BS Financial Group

BS FINANCIAL GROUP INC.

Separate Financial Statements
As of and For the Years Ended
December 31, 2014 and 2013

ATTACHMENT: INDEPENDENT AUDITOR’S REPORT

BS FINANCIAL GROUP INC.

Deloitte Anjin LLC

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Independent Auditors' Report

English Translation of Independent Auditors' Report Originally Issued in Korean on March 18, 2015

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

Report on the Financial statements

We have audited the accompanying separate financial statements of BS Financial Group Inc. (the "Company"), which comprise the separate statements of financial position as of December 31, 2014 and December 31, 2013, respectively, and the separate statements of comprehensive income, separate statements of changes in shareholders' equity and separate statements of cash flows, for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Separate Financial statements

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

Auditors' Responsibility

Our responsibility is to express an audit opinion on these financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing ("KSAs"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of the BS Financial Group Inc. as of December 31, 2014, and December 31, 2013, respectively, and its financial performance and its cash flows for the years then ended in accordance with K-IFRS.

Others

We conducted our audit of separate financial statements of BS Financial Group Inc. as of December 31, 2013 in accordance with the former KSAs, known as auditing standards generally accepted in Korea.

Deloitte Anjin LLC

Notice to Readers

This report is effective as of March 18, 2015, the auditor's report date. Certain subsequent events or circumstances may have occurred between the auditor's report date and the time the auditor's report is read. Such events or circumstances could significantly affect the accompanying separate financial statements and may result in modifications to the auditor's report.

BS FINANCIAL GROUP INC. (the "Company")

SEPARATE FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

The accompanying separate financial statements, including all footnote disclosures, were prepared by, and are the responsibility of, the Company's management.

Se-Whan Sung
Chief Executive Officer
BS Financial Group Inc.

BS FINANCIAL GROUP INC.

SEPARATE STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2014 and 2013

	Korean won			
	December 31, 2014		December 31, 2013	
ASSETS	(In thousands)			
Cash and due from banks (Notes 4, 5, 6, 23 and 24)	₩	14,545,845	₩	153,719,230
Investments in subsidiaries (Note 7)		4,460,154,793		3,153,246,793
Loans and receivables (Notes 4, 5, 8 and 23)		60,896,377		197,514,094
Tangible assets (Notes 9 and 23)		1,642,767		1,676,524
Intangible assets (Note 10)		1,795,464		1,495,331
Other assets (Note 11)		464,829		-
	₩	4,539,500,075	₩	3,507,651,972
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES:				
Debentures (Notes 4, 5 and 12)	₩	928,130,895	₩	738,530,106
Net defined benefit liability (Notes 2, 13 and 23)		1,294,368		724,331
Current income tax liabilities (Note 21)		52,846,363		20,423,028
Other liabilities (Notes 5 and 14)		6,381,754		10,114,196
		988,653,380		769,791,661
SHAREHOLDERS' EQUITY:				
Capital stock (Note 15)		1,171,899,495		966,899,495
Other paid-in capital (Note 15)		1,945,002,225		1,638,346,698
Other components of equity (Note 15)		(1,125,729)		(188,886)
Retained earnings (Note 16)		435,070,704		132,803,004
		3,550,846,695		2,737,860,311
	₩	4,539,500,075	₩	3,507,651,972

See accompanying notes to separate financial statements.

BS FINANCIAL GROUP INC.

SEPARATE STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Korean won			
	2014		2013	
	(In thousands, except per share amounts)			
NET INTEREST LOSS (Notes 17 and 23):				
Interest revenues	₩	4,378,401	₩	13,101,364
Interest expenses		(31,399,161)		(27,981,555)
		(27,020,760)		(14,880,191)
NET COMMISSION LOSS (Notes 18 and 23):				
Commission revenues		11,950		33,150
Commission expenses		(5,497,421)		(2,572,144)
		(5,485,471)		(2,538,994)
DIVIDEND INCOME (Note 23)		400,042,818		91,996,570
GENERAL AND ADMINISTRATIVE EXPENSES (Notes 19 and 23):				
Employee benefits		(5,745,833)		(6,159,622)
Depreciation and amortization expenses		(485,085)		(119,070)
Other administrative expenses		(5,622,566)		(5,089,715)
		(11,853,484)		(11,368,407)
OPERATING INCOME		355,683,103		63,208,978
NET NON-OPERATING INCOME (LOSS) (Note 20):				
Non-operating revenues		877,558		15,840
Non-operating expenses		(146,589)		(2,085,164)
		730,969		(2,069,324)
INCOME BEFORE INCOME TAX		356,414,072		61,139,654
INCOME TAX EXPENSE (Note 21)		-		-
NET INCOME (Note 16):		356,414,072		61,139,654
OTHER COMPREHENSIVE LOSS:				
Remeasurement elements		(936,843)		(31,720)
TOTAL COMPREHENSIVE INCOME	₩	355,477,229	₩	61,107,934
EARNINGS PER SHARE (Note 22):				
Basic and diluted (in currency units)	₩	1,677	₩	316

