	2018		
	Beginning balance	Increase	Ending balance
Remeasurements of net defined benefit liabilities	₩ (3,123,295)	₩ 48,613	₩ (3,074,682)

15. Retained Earnings

Retained earnings as at June 30, 2019 and December 31, 2018, consist of:

<i>(in thousands of Korean won)</i>	June 30, 2019	December 31, 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
	<u>294,415,824</u>	<u>384,617,407</u>
Retained earnings before appropriation	<u>47,369,675</u>	<u>7,574,535</u>
	<u>₩ 341,785,499</u>	<u>₩ 392,191,942</u>

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

<i>(in thousands of Korean won)</i>	June 30, 2019	December 31, 2018
Provided regulatory reserve	₩ 175,000	₩ 169,000
Expected provision of reserve for credit losses	186,000	6,000
	<u>₩ 361,000</u>	<u>₩ 175,000</u>

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Expected provision of reserve for credit losses, adjusted profit (loss) after the expected provision of regulatory reserve and adjusted earnings (loss) per share after the expected provision of regulatory reserve for the three-month and six-month periods ended June 30, 2019 and 2018, are as follows:

(in thousands of Korean won, except for earnings per share)

	2019		2018	
	Three months	Six months	Three months	Six months
Profit (loss) for the period	₩ (14,727,902)	₩ 60,204,223	₩ (13,436,158)	₩ 65,221,574
Provision of reserve for credit losses	-	(186,000)	(14,000)	(119,000)
Adjusted profit (loss) after the provision of regulatory reserve ¹	₩ (14,727,902)	₩ 60,018,223	₩ (13,450,158)	₩ 65,102,574
Adjusted earnings (loss) per share after the provision of regulatory reserve ¹ <i>(in Korean won)</i>	₩ (84)	₩ 145	₩ (59)	₩ 170

¹ Profit (loss) and earnings (loss) 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 (loss) for the period. Earnings (loss) per share after the expected provision of reserve for credit losses are presented net of dividends on hybrid equity securities.

16. Net Interest Loss

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

(in thousands of Korean won)

	2019		2018	
	Three months	Six months	Three months	Six months
Interest income:				
Cash and due from banks	₩ 121,577	₩ 235,611	₩ 149,938	₩ 156,557
Other interest income:				
Present value discounts	100,037	196,073	-	-
	221,614	431,684	149,938	156,557
Interest expenses:				
Debentures	(8,147,663)	(16,391,193)	(7,604,686)	(15,014,314)
Lease liabilities	(3,602)	(9,058)	-	-
Miscellaneous interest:				
Provision for restoration costs	(566)	(1,132)	-	-
	(8,151,831)	(16,401,383)	(7,604,686)	(15,014,314)
Net interest loss	₩ (7,930,217)	₩ (15,969,699)	₩ (7,454,748)	₩ (14,857,757)

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17. Net Commission Income

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

(in thousands of Korean won)

	2019		2018	
	Three months	Six months	Three months	Six months
Commission income:				
Brand income	₩ 2,643,750	₩ 5,287,500	₩ 2,535,750	₩ 5,071,500
Other commission income	200	400	350	350
	<u>2,643,950</u>	<u>5,287,900</u>	<u>2,536,100</u>	<u>5,071,850</u>
Commission expenses:				
Other commission expenses	<u>(388,045)</u>	<u>(618,714)</u>	<u>(281,073)</u>	<u>(746,506)</u>
Net commission income	<u>₩ 2,255,905</u>	<u>₩ 4,669,186</u>	<u>₩ 2,255,027</u>	<u>₩ 4,325,344</u>

18. General and Administrative Expenses

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

(in thousands of Korean won)

	2019		2018	
	Three months	Six months	Three months	Six months
Employee benefits:				
Salaries	₩ 4,687,904	₩ 8,626,337	₩ 3,734,043	₩ 7,329,916
Employee benefits	1,014,188	1,997,299	1,056,717	1,854,464
Post-employment benefits	<u>662,533</u>	<u>1,325,066</u>	<u>587,136</u>	<u>1,174,272</u>
	<u>6,364,625</u>	<u>11,948,702</u>	<u>5,377,896</u>	<u>10,358,652</u>
Rent expense	88,167	172,641	295,976	632,909
Business promotion expenses	463,944	885,723	217,756	579,626
Depreciation	907,314	907,314	230,564	453,975
Amortization	46,083	46,083	23,681	47,361
Taxes and dues ¹	184,719	184,719	40,207	125,562
Other administrative expenses	<u>699,615</u>	<u>3,136,707</u>	<u>2,010,752</u>	<u>3,162,583</u>
	<u>₩ 8,754,467</u>	<u>₩ 17,281,889</u>	<u>₩ 8,196,832</u>	<u>₩ 15,360,668</u>

¹ Comprised of other taxes and dues.

