

BNK FINANCIAL GROUP INC.

**CONDENSED INTERIM SEPARATE FINANCIAL STATEMENTS
AS OF JUNE 30, 2020, AND DECEMBER 31, 2019,
AND FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED
JUNE 30, 2020 AND 2019**

ATTACHMENT: INDEPENDENT AUDITORS' REPORT

BNK FINANCIAL GROUP INC.

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

English Translation of a Report Originally Issued in Korean on August 14, 2020.

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

Report on the Condensed Interim Separate Financial Statements

We have reviewed the accompanying condensed interim separate financial statements of BNK Financial Group Inc. (the "Company"). The condensed interim separate financial statements consist of the condensed interim separate statement of financial position as of June 30, 2020, the condensed interim separate statement of comprehensive income for the three-month and six-month periods ended June 30, 2020, and the condensed interim separate statement of changes in equity and the condensed interim separate statement of cash flows for the six-month period ended June 30, 2020, all expressed in Korean won, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Condensed Interim Separate Financial Statements

The Company's management is responsible for the preparation and fair presentation of the accompanying condensed interim separate financial statements in accordance with Korean International Financial Reporting Standard ("K-IFRS") 1034, *Interim Financial Reporting*, and for such internal control as management determines is necessary to enable the preparation of condensed interim separate financial statements that are free from material misstatement, whether due to fraud or error.

Independent Accountants' Responsibility

Our responsibility is to express a conclusion on the accompanying condensed interim separate financial statements based on our review.

We conducted our review in accordance with the standards for review of condensed interim separate financial statements in the Republic of Korea. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data, and this provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Review Conclusion

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



Others

The condensed interim separate statement of comprehensive income for the three-month and six-month periods ended June 30, 2019, and the condensed interim separate statement of changes in equity and the condensed interim separate statement of cash flows for the six-month period ended June 30, 2019, prepared in accordance with K-IFRS 1034 and presented for comparative purpose, have been reviewed by Samil PwC whose review report dated August 14, 2019, expressed an unqualified review opinion.

Moreover, the separate statement of financial position as of December 31, 2019, and the related separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended have been audited by Samil PwC, in accordance with the auditing standards generally accepted in the Republic of Korea (not presented herein), whose report dated March 12, 2020, expressed an unqualified opinion. The accompanying condensed separate statement of financial position as of December 31, 2019, presented for comparative purposes, is not different, in all material respects, from the above audited separate statement of financial position.

Deloitte Idnjin LLC

August 14, 2020

Notice to Readers

This report is effective as of August 14, 2020, the independent accountants' review report date. Certain subsequent events or circumstances may have occurred between the accountants' review report date and the time the accountants' review report is read. Such events or circumstances could significantly affect the condensed interim separate financial statements and may result in modifications to the independent accountants' review report.

BNK FINANCIAL GROUP INC.

CONDENSED INTERIM SEPARATE FINANCIAL STATEMENTS
AS OF JUNE 30, 2020, AND DECEMBER 31, 2019,
AND FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED
JUNE 30, 2020 AND 2019

The accompanying condensed interim separate financial statements, including all footnote disclosures, were prepared by, and are the responsibility of, the management of BNK Financial Group Inc.

Ji Wan Kim
President and Chief Executive Officer

Headquarters Address: (Road Name and Address) 30, Munhyeongeumyung-ro, Nam-gu, Busan
(Phone Number) 051-642-3300

BNK FINANCIAL GROUP INC.
Condensed Interim Separate Statements of Financial Position
As of June 30, 2020, and December 31, 2019

<i>(In thousands of Korean won)</i>	Notes	June 30, 2020 (Unaudited)	December 31, 2019
Assets			
Cash and due from banks	5,6	₩ 210,102,871	₩ 79,370,284
Investments in subsidiaries	7	5,999,937,231	5,900,057,231
Loans and receivables	4,5,6	111,237,818	125,313,655
Property and equipment	8	15,307,555	11,753,370
Intangible assets	9	4,127,998	4,206,553
Other assets	10	1,731,787	1,816,947
Total assets		<u>₩ 6,342,445,260</u>	<u>₩ 6,122,518,040</u>
Liabilities			
Debentures	5,11	1,128,559,881	1,028,710,380
Net defined benefit liabilities	12	8,537,590	7,556,850
Current tax liabilities		91,158,547	103,589,253
Other liabilities	13	10,001,613	11,857,263
Total liabilities		<u>1,238,257,631</u>	<u>1,151,713,746</u>
Equity			
Share capital	14	1,629,676,230	1,629,676,230
Hybrid equity securities	14	877,328,496	707,874,320
Other paid-in capital	14	2,269,653,772	2,276,821,837
Other components of equity	14	(4,771,792)	(4,062,913)
Retained earnings	15	332,300,923	360,494,820
Total equity		<u>5,104,187,629</u>	<u>4,970,804,294</u>
Total liabilities and equity		<u>₩ 6,342,445,260</u>	<u>₩ 6,122,518,040</u>

See notes to condensed interim separate financial statements.

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

BNK FINANCIAL GROUP INC.
**Condensed Interim Separate Statements of Comprehensive Income
for the Three-Month and Six-Month Periods Ended June 30, 2020 and 2019**

<i>(In thousands of Korean won, except per share amounts)</i>	Notes	Period Ended June 30			
		2020 (Unaudited)		2019 (Unaudited)	
		Three months	Six months	Three months	Six months
Net interest income	16				
Interest income		W 95,134	W 282,905	W 221,615	W 431,683
Interest expenses		<u>(7,058,017)</u>	<u>(13,942,942)</u>	<u>(8,151,830)</u>	<u>(16,401,383)</u>
		<u>(6,962,883)</u>	<u>(13,660,037)</u>	<u>(7,930,215)</u>	<u>(15,969,700)</u>
Net fee and commission income	17				
Commission revenues		2,718,150	5,433,850	2,643,950	5,287,900
Commission expenses		<u>(335,851)</u>	<u>(495,724)</u>	<u>(388,045)</u>	<u>(618,714)</u>
		<u>2,382,299</u>	<u>4,938,126</u>	<u>2,255,905</u>	<u>4,669,186</u>
Dividend income		-	130,077,004	-	88,983,919
General and administrative expenses	18	<u>(8,444,484)</u>	<u>(15,923,062)</u>	<u>(8,754,467)</u>	<u>(17,281,889)</u>
Operating profit (loss)		<u>(13,025,068)</u>	<u>105,432,031</u>	<u>(14,428,777)</u>	<u>60,401,516</u>
Non-operating revenue (expense)	19				
Non-operating revenue		43,545	133,134	38,736	176,866
Non-operating expense		<u>(90,700)</u>	<u>(126,470)</u>	<u>(337,860)</u>	<u>(374,160)</u>
		<u>(47,155)</u>	<u>6,664</u>	<u>(299,124)</u>	<u>(197,294)</u>
Profit (loss) before income tax		<u>(13,072,223)</u>	<u>105,438,695</u>	<u>(14,727,901)</u>	<u>60,204,222</u>
Income tax expense		-	-	-	-
Profit (loss) for the period		<u>(13,072,223)</u>	<u>105,438,695</u>	<u>(14,727,901)</u>	<u>60,204,222</u>
Other comprehensive income, net of tax		<u>247,902</u>	<u>(708,878)</u>	<u>(845,207)</u>	<u>(845,207)</u>
<i>Items that will not be reclassified to profit or loss</i>					
Remeasurements of net defined benefit liabilities		<u>247,902</u>	<u>(708,878)</u>	<u>(845,207)</u>	<u>(845,207)</u>
Total comprehensive income (loss) for the period		<u>W (12,824,321)</u>	<u>W 104,729,817</u>	<u>W (15,573,108)</u>	<u>W 59,359,015</u>
Earnings (loss) per share (in Korean won)	20				
Basic earnings (loss) and diluted earnings (loss) per share		W (67)	W 274	W (69)	W 145

See notes to condensed interim separate financial statements.