See accompanying notes to separate financial statements.

BS FINANCIAL GROUP INC.

SEPARATE STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Korean won				
Description	Capital stock	Other paid-in capital	Other components of equity	Retained earnings	Total
			(In thousands)		
Balance at Jan. 1, 2013	₩ 966,899,495	₩1,638,346,698	₩ (157,166)	₩ 135,478,717	₩ 2,740,567,744
Annual dividends	-	-	-	(63,815,367)	(63,815,367)
Net income	-	-	-	61,139,654	61,139,654
Remeasurement elements	-	-	(31,720)	-	(31,720)
Balance at Dec. 31, 2013	₩ 966,899,495	₩1,638,346,698	₩ (188,886)	₩ 132,803,004	₩ 2,737,860,311
Balance at Jan. 1, 2014	₩ 966,899,495	₩1,638,346,698	₩ (188,886)	₩ 132,803,004	₩ 2,737,860,311
Annual dividends	-	-	-	(54,146,372)	(54,146,372)
Paid-in capital increase	205,000,000	306,655,527	-	-	511,655,527
Net income	-	-	-	356,414,072	356,414,072
Remeasurement elements	-	-	(936,843)	-	(936,843)
Balance at Dec. 31, 2014	₩1,171,899,495	₩1,945,002,225	₩ (1,125,729)	₩ 435,070,704	₩ 3,550,846,695

See accompanying notes to separate financial statements.

BS FINANCIAL GROUP INC.

SEPARATE STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Korean won	
	2014	2013
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	₩ 356,414,072	₩ 61,139,654
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for severance benefits	667,487	765,583
Depreciation of tangible assets	465,058	108,546
Amortization of intangible assets	20,027	10,524
Loss on disposal of tangible assets	136,289	2,860
Interest expenses	31,399,161	27,981,555
Income on disposal of tangible assets	-	(5,029)
Interest revenues	(4,378,401)	(13,101,364)
	28,309,621	15,762,675
Changes in working capital:		
Net increase in receivables	(3,701,097)	(684,134)
Benefits paid	(341,726)	(448,135)
Net decrease (increase) in plan assets	(758,274)	448,135
Net increase in other assets	(81)	-
Net increase (decrease) in other liabilities	(1,283,901)	1,832,246
	(6,085,079)	1,148,112
Cash received from operating activities:		
Interest revenues received	4,771,858	13,304,247
Interest expenses paid	(30,875,025)	(26,966,111)
	(26,103,167)	(13,661,864)
Net cash provided by operating activities	352,535,447	64,388,577
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in subsidiaries	(1,306,908,000)	(200,000,000)
Net decrease in loans	170,000,000	148,000,000
Acquisition of tangible assets	(567,590)	(1,276,465)
Disposal of tangible assets	-	38,454
Disposal of intangible assets	100,000	-
Acquisition of intangible assets	(420,160)	(14,859)
Net increase in other assets	(464,748)	-
Net cash used in investing activities	(1,138,260,498)	(53,252,870)

(Continued)

BS FINANCIAL GROUP INC.

SEPARATE STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Korean won			
	2014		2013	
	(In thousands)			
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from debentures	₩	399,042,511	₩	199,315,911
Repayment of debentures		(210,000,000)		(80,000,000)
Dividend		(54,146,372)		(63,815,367)
Paid-in capital increase		511,655,527		-
Net cash provided by financing activities		646,551,666		55,500,544
NET DECREASE (INCREASE) IN CASH AND CASH EQUIVALENTS		(139,173,385)		66,636,251
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		153,719,230		87,082,979
CASH AND CASH EQUIVALENTS, END OF YEAR	₩	14,545,845	₩	153,719,230

(Concluded)

See accompanying notes to separate financial statements.