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(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 June 30, 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	6,898	28,604	36,812	110,980
Date of granted	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 granted	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

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	Deferred grant in 2019	Deferred grant in 2020	Deferred grant in 2021	Deferred grant in 2022
Residual shares ¹	6,948	8,013	3,856	1,652
Grant method	Cash-settled share- based payment	Cash-settled share- based payment	Cash-settled share- based payment	Cash-settled share- based payment
Exercise price	₩0	₩0	₩0	₩0
Settlement method	Cash	Cash	Cash	Cash
Vesting conditions	Vested	Vested	Vested	Vested

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

Changes in granted number of share options for the period ended June 30, 2019 and year ended December 31, 2018, are as follows:

i) Linked to short-term performance

<i>(in shares)</i>	June 30, 2019	December 31, 2018
Beginning balance	90,711	52,253
Granted	110,980	48,641
Exercised	17,338	10,183
Ending balance	<u>184,353</u>	<u>90,711</u>

ii) Linked to long-term performance

<i>(in shares)</i>	June 30, 2019	December 31, 2018
Beginning balance	106,015	103,225
Granted	9,293	27,520
Exercised	3,615	1,708
Others	(16,579)	(23,022)
Ending balance	<u>95,114</u>	<u>106,015</u>

<i>(in shares)</i>	Deferred grant	
	June 30, 2019	December 31, 2018
Beginning balance	19,138	14,243
Granted	4,946	6,603
Exercised	3,615	1,708
Ending balance	<u>20,469</u>	<u>19,138</u>

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

(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	₩ 7,490	-	23.80%	0.5 year	1.50%	₩ 7,379
Grant expected in 2021	Black-Scholes Model	7,490	-	22.62%	1.51 years	1.50%	7,162
Grant expected in 2022	Black-Scholes Model	7,490	-	21.05%	2.51 years	1.48%	6,953
Linked to short-term performance							
Share granted in 2017	Black-Scholes Model	7,490	-	23.80%	0.5 year	1.50%	7,379
Share granted in 2018	Black-Scholes Model	7,490	-	22.62%	1.51 years	1.50%	7,162
Share granted in 2019	Black-Scholes Model	7,490	-	21.05%	2.51 years	1.48%	6,953

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

(in thousands of Korean won)

	2019		2018	
	Three months	Six months	Three months	Six months
Linked to short-term performance	₩ 661,236	₩ 3,118,546	₩ (84,703)	₩ 931,839
Linked to long-term performance	86,835	99,717	119,236	310,458

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

(in thousands of Korean won)

	June 30, 2019		December 31, 2018	
Accrued expenses (short-term performance)	₩	2,488,843	₩	814,723
Accrued expenses (long-term performance)		709,206		710,776

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19. Net Non-operating Income (Loss)

Net non-operating income (loss) and non-operating income and expenses for the three-month and six-month periods ended June 30, 2019 and 2018, are as follows:

(in thousands of Korean won)

	2019		2018	
	Three months	Six months	Three months	Six months
Non-operating income:				
Miscellaneous income	₩ 38,724	₩ 176,854	₩ 20,408	₩ 103,049
Gain on disposal of property and equipment	12	12	12,726	12,726
	<u>38,736</u>	<u>176,866</u>	<u>33,134</u>	<u>115,775</u>
Non-operating expenses:				
Donations	(320,000)	(356,300)	(72,739)	(83,039)
Miscellaneous expense	(17,860)	(17,860)	-	-
	<u>(337,860)</u>	<u>(374,160)</u>	<u>(72,739)</u>	<u>(83,039)</u>
Net non-operating income (loss)	<u>₩ (299,124)</u>	<u>₩ (197,294)</u>	<u>₩ (39,605)</u>	<u>₩ 32,736</u>

20. Earnings (Loss) per Share

Basic earnings (loss) per share for the three-month and six-month periods ended June 30, 2019 and 2018, are as follows:

(in Korean won and shares)

	2019		2018	
	Three months	Six months	Three months	Six months
Net profit (loss) for the period	₩ (14,727,901,261)	₩ 60,204,223,457	₩ (13,436,158,715)	₩ 65,221,574,363
Dividends from hybrid equity securities	<u>(7,911,811,653)</u>	<u>(12,834,548,728)</u>	<u>(5,717,729,371)</u>	<u>(9,843,319,408)</u>
Profit (loss) attributable to ordinary equity holders	(22,639,712,914)	47,369,674,729	(19,153,888,086)	55,378,254,955
Weighted average number of ordinary shares outstanding	<u>325,920,391</u>	<u>325,920,391</u>	<u>325,920,391</u>	<u>325,920,391</u>
Basic earnings (loss) per share	<u>₩ (69)</u>	<u>₩ 145</u>	<u>₩ (59)</u>	<u>₩ 170</u>