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

BNK FINANCIAL GROUP INC.
Condensed Interim Separate Statements of Changes in Equity
for the Six-Month Periods Ended June 30, 2020 and 2019

<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, 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)	₩	<u>1,629,676,230</u>	₩	<u>608,183,851</u>	₩	<u>2,276,821,837</u>	₩	<u>(4,092,266)</u>	₩	<u>341,785,499</u>	₩	<u>4,852,375,151</u>
Balance at January 1, 2020	₩	1,629,676,230	₩	707,874,320	₩	2,276,821,837	₩	(4,062,913)	₩	360,494,820	₩	4,970,804,294
Acquisition of treasury stocks		-	-	(6,997,497)	-	-	-	-	-	-	-	(6,997,497)
Disposal of treasury stocks		-	-	69,826	-	-	-	-	-	-	-	69,826
Issuance of hybrid equity securities		-	249,213,782	-	-	-	-	-	-	-	-	249,213,782
Repayment of hybrid equity securities		-	(79,759,605)	(240,395)	-	-	-	-	-	-	-	(80,000,000)
Dividends on hybrid equity securities		-	-	-	-	-	-	(16,301,250)	-	-	-	(16,301,250)
Dividends		-	-	-	-	-	-	(117,331,341)	-	-	-	(117,331,341)
Total comprehensive income												
Profit for the period		-	-	-	-	-	-	105,438,694	-	-	-	105,438,694
Other comprehensive income												
Remeasurements of net defined benefit liabilities		-	-	-	(708,878)	-	-	-	-	-	-	(708,878)
Balance at June 30, 2020 (Unaudited)	₩	<u>1,629,676,230</u>	₩	<u>877,328,497</u>	₩	<u>2,269,653,771</u>	₩	<u>(4,771,791)</u>	₩	<u>332,300,923</u>	₩	<u>5,104,187,630</u>

See notes to condensed interim separate financial statements.

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

BNK FINANCIAL GROUP INC.
**Condensed Interim Separate Statements of Cash Flows
for the Six-Month Periods Ended June 30, 2020 and 2019**

	Six-Month Period Ended June 30	
	2020 (Unaudited)	2019 (Unaudited)
<i>(In thousands of Korean won)</i>		
Cash flows from operating activities		
Profit for the period	₩ 105,438,694	₩ 60,204,223
Adjustments to profit for the period:		
Interest income	(282,905)	(431,683)
Interest expense	13,942,942	16,401,383
Depreciation	874,969	907,314
Amortization	88,224	46,083
Gain or on disposal of property and equipment	(997)	(12)
Postemployment benefit	1,199,185	1,325,066
Dividend income	(130,077,004)	(88,983,919)
	<u>(114,255,586)</u>	<u>(70,735,768)</u>
Changes in operating assets and liabilities:		
Increase in receivables	(13,617)	-
Decrease in net defined benefit liabilities	(927,324)	(412,379)
Decrease (increase) in other assets	85,160	9,113
Decrease in other liabilities	(2,036,843)	(67,044,802)
	<u>(2,892,624)</u>	<u>(67,448,068)</u>
Interest received	88,814	156,733
Interest paid	(13,334,050)	(16,247,950)
Dividend received	130,077,004	88,983,919
Net cash inflow (outflow) from operating activities	<u>₩ 105,122,252</u>	<u>₩ (5,086,911)</u>
Cash flows from investing activities		
Payments for investments in subsidiaries	₩ (100,000,000)	₩ -
Decrease in investments in subsidiaries	120,000	-
Payments for property and equipment	(3,343,220)	(748,279)
Disposal of property and equipment	1,250	-
Payments for intangible assets	(9,670)	(118,568)
Disposal of intangible assets	-	10,000
Decrease in deposits	910,757	(1,549,757)
Net cash outflow from investing activities	<u>(102,320,883)</u>	<u>(2,406,604)</u>
Cash flows from financing activities		
Issuance of debentures	199,553,312	99,716,510
Repayment of debentures	(100,000,000)	(70,000,000)
Lease liabilities paid	(275,646)	(295,068)
Dividends paid for common shares	(117,331,309)	(97,776,117)
Issuance of hybrid equity securities	249,213,782	99,662,480
Repayment of hybrid equity securities	(80,000,000)	-
Dividends on hybrid equity securities	(16,301,250)	(11,302,500)
Acquisition of treasury stocks	(6,997,497)	-
Disposal of treasury stocks	69,826	-
Net cash inflow from financing activities	<u>127,931,218</u>	<u>20,005,305</u>
Net increase in cash and cash equivalents	130,732,587	12,511,790
Cash and cash equivalents at the beginning of the period	<u>79,370,284</u>	<u>129,670,748</u>
Cash and cash equivalents at the end of the period	<u>₩ 210,102,871</u>	<u>₩ 142,182,538</u>

See notes to condensed interim separate financial statements.

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

BNK FINANCIAL GROUP INC.
Notes to Condensed Interim Separate Financial Statements
as of June 30, 2020, and December 31, 2019, and
for the Three-Month and Six-Month Periods Ended June 30, 2020 and 2019

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, and in November 2019, the Company obtained 100% shares of BNK Venture Capital Co., Ltd., through acquisition and incorporated it as its subsidiary.

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

The Company’s share capital as of June 30, 2020, 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 condensed interim separate 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 condensed interim separate financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

The Company’s condensed interim separate financial statements for the six-month period ended June 30, 2020, have been prepared in accordance with Korean IFRS 1034 *Interim Financial Reporting*. These condensed interim separate financial statements have been prepared in accordance with Korean IFRS, which is effective or early adopted as of June 30, 2020.

The preparation of condensed interim separate 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 condensed interim separate financial statements, are disclosed in Note 3.

BNK FINANCIAL GROUP INC.

Notes to Condensed Interim Separate Financial Statements

as of June 30, 2020, and December 31, 2019, and

for the Three-Month and Six-Month Periods Ended June 30, 2020 and 2019

2.1.1 New and Amended Standards and Interpretations Adopted by the Company

The Company has applied the following standards and interpretations for the first time for its annual reporting period commencing January 1, 2020.