1. GENERAL:

BS Financial Group Inc. (the "Company") was established on March 15, 2011, pursuant to a "comprehensive stock transfer" under Financial Holding Companies Act, whereby holders of the common stock of Busan Bank; BS Securities Co., Ltd.; BS Capital Co., Ltd.; and BS Credit Information Co., Ltd. transferred stock to the Company and in return received shares of the Company's common stock in order to control, manage and provide financial support to subsidiaries or financial industry-related subsidiaries. Meanwhile, the Company established BS Information System Co., Ltd. and BS Savings Bank Co., Ltd. as its subsidiaries with 100% investment in 2011. The Company is headquartered at Busan Nam-gu Munhyeongeumyung-ro, 30, and the Company's capital stock amounts to ₩1,171,899 million as of December 31, 2014. The Company incorporated Kyongnam Bank as its subsidiary with approval of Financial Services Commissions and acquiring shares of Kyongnam Bank in October 2014.

The Company's shareholders list as of December 31, 2014, is as follows:

Shareholders	Number of shares owned (*1)	Percentage of ownership (%)
Lotte Confectionery Co., Ltd. (*2)	30,741,736	13.12
National Pension Fund	27,236,753	11.62
Parkland Co., Ltd.	9,435,727	4.03
Aberdeen Global	7,978,620	3.40
The Oakmark International Small Cap Fund	5,481,334	2.34
Samsung Asset Management Corporation	3,638,081	1.55
Saudi Arabian Monetary Agency	3,605,429	1.54
Abu Dhabi Investment Authority Lendi	2,922,865	1.25
The Government of Singapore	2,605,949	1.11
UBS-Hana Asset Management Corporation	2,574,659	1.10
Norges Bank	2,573,672	1.10
Others	135,585,074	57.84
	234,379,899	100.00

(*1) Number of shares as of December 31, 2014, the closing day of stock registry.
(*2) Included related shareholders that the same persons are controlling.

2. SIGNIFICANT BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES:

(1) Basis of preparation of separate financial statements

The Company has prepared the separate financial statements in accordance with the requirements of Korean International Financial Reporting Standards ("K-IFRS") 1027, *Separate Financial Statements,* in which an investor with joint control of, or significant influence over, a parent or investee accounts for the investments on the basis of the historical cost basis or accounting policies of K-IFRS 1039, *Financial Instruments.*

The accounts of the separate financial statements have been arranged in proportion to liquidity, which is based on common nature of a financial company and the importance of the business affairs of the Company.

The accompanying separate financial statements have been prepared on the historical cost basis, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given.

1) Amendments to K-IFRS affecting amounts reported in the separate financial statements

The following amendments to K-IFRS have been applied in the current year and have affected the amounts reported in the separate financial statements:

Amendments to K-IFRS 1032 – *Financial Instruments: Presentation*

The amendments to K-IFRS 1032 clarify the requirement for the offset presentation of financial assets and financial liabilities: the right to offset must not be conditional upon the occurrence of future events and can be exercised anytime during the contract periods. The right to offset is executable even in the case of default or insolvency. The application of the amendments has no significant impact on the Company's separate financial statements.

Amendments to K-IFRS 1110, 1112 and 1027 – *Investment Entities*

The amendments introduced an exception to the principle in K-IFRS 1110, *Consolidated Financial Statements,* which required the consolidation of all subsidiaries. If a subsidiary meets definition of an investment entity, the reporting entity measures the subsidiary at fair value through profit or loss ("FVTPL") instead of in consolidation. Also, the consequential amendments have been made to K-IFRS 1112, *Disclosure of Interests in Other Entities,* and K-IFRS 1027, *Separate Financial Statements,* to introduce new disclosure requirements for investment entities. The application of the amendments has no significant impact on the Company's separate financial statements.

Amendments to K-IFRS 1036 – *Impairment of Assets*

The amendments introduced disclosure requirements of recoverable amount when the recoverable amount of an asset or cash-generating unit ("CGU") is measured at fair value, less costs of disposal. The application of these amendments has no impact on the disclosure in the Company's separate financial statements.