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

(in shares)

2019					
Three months					
	Beginning	Ending	Days	Number of shares	Accumulation of days
Beginning	2019-04-01	2019-06-30	91	325,920,391	29,658,755,581
	Total		<u>91</u>		<u>29,658,755,581</u>
Weighted average number of ordinary shares outstanding					<u>325,920,391</u>

(in shares)

2019					
Six months					
	Beginning	Ending	Days	Number of shares	Accumulation of days
Beginning	2019-01-01	2019-06-30	181	325,920,391	58,991,590,771
	Total		<u>181</u>		<u>58,991,590,771</u>
Weighted average number of ordinary shares outstanding					<u>325,920,391</u>

(in shares)

2018					
Three months					
	Beginning	Ending	Days	Number of shares	Accumulation of days
Beginning	2018-04-01	2018-06-30	91	325,920,391	29,658,755,581
	Total		<u>91</u>		<u>29,658,755,581</u>
Weighted average number of ordinary shares outstanding					<u>325,920,391</u>

(in shares)

2018					
Six months					
	Beginning	Ending	Days	Number of shares	Accumulation of days
Beginning	2018-01-01	2018-06-30	181	325,920,391	58,991,590,771
	Total		<u>181</u>		<u>58,991,590,771</u>
Weighted average number of ordinary shares outstanding					<u>325,920,391</u>

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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 the 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 period.

21. Dividends

A dividend in respect of the year ended December 31, 2018, amounting to ₩97,776,117 thousand, was paid on April 9, 2019 (Previous payment amounts to ₩74,961,690 thousand).

22. Related Party Transactions

Related parties as at June 30, 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 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 1 st , 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 1 st , HDC Dual Private Securities Investment Trust 3 rd , 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 1 st , BNK Strong dividend Securities Investment Trust 1 st , Hanhwa Private Securities Investment Trust 104 th , Samsung Repo Professional Connection Private Securities Investment Trust 1st , Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 1st, Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 3rd, HDC Presto Private Securities Investment Trust 8 th , IBK Private Securities Investment Trust S2nd, NH-Amundi Enhanced Bond Private Securities Investment Trust, Consus Clean water Private Securities Investment Trust 1 st , SHBNPP Corporate Private Security Investment Trust 8 th , Yurie REPO Alpha Private Security Investment Turst 1 st , Kiwoom Frontier Private Security Investment Trust 11 th , Kiwoom Frontier Private Security Investment Trust 12 th , Petra 7 alpha Private Equity Partnership, BNK Smart Korea Private investment Trust, BNK New Start Goal Convertible Securities Investment Trust, KC Co., Ltd., M-Park Capital Co., Ltd.

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

(in thousands of Korean won)

Type	Name of entity	2019					Acquisition of property and equipment
		Revenues		Expenses			
		Interest revenues	Other revenues	Interest expenses	Other expenses		
Subsidiaries	Busan Bank Co., Ltd.	₩ 427,036	₩ 57,769,092	₩ -	₩ 1,133	₩ 27,341	
	Kyongnam Bank Co., Ltd.	-	25,732,068	-	-	-	
	BNK Capital Co., Ltd.	-	10,595,500	3,879	-	93,453	
	BNK Securities Co., Ltd.	-	156,500	-	123,779	-	
	BNK Saving Bank Co., Ltd.	-	60,700	-	-	-	
	BNK Asset Management Co., Ltd.	-	6,500	-	-	-	
	BNK Credit Information Co., Ltd.	-	5,200	-	-	-	
	BNK System Co., Ltd.	-	18,000	-	221,409	190,573	
		<u>₩ 427,036</u>	<u>₩ 94,343,560</u>	<u>₩ 3,879</u>	<u>₩ 346,321</u>	<u>₩ 311,367</u>	

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Type	Name of entity	2018					
		Revenues		Expenses		Acquisition of property and equipment	
		Interest revenues	Other revenues	Interest expenses	Other expenses		
Subsidiaries	Busan Bank Co., Ltd.	₩ 156,557	₩ 37,800,244	₩ -	₩ 187,603	₩ -	
	Kyongnam Bank Co., Ltd.	-	47,670,348	-	-	-	
	BNK Capital Co., Ltd.	-	10,531,000	-	123,244	-	
	BNK Securities Co., Ltd.	-	145,282	-	-	-	
	BNK Saving Bank Co., Ltd.	-	54,350	-	3,396	-	
	BNK Asset Management Co., Ltd.	-	5,500	-	5,050	-	
	BNK Credit Information Co., Ltd.	-	5,000	-	-	-	
	BNK System Co., Ltd.	-	15,500	-	211,165	129,284	
		₩ 156,557	₩ 96,227,224	₩ -	₩ 530,458	₩ 129,284	