- Enactment of Korean IFRS 1103 Definition of a Business (amendment)

The amendment clarifies that although a business generally retains output, the output is not essential for the integration of activities and assets to meet the definition of the business. It should include inputs and practical processes that have the ability to contribute significantly to the creation of outputs together. It also represents guidelines for judgment to decide whether or not a practical course has been acquired.

The amendment adopted an optional intensive test that is able to briefly evaluate whether an integration of acquired activities and assets is not a business. In this optional concentration test, if the fair value of the total assets acquired is substantially concentrated in a single identifiable asset or a group of similar identifiable assets, it is not a business.

- Reference to the Korean IFRS – Conceptual Framework (amendment)

The Korean IFRS committee presented an ‘amendment of reference to conceptual framework in Korean IFRS,’ as completely revised ‘conceptual framework (2018) has been adopted with the announcement on December 21, 2018. The document includes Korean IFRSs 1102, 1103, 1106, 1114, 1001, 1008, 1034, 1037, 1038, 2112, 2119, 2120, 2122 and 2032.

However, not all amendments require the reference to the revised conceptual framework (2018) for the wording related to such references or citations. Some wordings have been amended to clarify whether the ‘conceptual framework’ referred to is a ‘conceptual framework for preparation and presentation of financial statements’ (2007), ‘conceptual framework’ (2010), or newly amended ‘conceptual framework’ (2018). Other wordings have been amended to state that the definition in Korean IFRS was not changed to a new definition compared to the previous ‘conceptual framework’ (2018).

- Enactment of Korean IFRS 1116 Execution period of Lease

The International Accounting Standards Interpretation Committee interpreted that the concept of loss or penalty that should be considered when calculating the execution period in accordance with Korean IFRS 1116 'Lease' includes not only the payment amount specified in the contract, but also economic loss. In addition, if only one of the contracting parties can terminate the lease without the consent of the other party and if only one of the contracting parties pays a small amount, the interpretation of lease contract is that the party can execute the lease contract exceeding the date that the lease contract can be terminated.

However, the Company will reflect the changes in the accounting policy during the current period after sufficiently reviewing the impact of the decisions of the International Accounting Standards Interpretation Committee on the condensed interim separate financial statements and the related notes based on the permission of the Due Process Oversight Committee through the relevant agenda decision. The condensed interim separate financial statements have not yet reflected the decisions of the International Accounting Standards Interpretation Committee. In the case of applying the decision of the International Accounting Standards Interpretation Committee, the judgment on the executive period for some of the lease contracts made by the Company can be different, and the main lease contract that the judgment on the execution period could be different is the real estate lease contract.

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Notes to Condensed Interim Separate Financial Statements
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2.1.2 New Standards and Interpretations Not Yet Adopted by the Company

- Korean IFRS 1116 Lease (amendment)

The amendment provides a practical and simple method for the lessee not to evaluate whether the rent concession occurred as a result of the coronavirus disease (“COVID-19”) pandemic is a lease change. The lessee who chooses to apply this practical simple method shall account for changes in lease fees, such as rent concession, consistently with the method described by the Korean IFRS, unless such changes are lease changes. On the other hand, the practical simple method according to the amendment will not be provided to the lessor.

The practical simple method according to the amendment applies only to rental concession, etc., that satisfies the following conditions.

- The lease consideration corrected by the change in lease payments is substantially the same as or less than the lease consideration before the change.
- The lease concession only affects the lease payments due before June 30, 2021.
- Other lease terms and conditions remain substantially unchanged.

2.2 Significant Accounting Policies

Significant accounting policies and the method of computation used in the preparation of the condensed interim separate financial statements are consistent with those of the separate financial statements for the year ended December 31, 2019, 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 pretax income.

BNK FINANCIAL GROUP INC.

Notes to Condensed Interim Separate Financial Statements

as of June 30, 2020, and December 31, 2019, and

for the Three-Month and Six-Month Periods Ended June 30, 2020 and 2019

3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS:

The preparation of condensed interim separate 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 interim separate financial statements are the same as those applied to the separate financial statements for the year ended December 31, 2019, except for the following.

3.1 Uncertainty Due to COVID-19

The rapid spread of COVID-19 is having a negative impact on finance, foreign exchange markets and the real economy around the world, which may increase the overall volatility of macroeconomic indicators such as stock prices, interest rates and exchange rates. COVID-19 could potentially affect the Company's expected credit losses for certain portfolios and a decline in the fair value of financial instruments.

The Company cannot predict the size and the duration of future COVID-19 damage, and due to uncertainties arising from COVID-19, important accounting estimates and assumptions used in the preparation of condensed interim separate financial statements may change. The Company is continuously monitoring the impact of COVID-19 through key market indicators, delinquency rates, and liquidity ratios.

BNK FINANCIAL GROUP INC.
Notes to Condensed Interim Separate Financial Statements
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4. FINANCIAL RISK MANAGEMENT:

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

4.1 Credit Risk

Loans and receivables by credit risk category as of June 30, 2020, and December 31, 2019, are as follows:

<i>(In thousands of Korean won)</i>	June 30, 2020	December 31, 2019
Loans and receivables	₩ 111,237,818	₩ 125,313,655

Credit risk by impairment of loans and receivables as of June 30, 2020, and December 31, 2019, is summarized as follows:

(In thousands of Korean won)

	June 30, 2020						
	<u>Expected lifetime credit losses</u>			Total	Allowance for credit loss		Book amount
12-month expected credit losses	Unrecognized impairment	Recognized impairment					
Loans and receivables¹							
Non-trade receivables	₩ 91,174,720	₩ -	₩ -	₩ 91,174,720	₩ -	₩ -	₩ 91,174,720
Guarantee deposits provided	20,060,375	-	-	20,060,375	-	-	20,060,375
Accrued income	2,723	-	-	2,723	-	-	2,723
	<u>₩111,237,818</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩111,237,818</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩111,237,818</u>

(In thousands of Korean won)

	December 31, 2019						
	<u>Expected lifetime credit losses</u>			Total	Allowance for credit loss		Book amount
12-month expected credit losses	Unrecognized impairment	Recognized impairment					
Loans and receivables¹							
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
	<u>₩125,313,655</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩125,313,655</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩125,313,655</u>

4.2 Capital Management

In accordance with the 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).

BNK FINANCIAL GROUP INC.
Notes to Condensed Interim Separate Financial Statements
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5. FAIR VALUE:

There are no significant changes in the business and the economic environments that affect the fair value of the Company's financial assets and liabilities for the six-month period ended June 30, 2020.

5.1 Fair Value of Financial Instruments by Category

Carrying amount and fair value of financial instruments by category as of June 30, 2020, and December 31, 2019, are as follows:

(In thousands of Korean won)

	June 30, 2020		December 31, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets at amortized cost				
Cash and due from banks	₩ 210,102,871	₩ 210,102,871	₩ 79,370,284	₩ 79,370,284
Loans and receivables	111,237,818	111,237,818	125,313,655	125,313,655
	<u>₩ 321,340,689</u>	<u>₩ 321,340,689</u>	<u>₩ 204,683,939</u>	<u>₩ 204,683,939</u>
Financial liabilities at amortized cost				
Debentures	₩ 1,128,559,881	₩ 1,152,944,720	₩ 1,028,710,380	₩ 1,048,026,790
Other financial liabilities ¹	8,550,762	8,550,762	10,367,384	10,367,384
	<u>₩ 1,137,110,643</u>	<u>₩ 1,161,495,482</u>	<u>₩ 1,039,077,764</u>	<u>₩ 1,058,394,174</u>

¹ Other financial liabilities consist of non-trade receivables, 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. Discounted Cash Flow ("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 model 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 DCF model.