Amendments to K-IFRS 1039 – *Financial Instruments: Recognition and Measurement*

The amendments permit the Company to use hedge accounting when, as a consequence of laws or regulations or the introduction of laws or regulations, the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties and when meeting the certain criteria. The adoption of the amendments has no significant impact on the Company's separate financial statements.

Enactment of K-IFRS 2121 – *Levies*

The enactment defines that the obligating event giving rise to the recognition of a liability to pay a levy is the activity that triggers the payment of the levy in accordance with the related legislation. The enactment has no significant impact on the Company's separate financial statements.

2) New and revised K-IFRS in issue, but not yet effective

The Company has not applied the following new and revised K-IFRS that have been issued, but are not yet effective:

Amendments to K-IFRS 1019 – *Employee Benefits*

The amendments permit the Company to recognize the amount of contributions as a reduction in the service cost in which the related service is rendered if the amount of the contributions is independent of the number of years of service. The amendments are effective for the annual periods beginning on or after July 1, 2014.

Amendments to K-IFRS 1016 – *Property, Plant and Equipment*

The amendments to K-IFRS 1016 prohibit the Company from using a revenue-based depreciation method for items of property, plant and equipment. The amendments are effective for the annual periods beginning on or after January 1, 2016.

Amendments to K-IFRS 1027 – *Separate Financial Statements*

The following amendments discuss accounting for investment in subsidiaries, related parties and joint ventures at cost basis and allows the selection of the application of K-IFRS 1039, *Financial Instruments: Recognition and Measurement*, or the application of equity method accounting under K-IFRS 1028, *Investment in Associates and Joint Ventures*. The amendments are effective for the annual periods beginning on or after January 1, 2016.

Amendments to K-IFRS 1038 – *Intangible Assets*

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. The amendments to K-IFRS 38 do not allow the presumption that revenue is an appropriate basis for the amortization of the intangible assets, but the presumption can only be limited when the intangible asset is expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

Amendments to K-IFRS 1111 – *Accounting for Acquisitions of Interests in Joint Operations*

The amendments to K-IFRS 1111 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in K-IFRS 1103, *Business Combinations*. A joint operator is also required to disclose the relevant information required by K-IFRS 1103 and other standards for business combinations. The amendments to K-IFRS 1111 are effective for the annual periods beginning on or after January 1, 2016.

Annual Improvements to K-IFRS 2010-2012 Cycle

The amendments to K-IFRS 1002 (i) change the definitions of ‘vesting condition’ and ‘market condition’ and (ii) add definition for ‘performance condition’ and ‘service condition,’ which were previously included within the definition of ‘vesting condition.’ The amendments to K-IFRS 1103, *Business Combinations*, clarify the classification and measurement of the contingent consideration in business combination. The amendments to K-IFRS 1108 clarify that a reconciliation of the total of the reportable segments’ assets should only be provided if the segment assets are regularly provided to the chief operating decision maker. The amendments are effective for the annual periods beginning on or after July 1, 2014.

Annual Improvements to K-IFRS 2011-2013 Cycle

The amendments to K-IFRS 1103 clarify the scope of the portfolio exception for measuring the fair values of the group of financial assets and financial liabilities on a net basis and include all contracts that are within the scope the standard does not apply to the accounting for the formation of all types of joint arrangements in the financial statements of the joint arrangement itself. The amendments to K-IFRS 1113, *Fair Value Measurements,* and K-IFRS 1040, *Investment Properties,* exist and these amendments are effective to the annual periods beginning on or after July 1, 2014.

The Company does not anticipate that the amendments referred above will have a significant effect on the Company’s separate financial statements and disclosures.

(2) Significant Accounting Policies

1) Investments in subsidiaries in separate financial statements

The separate financial statements are prepared under K-IFRS 1027, and investments in subsidiaries are presented by using the cost method and not based on reported financial results and net assets, but based on direct interests. Meanwhile, the Company recognizes a dividend from a subsidiary in profit or loss in its separate financial statements when its right to receive the dividend is established.

2) Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the separate financial statements, the results and financial position of each group entity are expressed in Korean won, which is the functional currency of the entity and the presentation currency for the separate financial statements.

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

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

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

For the purpose of presenting the separate financial statements, the assets and liabilities of the Company's foreign operations are expressed in Korean won using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate). On the disposal of a foreign operation (i.e., a disposal of the Company's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation, or partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the accumulated exchange differences with respect to that operation attributable to the owners of the Company are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognized, but they are not reclassified to profit or loss.