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

(in thousands of Korean won)

Type	Name of entity	2019			
		Loan transactions		Investment	
		Loans	Repayments	Capital increase	Capital reduction
Subsidiaries	Busan Bank Co., Ltd.	₩ 360,095,524	₩ 347,583,734	₩ -	₩ -
		₩ 360,095,524	₩ 347,583,734	₩ -	₩ -

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(in thousands of Korean won)

		2018			
		Loan transactions		Investment	
Type	Name of entity	Loans	Repayments	Capital increase	Capital reduction
Subsidiaries	Busan Bank Co., Ltd.	₩ 285,330,934	₩ 264,869,444	₩ -	₩ -
	BNK Securities Co., Ltd.	-	-	200,000,000	-
		₩ 285,330,934	₩ 264,869,444	₩ 200,000,000	₩ -

Outstanding receivables and payables from related parties as at June 30, 2019 and December 31, 2018, are as follows:

(in thousands of Korean won)

		June 30, 2019			
		Receivables		Payables	
Type	Name of entity	Loans / due from banks	Other assets	Deposit liabilities	Other liabilities
Subsidiaries	Busan Bank Co., Ltd.	₩ 142,182,538	₩ 70,453,402	₩ -	₩ 488,976
	Kyongnam Bank Co., Ltd.	-	19,566,490	-	-
	BNK Capital Co., Ltd.	-	12,231,377	-	334,078
	BNK Securities Co., Ltd.	-	958,990	-	-
	BNK Saving Bank Co., Ltd.	-	2,553,368	-	-
	BNK Asset Management Co., Ltd.	-	80,462	-	-
	BNK Credit Information Co., Ltd.	-	135,001	-	-
	BNK System Co., Ltd.	-	131,459	-	-
			₩ 142,182,538	₩ 106,110,549	₩ -

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		December 31, 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	-	-
		<u>₩ 129,670,748</u>	<u>₩ 77,431,607</u>	<u>₩ -</u>	<u>₩ 23,153,812</u>

The Company paid ₩101,084 thousand for the lease payments in relation to related parties for the six-month period ended June 30, 2019.

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

<i>(in thousands of Korean won)</i>		2019		2018
Short-term employee benefits	₩	578,387	₩	757,476
Performance compensation		588,459		476,751
Post-employment benefits		174,033		129,550

23. Litigations

The Company filed a lawsuit against Korea Deposit Insurance Corporation to seek compensation for loss (litigation value: ₩53.2 billion) as at the end of the reporting period. On December 15, 2017, the court ordered Korea Deposit Insurance Corporation to pay ₩53.2 billion to the 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 returned back certain amount to Korea Deposit Insurance Corporation, and the amount of the liability has been revised including the interest paid after the end of the reporting period. 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 at the end of the reporting period.

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

24. Changes in Accounting Policies – Adoption of Korean IFRS 1116 Lease

As explained in Note 2.1.(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 incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 1.99 ~ 2.26%.

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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.

<i>(in thousands of Korean won)</i>	Amount	
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
Add: finance lease liabilities recognized as at December 31, 2018		-
Less: short-term leases recognized on a straight-line basis as expense		-
Less: low-value leases recognized on a straight-line basis as expense		-
Less: contracts reassessed as service agreements		-
Add/(less): adjustments as a result of a different treatment of extension and termination options		-
Add/(less): adjustments relating to changes in the index or rate affecting variable payments		-
Lease liability recognized as at January 1, 2019	₩	1,138,362

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the 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.

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

<i>(in thousands of Korean won)</i>	June 30, 2019	
Right-of-use assets ¹		
Properties	₩	1,038,643
Vehicles		343,687
	₩	1,382,330
Lease liabilities ²		
Lease liabilities	₩	1,036,015
Lease liabilities – present value discounts		(34,387)
	₩	1,001,628

¹ Included in the line item ‘property and equipment’ in the separate statements of financial position.

² Included in the line item ‘other liabilities’ in the separate statements of financial position.

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

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

	2019			
	Properties	Vehicles	Others	Total
Depreciation of right-of-use assets	₩ 370,924	₩ 96,784	₩ -	₩ 467,708
Interest expense relating to lease liabilities	5,016	4,042	-	9,058
	<u>₩ 375,941</u>	<u>₩ 100,826</u>	<u>₩ -</u>	<u>₩ 476,766</u>

The total cash outflow for leases in 2019 was ₩ 295,068 million.

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

	June 30, 2019
Property and equipment	₩ -
Right-of-use assets	1,671,529
Deferred tax assets	-
Prepayments	(533,167)
Borrowings	-
Lease liabilities	1,138,362

(a) 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*.

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(iii) 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.