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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 of June 30, 2020, and December 31, 2019, is as follows:

(In thousands of Korean won)

	June 30, 2020			
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and due from banks	₩ -	₩ 210,102,871	₩ -	₩ 210,102,871
Loans and receivables ¹	-	-	111,237,818	111,237,818
	<u>₩ -</u>	<u>₩ 210,102,871</u>	<u>₩ 111,237,818</u>	<u>₩ 321,340,689</u>
Financial liabilities				
Debentures	₩ -	₩ 1,152,944,720	₩ -	₩ 1,152,944,720
Other financial liabilities ¹	-	-	8,550,762	8,550,762
	<u>₩ -</u>	<u>₩ 1,152,944,720</u>	<u>₩ 8,550,762</u>	<u>₩ 1,161,495,482</u>

(In thousands of Korean won)

	December 31, 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
	<u>₩ -</u>	<u>₩ 79,370,284</u>	<u>₩ 125,313,655</u>	<u>₩ 204,683,939</u>
Financial liabilities				
Debentures	₩ -	₩ 1,048,026,790	₩ -	₩ 1,048,026,790
Other financial liabilities ¹	-	-	10,367,384	10,367,384
	<u>₩ -</u>	<u>₩ 1,048,026,790</u>	<u>₩ 10,367,384</u>	<u>₩ 1,058,394,174</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 of June 30, 2020, and December 31, 2019, 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
	June 30, 2020	December 31, 2019		
Financial liabilities				
Debentures	₩ 1,152,944,720	₩ 1,048,026,790	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 of June 30, 2020, and December 31, 2019, consist of the following:

(In thousands of Korean won)

Classification	Financial institution	Interest rate (%)	June 30, 2020		December 31, 2019	
Checking deposits	Busan Bank	0.01	₩	207,944,192	₩	77,971,188
Corporate savings deposits	Busan Bank	0.01-0.30		2,153,404		1,399,096
Treasury stock trust	Korea Investment Management	0.01-0.30		5,275		-
			₩	<u>210,102,871</u>	₩	<u>79,370,284</u>

6.2 Loans and Receivables

Loans and receivables as of June 30, 2020, and December 31, 2019, consist of the following:

(In thousands of Korean won)

	June 30, 2020		December 31, 2019	
Accounts receivable	₩	91,174,720	₩	103,591,808
Guarantee deposits provided		2,723		1,024
Accrued income		20,972,758		21,883,515
Present value discount (deposit)		(912,383)		(162,692)
	₩	<u>111,237,818</u>	₩	<u>125,313,655</u>

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The details of investments in subsidiaries as of June 30, 2020, and December 31, 2019, are as follows:

(In thousands of Korean won)

June 30, 2020				
Names of subsidiaries	Location	Financial statements as at	Percentage of ownership	Book amount
Busan Bank	Korea	December 31	100%	₩ 2,968,140,154
Kyongnam Bank	Korea	December 31	100%	1,949,160,438
BNK Capital Co., Ltd.	Korea	December 31	100%	378,488,236
BNK Securities Co., Ltd.	Korea	December 31	100%	484,166,758
BNK Savings Bank Co., Ltd.	Korea	December 31	100%	115,000,600
BNK Asset Management Co., Ltd.	Korea	December 31	100%	76,930,000
BNK Credit Information Co., Ltd.	Korea	December 31	100%	4,451,045
BNK System Co., Ltd.	Korea	December 31	100%	3,000,000
BNK Venture Capital Co., Ltd.	Korea	December 31	100%	20,600,000
				<u>₩ 5,999,937,231</u>

(In thousands of Korean won)

December 31, 2019				
Name of subsidiaries	Location	Financial statements as at	Percentage of ownership	Book amount
Busan Bank	Korea	December 31	100%	₩ 2,968,140,154
Kyongnam Bank	Korea	December 31	100%	1,949,160,438
BNK Capital Co., Ltd.	Korea	December 31	100%	378,488,236
BNK Securities Co., Ltd.	Korea	December 31	100%	384,166,758
BNK Savings Bank Co., Ltd.	Korea	December 31	100%	115,000,600
BNK Asset Management Co., Ltd.	Korea	December 31	100%	77,050,000
BNK Credit Information Co., Ltd.	Korea	December 31	100%	4,451,045
BNK System Co., Ltd.	Korea	December 31	100%	3,000,000
BNK Venture Capital Co., Ltd.	Korea	December 31	100%	20,600,000
				<u>₩ 5,900,057,231</u>

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Changes in investments in subsidiaries for the six-month period ended June 30, 2020, and the year ended December 31, 2019, are as follows:

<i>(In thousands of Korean won)</i>	June 30, 2020		December 31, 2019	
Beginning balance	₩	5,900,057,231	₩	5,879,457,231
Acquisition		100,000,000		20,600,000
Disposal		(120,000)		-
Ending balance	₩	<u>5,999,937,231</u>	₩	<u>5,900,057,231</u>

8. PROPERTY AND EQUIPMENT:

Changes in property and equipment for the six-month periods ended June 30, 2020 and 2019, are as follows:

<i>(In thousands of Korean won)</i>		2020					
	Beginning balance	Acquisitions	Disposal	Depreciation	Transfer	Ending balance	
Land	₩ -	₩ 660,865	₩ -	₩ -	₩ -	₩ -	₩ 660,865
Buildings	-	1,651,081	-	(13,759)	-	-	1,637,322
Leasehold improvement	602,299	31,870	-	(96,226)	-	-	537,943
Business movable assets	1,635,383	52,294	(1)	(320,792)	-	-	1,366,884
Right-of-use asset	981,899	1,110,165	(20,330)	(444,192)	-	-	1,627,542
Construction in progress	8,533,788	943,211	-	-	-	-	9,476,999
	<u>₩ 11,753,369</u>	<u>₩ 4,449,486</u>	<u>₩ (20,331)</u>	<u>₩ (874,969)</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 15,307,555</u>

<i>(In thousands of Korean won)</i>		2019					
	Beginning balance	Changes in accounting policy	Acquisitions	Disposal	Depreciation	Transfer	Ending balance
Leasehold improvement	₩ 744,688	₩ -	₩ 45,018	₩ -	₩ (105,245)	₩ -	₩ 684,461
Business movable assets	1,646,263	-	284,832	-	(334,361)	289,647	1,886,381
Right-of-use asset	-	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>₩ 931,846</u>	<u>₩ (6,938)</u>	<u>₩ (907,314)</u>	<u>₩ (456)</u>	<u>₩ 12,802,286</u>