In the case of a partial disposal (i.e., no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests in equity and are not recognized in profit or loss. For all other partial disposals (i.e., partial disposals of associates or joint arrangements that do not result in the Company losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Exchange differences arising are recognized in other comprehensive income.

3) Cash and cash equivalents

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

4) Financial instruments

Financial assets and financial liabilities are recognized when an entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

All regular-way purchases or sales of financial assets are recognized and derecognized on a trade-date basis. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets are classified into the following specified categories: 'financial assets at FVTPL,' 'held-to-maturity investments,' 'available-for-sale ("AFS") financial assets' and 'loans and receivables.' The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

a. Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

b. Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives and K-IFRS 1039, Financial Instruments: Recognition and Measurement, permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the line item in the separate statements of comprehensive income.

c. Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment, with revenue recognized on an effective yield basis.

d. AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

They are subsequently measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in other comprehensive income is reclassified to profit or loss.

Dividends on AFS equity instruments are recognized in profit or loss when the Company’s right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost, less any identified impairment losses at the end of each reporting period.

e. Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as ‘loans and receivables.’ Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

f. Recognition and measurement

① Initial recognition
Financial instruments (financial assets and financial liabilities) are recognized when, and only when, the Company becomes a party to the contractual provisions of the instrument; subject to that, the regular purchase or sale (where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the time frame established by the market concerned) of financial assets is recognized and derecognized using either trade-date or settlement-date accounting.

Financial assets and financial liabilities are initially measured at fair value, plus transaction costs that are directly attributable to the acquisition of financial assets, except for those financial assets classified as at FVTPL, which are initially measured at fair value. Fair value is an estimate of the market value, based on what a reasonable, willing and independent transaction parties would probably exchange assets or pay liabilities in the market. Fair values of financial instruments are generally estimated through the market price (fair values provided or received).

② Subsequent measurement
Subsequently, financial assets and liabilities (including derivatives) should be measured at fair value or amortized cost according to the category of the classification at initial recognition.

i) Amortized cost
Amortized cost is calculated by adjusting the following items on the amount at which the financial asset or financial liability is measured at initial recognition:

- Deduction of principal repayment
- The cumulative amortization of difference between the initial amount and the maturity amount using the effective interest rate method
- Deduction of impairment loss or write-off

ii) Fair value
If a financial instrument is traded in an active market, the best possible estimate of fair value is a quoted price in such a market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group or pricing service and those prices represent market prices in the active market on an arm's-length basis.

If there is no active market for a financial instrument, the Company uses valuation technique to estimate the fair value of the financial instrument. Valuation techniques include using recent arm's-length market transactions between knowledgeable, willing parties, if available; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis; and option-pricing models.

The general financial instruments like option, forwards and swaps are valued using common models that use readily observable market parameters as their basis, and the fair value for certain financial instruments is derived using internally developed models as valuation techniques.

In this case, the fair values of those financial instruments are determined using internally developed valuation techniques, which use sufficient data, including observable inputs from market data, such as market prices or market interest rates, or unobservable inputs, such as management or business assumptions.

g. Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that more events that occurred after the initial recognition of the financial asset and the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as the observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in that period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

With respect to AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. With respect to AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

h. Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulated gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g., when the Company retains an option to repurchase part of a transferred asset, or it retains a residual interest and such a retained interest indicates that the transferor has neither transferred nor retained substantially all the risks and rewards of ownership and has retained control of the transferred asset), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement and the part it no longer recognizes on the basis of the relative fair value of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part that is no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair value of those parts.

5) Financial liabilities

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments. Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the issue of financial liabilities are deducted from the fair value of the financial liabilities on initial recognition. Transaction costs directly attributable to acquisition of financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

① Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039, *Financial Instruments*: *Recognition and Measurement,* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the line item in the separate statements of comprehensive income.

② Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments, including all fees and points paid or received (that form an integral part of the effective interest rate) and transaction costs and other premiums or discounts through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

③ Financial guarantee contracts

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

Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with K-IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets*; and
- the amount initially recognized, less cumulative amortization recognized in accordance with the K-IFRS 1018, *Revenue*.