BNK FINANCIAL GROUP INC.**Notes to Condensed Interim Separate Financial Statements****as of June 30, 2020, and December 31, 2019, and****for the Three-Month and Six-Month Periods Ended June 30, 2020 and 2019****9. INTANGIBLE ASSETS:**

Changes in intangible assets for the six-month periods ended June 30, 2020 and 2019, are as follows:

<i>(In thousands of Korean won)</i>	2020					
	Beginning balance	Acquisitions	Amortization	Disposal	Transfer	Ending balance
Software	₩ 799,037	₩ 7,487	₩ (88,224)	₩ -	₩ -	₩ 718,300
Right of membership	3,302,924	2,183	-	-	-	3,305,107
Trademark	104,591	-	-	-	-	104,591
	<u>₩ 4,206,552</u>	<u>₩ 9,670</u>	<u>₩ (88,224)</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 4,127,998</u>

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

10. OTHER ASSETS:

The details of other assets as of June 30, 2020, and December 31, 2019, consist of the following:

<i>(In thousands of Korean won)</i>	June 30, 2020	December 31, 2019
Advance payments and others	₩ 1,731,787	₩ 1,816,947

BNK FINANCIAL GROUP INC.**Notes to Condensed Interim Separate Financial Statements****as of June 30, 2020, and December 31, 2019, and****for the Three-Month and Six-Month Periods Ended June 30, 2020 and 2019****11. DEBENTURES:**

The details of debentures as of June 30, 2020, and December 31, 2019, are as follows:

<i>(In thousands of Korean won)</i>	Issuance date	Maturity date	Interest rate (%) as at June 30, 2019	June 30, 2020	December 31, 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
13th non-guaranteed coupon bonds	2015-03-25	2020-03-25	2.02	-	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
21-2nd non-guaranteed coupon bonds	2017-05-30	2020-05-30	2.11	-	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
25-1st 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	100,000,000
27th non-guaranteed coupon bonds	2019-07-26	2024-07-26	1.60	90,000,000	90,000,000
28th non-guaranteed coupon bonds	2020-04-27	2022-04-27	1.61	100,000,000	-
29th non-guaranteed coupon bonds	2020-05-22	2023-05-22	1.42	100,000,000	-
				1,130,000,000	1,030,000,000
				(1,440,119)	(1,289,620)
Less: present value discounts				₩ 1,128,559,881	₩ 1,028,710,380

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, 2020 and 2019, are as follows:

(In thousands of Korean won)

	2020			
	Beginning balance	Issuance	Repayment	Ending balance
Debentures in Korean won	₩ 1,030,000,000	₩ 200,000,000	₩ (100,000,000)	₩ 1,130,000,000

(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

12. POSTEMPLOYMENT BENEFITS:

Details of net defined benefit liabilities recognized in the condensed interim separate statements of financial position as of June 30, 2020, and December 31, 2019, are as follows:

(In thousands of Korean won)

	June 30, 2020		December 31, 2019	
Present value of funded defined benefit obligations	₩	14,088,512	₩	12,701,468
Fair value of plan assets		(5,550,922)		(5,144,618)
Net defined benefit liabilities	₩	8,537,590	₩	7,556,850

Income and expenses related to net defined benefit liabilities (assets) for the six-month periods ended June 30, 2020 and 2019, are as follows:

(In thousands of Korean won)

	2020		
	Present value of defined benefit obligation	Fair value of plan assets	Total
Current service cost	₩ 1,122,268	₩ -	₩ 1,122,268
Interest expenses (income)	149,058	(72,141)	76,917
	₩ 1,271,326	₩ (72,141)	₩ 1,199,185

(In thousands of Korean won)

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

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13. OTHER LIABILITIES:

Other liabilities as of June 30, 2020, and December 31, 2019, are as follows:

<i>(In thousands of Korean won)</i>	June 30, 2020		December 31, 2019	
Non-trade payables	₩	23,377	₩	244,858
Accrued expenses		7,832,142		8,992,605
Lease liabilities		695,243		819,920
Import deposits		-		310,000
Others ¹		1,450,851		1,489,879
	₩	<u>10,001,613</u>	₩	<u>11,857,262</u>

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

Lease liabilities by term structures as of June 30, 2020, and December 31, 2019, are as follows:

<i>(In thousands of Korean won)</i>	June 30, 2020					
	Less than 1 month	1 month- 3 months	3 months- 12 months	1 year- 5 years	More than 5 years	Total
Lease liabilities	₩ 45,322	₩ 89,644	₩ 254,298	₩328,996	₩ -	₩718,260

<i>(In thousands of Korean won)</i>	December 31, 2019					
	Less than 1 month	1 month- 3 months	3 months- 12 months	1 year- 5 years	More than 5 years	Total
Lease liabilities	₩ 44,219	₩ 83,515	₩ 300,405	₩ 419,058	₩ -	₩847,197

Cash outflow due to lease contracts for the six-month period ended June 30, 2020, is ₩298,223 thousand (₩309,344 for the year ended December 31, 2019).

Non-short-term leases recognized in the condensed interim separate statement of comprehensive income for the six-month period ended June 30, 2020, is ₩18,625 thousand (₩12,308 for the year ended December 31, 2019).

BNK FINANCIAL GROUP INC.**Notes to Condensed Interim Separate Financial Statements****as of June 30, 2020, and December 31, 2019, and****for the Three-Month and Six-Month Periods Ended June 30, 2020 and 2019****14. SHARE CAPITAL AND OTHER PAID-IN CAPITAL:***(a) Share Capital*

As of June 30, 2020, 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 of June 30, 2020, and December 31, 2019, are as follows:

<i>(In thousands of Korean won)</i>	Issue date	Maturity	Interest rates (%)	June 30, 2020	December 31, 2019
	2015-06-24	2045-06-24	4.60	₩ -	₩ 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
	2018-02-13	-	4.83	100,000,000	100,000,000
Hybrid equity securities in Korean won	2018-03-02	-	4.26	150,000,000	150,000,000
	2019-02-20	-	3.74	100,000,000	100,000,000
	2019-08-29	-	3.20	100,000,000	100,000,000
	2020-02-19	-	3.35	150,000,000	-
	2020-06-23	-	3.30	100,000,000	-
Issuance cost				(2,671,504)	(2,125,680)
				<u>₩ 877,328,496</u>	<u>₩ 707,874,320</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.

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(d) *Other components of equity*

Other components of equity for the six-month periods ended June 30, 2020 and 2019, are as follows:

(In thousands of Korean won)

	2020		
	Beginning balance	Increase	Ending balance
Remeasurements of net defined benefit liabilities	₩ (4,062,914)	₩ (708,878)	₩ (4,771,792)

(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)

15. RETAINED EARNINGS:

Retained earnings as of June 30, 2020, and December 31, 2019, consist of:

(In thousands of Korean won)

	June 30, 2020	December 31, 2019
Reserves:		
Earned profit reserves	₩ 95,483,407	₩ 86,325,407
Reserve for credit losses	518,000	175,000
Reserve for claims liability	2,000,000	2,000,000
Discretionary reserves	145,162,072	205,915,417
	<u>243,163,479</u>	<u>294,415,824</u>
Retained earnings before appropriation	89,137,444	66,078,996
	<u>₩ 332,300,923</u>	<u>₩ 360,494,820</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 the 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.

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Balances of regulatory reserve for credit losses as of June 30, 2020, and December 31, 2019, are as follows:

<i>(In thousands of Korean won)</i>	June 30, 2020		December 31, 2019	
Provided regulatory reserve	₩	518,000	₩	175,000
Expected provision (reversal) of reserve for credit losses		<u>(62,000)</u>		<u>343,000</u>
	₩	<u>456,000</u>	₩	<u>518,000</u>

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, 2020 and 2019, are as follows:

<i>(In thousands of Korean won, except for earnings per share)</i>	2020		2019	
	Three months	Six months	Three months	Six months
Profit (loss) for the period	₩ (13,072,223)	₩ 105,438,694	₩ (14,727,901)	₩ 60,204,223
Provision of reserve for credit losses	<u>268,000</u>	<u>62,000</u>	<u>(65,000)</u>	<u>(251,000)</u>
Adjusted profit (loss) after the reversal (provision) of regulatory reserve ¹	<u>₩ (12,804,223)</u>	<u>₩ 105,500,694</u>	<u>₩ (14,792,901)</u>	<u>₩ 59,953,223</u>
Adjusted earnings (loss) per share after the provision of regulatory reserve ¹ <i>(in Korean won)</i>	₩ (67)	₩ 274	₩ (70)	₩ 145

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 the 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.

Details for acquisition and disposal of treasury stocks for the six-month periods ended June 30, 2020 and 2019, are as follows:

<i>(In thousands of Korean won)</i>	2020		2019	
	Number of stocks	Book value	Number of stocks	Book value
Beginning balance	14,855	₩ 213,973	14,855	₩ 213,973
Acquisition	1,503,577	6,997,497	-	-
Disposal	<u>(14,855)</u>	<u>₩ (213,973)</u>	<u>-</u>	<u>₩ -</u>
Ending balance	1,503,577	₩ 6,997,497	14,855	₩ 213,973

¹ The Company signed a treasury stock trust contract with Korea Investment & Securities Co., Ltd. to improve shareholders' value, through which treasury stock was acquired.

BNK FINANCIAL GROUP INC.**Notes to Condensed Interim Separate Financial Statements****as of June 30, 2020, and December 31, 2019, and****for the Three-Month and Six-Month Periods Ended June 30, 2020 and 2019****16. NET INTEREST LOSS:**

Net interest loss and interest revenues and expenses for the three-month and six-month periods ended June 30, 2020 and 2019, are as follows:

(In thousands of Korean won)

	2020		2019	
	Three months	Six months	Three months	Six months
Interest revenues:				
Cash and due from banks	₩ 6,173	₩ 90,514	₩ 121,578	₩ 235,611
Other interest revenues:				
Present value discounts	88,961	192,391	100,037	196,072
	<u>95,134</u>	<u>282,905</u>	<u>221,615</u>	<u>431,683</u>
Interest expenses:				
Debentures	(7,054,067)	(13,934,915)	(8,147,663)	(16,391,193)
Lease liabilities	(3,369)	(6,866)	(3,602)	(9,057)
Miscellaneous interest:				
Provision for restoration costs	(581)	(1,161)	(566)	(1,132)
	<u>(7,058,017)</u>	<u>(13,942,942)</u>	<u>(8,151,831)</u>	<u>(16,401,382)</u>
Net interest loss	<u>₩ (6,962,883)</u>	<u>₩ (13,660,037)</u>	<u>₩ (7,930,216)</u>	<u>₩ (15,969,699)</u>

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Net commission income and commission revenues and expenses for the three-month and six-month periods ended June 30, 2020 and 2019, are as follows:

(In thousands of Korean won)

	2020		2019	
	Three months	Six months	Three months	Six months
Commission revenues:				
Brand revenues	₩ 2,714,750	₩ 5,429,500	₩ 2,643,750	₩ 5,287,500
Other commission revenues	3,400	4,350	200	400
	<u>2,718,150</u>	<u>5,433,850</u>	<u>2,643,950</u>	<u>5,287,900</u>
Commission expenses:				
Other commission expenses	<u>(335,851)</u>	<u>(495,724)</u>	<u>(388,045)</u>	<u>(618,714)</u>
Net commission income	<u>₩ 2,382,299</u>	<u>₩ 4,938,126</u>	<u>₩ 2,255,905</u>	<u>₩ 4,669,186</u>

18. GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses for the three-month and six-month periods ended June 30, 2020 and 2019, are as follows:

(In thousands of Korean won)

	2020		2019	
	Three months	Six months	Three months	Six months
Employee benefits:				
Salaries	₩ 4,399,702	₩ 8,017,337	₩ 4,687,904	₩ 8,626,337
Employee benefits	609,898	1,209,621	1,014,188	1,997,299
Postemployment benefits	599,593	1,199,185	662,533	1,325,066
Layoff benefit	441,388	441,388	-	-
	<u>6,050,581</u>	<u>10,867,531</u>	<u>6,364,625</u>	<u>11,948,702</u>
Rent expense	69,302	141,599	88,167	172,641
Business promotion expenses	294,954	599,173	463,944	885,723
Depreciation	432,966	874,969	472,887	907,314
Amortization	43,242	88,224	23,041	46,083
Taxes and dues	41,152	185,382	40,716	184,719
Advertising expenses	509,476	1,020,383	328,886	675,770
Service expenses	634,343	1,294,098	392,192	1,093,897
Other administrative expenses	368,468	851,703	580,009	1,367,040
	<u>₩ 8,444,484</u>	<u>₩ 15,923,062</u>	<u>₩ 8,754,467</u>	<u>₩ 17,281,889</u>

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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 are determined and paid in cash in accordance with the 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 long-term performance compensation shall be paid 40% in cash based on the evaluation result of three years, and the remaining compensation is deferred in connection with the stock price for three years (however, from the grant in 2020, the payment will be deferred for three or five years in connection with the 100% stock price according to the evaluation result).

The terms and conditions of granted share options as of June 30, 2019, are as follows:

i) Linked to short-term performance

	2015	2016	2017	2018	2019	2020
Number of shares granted	3,177	14,466	38,994	48,641	110,980	140,899
Residual shares	1,059	6,898	23,409	24,983	73,991	140,899
Date of granted	2015-02-27	2016-03-03	2017-03-03	2018-02-28	2019-03-05	2020-02-27
Grant method	Cash-settled share-based payment	Cash payment				
Exercise price	₩0	₩0	₩0	₩0	₩0	₩0
Vesting conditions	Service period/Non-market performance					
Settlement method	Cash	Cash	Cash	Cash	Cash	Cash
Service period	1 year					

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ii) Linked to long-term performance

	2015	2016	2017	2018	2019	2020
Number of shares granted	10,969	27,151	92,159	36,875	9,293	305,585
Residual shares	1,446	8,253	50,877	12,656	2,890	305,585
Date of granted	2015-01-01	2016-01-01	2017-01-01	2018-01-01	2019-01-01	2020-01-01
Grant method	Cash-settled share-based payment					
Exercise price	₩0	₩0	₩0	₩0	₩0	₩0
Vesting conditions	Service period/Non-market performance					
Settlement method	Cash	Cash	Cash	Cash	Cash	Cash
Service period	3 years					

	Deferred grant in 2020	Deferred grant in 2021	Deferred grant in 2022	Deferred grant in 2023
Residual shares ¹	9,699	7,304	5,100	3,450
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 the reporting period.