④ Derecognition of financial liabilities

The Company derecognizes financial liabilities when the Company's obligations are discharged, canceled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

6) Tangible assets

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

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

Depreciation expense is computed by using the straight-line method based on the estimated useful lives of the assets as follows:

Tangible assets	Estimated useful life (Years)	Depreciation method
Leasehold estates	5	Straight line
Business movable assets	5	Straight line

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

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

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

7) Intangible assets

The cost of an intangible asset comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates and any directly attributable cost of preparing the asset for its intended use. The cost of an internally generated intangible asset comprises all expenditure that can be directly attributed, or allocated on a reasonable and consistent basis, to creating, producing and making the asset ready for its intended use. The level of maintenance expenditure required to obtain the expected future economic benefits or service potential from the asset and the Company's ability and intention to reach such a level are considered in determining the useful life of an intangible asset, and after initial recognition, an intangible asset is carried at its cost, less any accumulated amortization, which was computed by using the straight-line method for a five-year period.

Intangible assets, except for contractual or other legal right, are amortized by using the straight-line method with no residual value over their estimated useful economic life since the asset is available for use.

Tangible assets	Estimated useful life	Depreciation method
Software	5 years	Straight line

An intangible asset is regarded by the Company as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for, or provide service potential to, the Company, and an intangible asset with an indefinite useful life shall not be amortized.

The estimated useful life and amortization method of intangible assets with finite useful life are reviewed at each financial year-end and adjusted as appropriate. Intangible asset with indefinite useful life is reviewed in each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. The change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate if its change is appropriate.

No intangible asset arising from research (or from the research phase of an internal project) is recognized, and expenditure on research (or on the research phase of an internal project) is recognized as an expense when it is incurred. Subsequent to initial recognition, internally generated intangible assets are reported at cost, less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

8) Impairment of non-financial assets

All non-financial assets are tested for impairment when there is an objective indication that the carrying amount may not be recoverable, and if the indication exists, the Company estimates the recoverable amount. Intangible assets with indefinite useful lives or intangible assets that are not yet available for use are tested for impairment annually, regardless of whether or not there is any indication of impairment.

If the recoverable amount for an individual asset cannot be estimated, recoverable amount is determined for the CGUs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Recoverable amount is the higher of fair value, less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is immediately recognized as an expense. When an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

9) Non-current assets held for sale

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

The Company does not depreciate (or amortize) a non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale.

The Company recognizes a gain for any subsequent increase in fair value, less costs to sell an asset, but not in excess of the cumulative impairment loss that has been recognized in accordance with K-IFRS 1036, *Impairment of Assets*.

10) Employee benefits

① Short-term employee benefits

Short-term employee benefits are defined as employee benefits that fall due wholly within 12 months after the period-end in which the employees render the related service. The Company recognizes the undiscounted amount of short-term employee benefits expecting payment in exchange for the services when the employee renders services. The Company also recognizes relevant liabilities and expenses when the services that increase the future paid leave right are rendered in accordance with accumulated compensated absences. Expenses and liabilities are also recognized when the Company pays a bonus even with no legal obligation due to the consideration for constructive obligation.

② Other long-term employee benefits

If the Company does not pay employee benefits within 12 months from the end of accounting period after providing services, other long-term employee benefits are discounted by present value of future benefits based on current and past terms. These benefits are also recognized as liabilities after deducting fair value of plan assets that can directly pay relevant liabilities. The liabilities are determined after discounting estimated future cash flow by using interest rate of sound corporate bonds that have similar maturity with related benefits. Gains and losses arising from fluctuation of actuarial assumption and experiential adjustment are recognized as amount of total gains and losses during the period of events.

③ Retirement benefit costs and termination benefits

Contributions to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

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

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

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

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

11) Provisions

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

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

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

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

① Onerous contracts

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

② Restructurings

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

③ Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognized in accordance with K-IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets,* and the amount initially recognized, less cumulative amortization recognized in accordance with K-IFRS 1018, *Revenue*.

12) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Common shares are classified as capital. On issuing common shares or exercising stocks options, additional costs incurred on the issue of common shares or the exercise of stock options are subtracted from capital by net amounts reflecting tax effect.

13) Revenue and expense recognition

The Company recognizes revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities.