² The planned amount for 2020 is the quantity including deferred payments in 2018 and 2019, which were confirmed but not exercised due to pending payment.

Changes in granted number of share options for the six-month period ended June 30, 2020, and for the year ended December 31, 2019, are as follows:

i) Linked to short-term performance

(In shares)	June 30, 2020	December 31, 2019
Beginning balance	184,353	91,770
Grant	140,899	110,980
Exercise	54,013	18,397
Ending balance	<u>271,239</u>	<u>184,353</u>

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ii) Linked to long-term performance

<i>(In shares)</i>	June 30, 2020	December 31, 2019
Beginning balance	95,114	106,015
Grant	305,585	9,293
Exercise	5,262	3,615
Others	(13,730)	(16,579)
Ending balance	<u>381,707</u>	<u>95,114</u>

<i>(In shares)</i>	Deferred grant	
	June 30, 2020	December 31, 2019
Beginning balance	20,469	19,138
Grant	10,346	4,946
Exercise	5,262	3,615
Ending balance	<u>25,553</u>	<u>20,469</u>

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The fair value of share options and the significant inputs into the option-pricing model as of June 30, 2020, are as follows:

	2020							Fair value
	Option-pricing model	Share price	Exercise price	Price volatility	Expected option life	Risk-free interest rate		
Grant expected in 2021	Black-Scholes Model	₩ 5,000	-	38.43%	1.5 years	0.68%	₩ 4,734	
Grant expected in 2022	Black-Scholes Model	5,000	-	32.64%	2.5 years	0.85%	4,564	
Grant expected in 2023	Black-Scholes Model	5,000	-	29.30%	3.5 years	0.92%	4,401	
Linked to short-term performance								
Share granted in 2018	Black-Scholes Model	5,000	-	38.43%	1.5 years	0.68%	4,734	
Share granted in 2019	Black-Scholes Model	5,000	-	32.64%	2.5 years	0.85%	4,564	
Share granted in 2020	Black-Scholes Model	5,000	-	29.30%	3.5 years	0.92%	4,401	

Expenses recognized related to the share option granted for the three-month and six-month periods ended June 30, 2020 and 2019, are as follows:

	2020				2019	
	Three months	Six months	Three months	Six months		
Linked to short-term performance	₩ 430,805	₩ 339,153	₩ 661,236	₩ 730,477		
Linked to long-term performance	444,941	418,141	86,835	99,717		

Liabilities recognized related to the share option granted as of June 30, 2020, and December 31, 2019, are as follows:

	June 30, 2020		December 31, 2019	
Accrued expenses (short-term performance)	₩	2,261,991	₩	3,658,673
Accrued expenses (long-term performance)		1,118,842		883,585

BNK FINANCIAL GROUP INC.**Notes to Condensed Interim Separate Financial Statements****as of June 30, 2020, and December 31, 2019, and****for the Three-Month and Six-Month Periods Ended June 30, 2020 and 2019****19. NET NON-OPERATING INCOME (LOSS):**

Net non-operating income (loss) and non-operating revenues and expenses for the three-month and six-month periods ended June 30, 2020 and 2019, are as follows:

(In thousands of Korean won)

	2020		2019	
	Three months	Six months	Three months	Six months
Non-operating revenues:				
Miscellaneous income	₩ 42,284	₩ 131,867	₩ 38,724	₩ 176,854
Gain on disposal of property and equipment	1,261	1,267	12	12
	<u>43,545</u>	<u>133,134</u>	<u>38,736</u>	<u>176,866</u>
Non-operating expenses:				
Donations	(90,700)	(126,200)	(320,000)	(356,300)
Loss on disposal of property and equipment	-	(270)	-	-
Miscellaneous expense	-	-	(17,860)	(17,860)
	<u>(90,700)</u>	<u>(126,470)</u>	<u>(337,860)</u>	<u>(374,160)</u>
Net non-operating income (loss)	<u>₩ (47,155)</u>	<u>₩ 6,664</u>	<u>₩ (299,124)</u>	<u>₩ (197,294)</u>

20. EARNINGS (LOSS) PER SHARE:

The weighted-average number of common shares outstanding for the three-month and six-month periods ended June 30, 2020 and 2019, are as follows:

(In shares)

	2020		2019	
	Three months	Six months	Three months	Six months
Beginning number of common shares outstanding	324,402,356	325,905,536	325,905,536	325,905,536
Acquisition of treasury shares	(390)	(876,938)	-	-
Disposal of treasury shares	11,753	5,877	-	-
Weighted-average number of common shares outstanding	<u>324,413,719</u>	<u>325,034,475</u>	<u>325,905,536</u>	<u>325,905,536</u>

BNK FINANCIAL GROUP INC.**Notes to Condensed Interim Separate Financial Statements****as of June 30, 2020, and December 31, 2019, and****for the Three-Month and Six-Month Periods Ended June 30, 2020 and 2019**

Basic earnings (losses) per share for the three-month and six-month periods ended June 30, 2020 and 2019, are as follows:

<i>(In Korean won and shares)</i>	2020		2019	
	Three months	Six months	Three months	Six months
Net profit (loss) for the period	₩ (13,072,223,182)	₩ 105,438,693,990	₩ (14,727,901,261)	₩ 60,204,223,457
Dividends from hybrid equity securities	(8,778,750,000)	(16,301,250,000)	(7,911,811,653)	(12,834,548,728)
Profit (loss) attributable to ordinary equity holders	(21,850,973,182)	89,137,443,990	(22,639,712,914)	47,369,674,729
Weighted-average number of ordinary shares outstanding	324,413,719	325,034,475	325,905,536	325,905,536
Basic earnings (losses) per share	₩ (67)	₩ 274	₩ (69)	₩ 145

21. DIVIDENDS:

A dividend in respect of the year ended December 31, 2019, amounting to ₩117,331,341 thousand was paid on March 31, 2020 (previous payment amounts to ₩97,776,117 thousand).

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22. RELATED-PARTY TRANSACTIONS:

Related parties as at June 30, 2020, 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 Fund 1; BNK Tuna Private investment Trust 1; BNK Luxembourg Core Office Real Estate Investment Trust; BNK Teun Teun Mid to Long-Term Securities Investment Trust 1 (Bond); Multi-Asset KLC VLOC Specialized Private Equity Investment Trust No. 1; BNK-SUNBO Buulgyeung Start-Up New Technology Business Investment Union No. 1; BNK K200 Index Securities Investment Trust; NK Regional Balanced Growth Fund Partnership; Trust accounts guaranteeing the repayment of principal and trust accounts guaranteeing a fixed rate of return and the repayment of principal, including mixed trust accounts; 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	Orion Mezzanine Multi-Professional Private; Anda Mezzanine Professional Investment Private No. 7; BNK Yeouido Core Office Private 2 type; BNK-KN South-East Creating Job 1 st ; BNK Fine Dust Resolution Fund Partnership; Hana UBS Professional Private Investment Trust No. 7; NH-Amundi Enhanced Bond Private Securities Investment Trust 1 st ; Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 1 st ; Kyobo-Axa Investment Alpha Plus Private Securities Investment Trust - J 6 th ; Samsung Repo Professional Connection Private Securities Investment Trust 1 st ; KB Leaders Professional Private Investment No. 12; KB Leaders Professional Private Investment No. 15; DGB Professional Investment Private Security Investment Trust No. 28; Shinhan BNPP SG Rail Professional Investment Private Equity No. 1-2; KIAMCO KDB OCEAN VALUE-UP Professional Private Investment No. 12; Multi-Asset KDB Ocean Value Up Professional Private Investment No. 15; Mirae Asset Triumph Professional Private Investment No. 4; Samsung Rafael Professional Investment Private Security Investment Trust No. 1; SHBNPP Corporate Private Security Investment Trust 8 th ; Yurie REPO Alpha Private Security Investment Trust 1 st ; IGIS Real Asset Solar Professional Private Investment Trust 1 st ; Consus Clean water Private Securities Investment Trust 1 st ; Kiwoom Frontier Private Security Investment Trust 11 th ; Kiwoom Frontier Private Security Investment Trust 12 th ; Petra 7 Alpha Private Equity Partnership; Hana UBS Professional Investment Private Security Investment Trust No. 6 (Bond); KIAMCO Aviation Professional Investment 1 st ; BNK GO Professional Private Investment No. 2; BNK Teun Teun Short-Term Government Bond 1 st ; BNK Ssum Global EMP Securities No. 1 (Mixed Fund of Fund) type C-f; UQIP Agriculture, Forestry and Fisheries Food Investment Association 1 st ; Mirae Creation Fund; UQIP Mirae Creation Association 1 st ; Energy Fusion UQIP Investment Association; UQIP Agriculture, Forestry and Fisheries Food Investment Association No. 2; 2019 UQIP Innovation Growth Follow-on Investment Association; KC Co., Ltd.; M-Park Capital Co., Ltd.

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Transactions with related parties for the six-month periods ended June 30, 2020 and 2019, are as follows:

(In thousands of Korean won)

		2020				
Type	Name of entity	Revenues		Expenses		Acquisition of property and equipment
		Interest revenues	Other revenues	Interest expenses	Other expenses	
Subsidiaries	Busan Bank Co., Ltd.	₩ 276,355	₩ 77,932,822	₩ -	₩ 212,546	₩ -
	Kyongnam Bank Co., Ltd.	-	41,673,882	-	24,402	-
	BNK Capital Co., Ltd.	-	15,619,400	2,390	-	86,791
	BNK Securities Co., Ltd.	-	174,500	-	139,352	-
	BNK Saving Bank Co., Ltd.	-	68,500	-	-	-
	BNK Asset Management Co., Ltd.	-	11,500	-	-	-
	BNK Credit Information Co., Ltd.	-	6,000	-	-	-
	BNK System Co., Ltd.	-	22,750	-	270,788	477,249
	BNK Venture Capital Co., Ltd.	-	1,500	-	-	-
		<u>₩ 276,355</u>	<u>₩ 135,510,854</u>	<u>₩ 2,390</u>	<u>₩ 647,088</u>	<u>₩ 564,040</u>

(In thousands of Korean won)

		2019				
Type	Name of entity	Revenues		Expenses		Acquisition of property and equipment
		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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Fund transactions with related parties for the six-month periods ended June 30, 2020 and 2019, are as follows:

(In thousands of Korean won)

		2020			
Type	Name of entity	Loan transactions		Investment	
		Loans	Repayments	Capital increase	Capital reduction
Subsidiaries	Busan Bank Co., Ltd.	₩ 439,440,026	₩ 308,712,713	₩ -	₩ -
	BNK Securities Co., Ltd.	-	-	100,000,000	-
		<u>₩ 439,440,026</u>	<u>₩ 308,712,713</u>	<u>₩ 100,000,000</u>	<u>₩ -</u>

(In thousands of Korean won)

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

Outstanding receivables and payables from related parties as of June 30, 2020, and December 31, 2019, are as follows:

(In thousands of Korean won)

		June 30, 2020			
Type	Name of entity	Receivables		Payables	
		Loans/due from banks	Other assets	Deposit liabilities	Other liabilities
Subsidiaries	Busan Bank Co., Ltd.	₩ 210,097,597	₩ 76,133,040	₩ -	₩ 138,445
	Kyongnam Bank Co., Ltd.	-	19,830,798	-	-
	BNK Capital Co., Ltd.	-	10,348,413	-	230,535
	BNK Securities Co., Ltd.	-	4,021,525	-	-
	BNK Saving Bank Co., Ltd.	-	726,574	-	-
	BNK Asset Management Co., Ltd.	-	-	-	4,052
	BNK Credit Information Co., Ltd.	-	157,897	-	-
	BNK System Co., Ltd.	-	209,629	-	-
	BNK Venture Capital Co., Ltd.	-	1,447	-	-
			<u>₩ 210,097,597</u>	<u>₩ 111,429,323</u>	<u>₩ -</u>

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(In thousands of Korean won)

		December 31, 2019			
Type	Name of entity	Receivables		Payables	
		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	-	-
		<u>₩ 79,370,284</u>	<u>₩ 125,601,718</u>	<u>₩ -</u>	<u>₩ 1,811,410</u>

The Company paid ₩98,539 thousand for the lease payments in relation to related parties for the six-month period ended June 30, 2020 (₩101,084 thousand for the year ended December 31, 2019).

Compensation for key executives for the six-month periods ended June 30, 2020 and 2019, is as follows:

(In thousands of Korean won)

	2020	2019
Short-term employee benefits	₩ 592,250	₩ 578,387
Performance compensation	164,726	588,459
Postemployment benefits	119,671	119,014

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23. LITIGATIONS:

The Company filed a lawsuit against Korea Deposit Insurance Corporation to seek compensation for loss (litigation value: ₩52.6 billion) as at the end of the reporting period. On December 15, 2017, the court ordered Korea Deposit Insurance Corporation to pay ₩52.6 billion to the Company in the first trial. In respect of the first court decision, Korea Deposit Insurance Corporation paid ₩52.6 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 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.; BNK Securities Co., Ltd.; and their former and current employees were accused in a lawsuit with violation of the Financial Investment Services and Capital Markets Act by anticompetitive transactions of BNK Financial Group Inc.'s 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. Second court decision was made on November 20, 2019, and February 5, 2020. It was subsequently appealed, and the Supreme Court decided to dismiss the appeal on May 28, 2020, and the case of certain former and current employees was ended. Currently, the first trial for the corporation, including the Company, and the former and current employees is ongoing. The final outcome of this case and its financial effect cannot be predicted at the end of the reporting period.