① Interest income and expense

Using the effective interest rate method, the Company recognizes interest income and expense in separate statements of comprehensive income. Effective interest rate method calculates the amortized cost of financial assets or liabilities and allocates interest income or expense over the relevant period.

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

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

② Commission revenue

Generally, commission revenue from rendering of services is recognized as the services are provided. The commission, which is part of the effective interest rate of loans, is accounted for as deferred origination fees and is amortized on the effective interest method and included in interest income on loans.

③ Dividend income

Dividend income is recognized as shareholders are entitled to receive dividends.

14) Earnings per share

Basic earnings per share are calculated by dividing net profit from the period available to common shareholders by the weighted-average number of common shares outstanding during the year. Diluted earnings per share are calculated using the weighted-average number of common shares outstanding adjusted to include the potentially dilutive effect of common equivalent shares outstanding.

15) Income tax expense

Income tax expense consists of current and deferred taxes. The Company recognizes it in current operations, except for tax amount arising from transactions or events recognized in other comprehensive income or capital.

In accordance with the Korean Corporate Tax Act, the Company and its 100%-owned domestic subsidiaries have filed a consolidated tax return.

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

① Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the separate statements of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Current income tax assets and liabilities are offset only when there is a legally enforceable right to offset current tax assets against current tax liabilities and when there is an intention to settle the balances on a net basis.

② Deferred tax

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities related to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention either to settle the balances on a net basis or to realize the asset and settle the liability simultaneously.

For the purpose of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale.

16) Fair value

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

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

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

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY:

In the application of the Company's accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(1) Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations, that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the separate financial statements.

Valuation of Financial Instruments

As described in Note 4, the Company uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain type of financial instruments. The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

(2) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

1) Valuation of Financial Instruments

In order to determine fair values of financial assets and liabilities without observable market values, valuation methods are necessary. For the valuation of the financial instruments for which transactions do not occur frequently and prices that are not transparent, an extensive judgment is required with regard to liquidity, concentrativeness, uncertainty of market factors, assumptions related to price determination and other risks because fair values lack objectivity.

2) Defined Benefit Plan

The Company's defined benefit obligation is determined based on the actuarial valuation carried out at the end of each annual reporting period. Actuarial assumptions are the Company's best estimates of the variables in determining the cost of providing postretirement benefits, such as discount rates, rates of expected future salary increases and mortality rates. Significant estimation uncertainty is likely to persist in making such assumptions due to the long-term nature of postretirement benefit plan. The Company's defined benefit obligation is detailed in Note 13.

4. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS:

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

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

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

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

(1) Credit risk

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

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

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

The Company's maximum exposure to credit risk as of December 31, 2014 and 2013, is summarized as follows (Unit: Korean won in thousands):

Classification	December 31, 2014	December 31, 2013
Cash and due from banks	₩ 14,545,845	₩ 153,719,230
Loans and receivables	60,896,377	197,514,094
	₩ 75,442,222	₩ 351,233,324

The Company manages and sets up allowance for credit loss about loans and receivables accompanying credit risk.

The Company realizes profits and losses for current term after estimating impairment losses if there is an objective evidence of what book value of loans is impaired at the end of the reporting period. As impairment losses signify incurred losses in K-IFRS, the Company does not realize losses for future impairment event, although impairment is likely to occur. The Company estimates the incurred losses that are inherent in financial assets and indicates them in the separate financial statements by deducting book value of current assets as a title of allowance for credit loss.

Credit risk by impairment of loans and receivables as of December 31, 2014 and 2013, is summarized as follows (Unit: Korean won in thousands):

Classification	December 31, 2014	December 31, 2013
Loans neither past due nor impaired	₩ 60,896,377	₩ 197,514,094
Loans past due but not impaired	-	-
Impaired loans	-	-
	60,896,377	197,514,094
Allowance for credit loss	-	-
Book value	₩ 60,896,377	₩ 197,514,094

(2) Liquidity risk

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

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

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

Liabilities by term structures as of December 31, 2014 and 2013, are summarized as follows (Unit: Korean won in thousands):

	December 31, 2014				
Classification	Less than 1 month	1–3 months	3–12 months	More than 1 year	Total
Debentures	₩ 2,422,000	₩ 5,769,225	₩ 24,573,675	₩1,016,463,625	₩1,049,228,525

	December 31, 2013				
Classification	Less than 1 month	1–3 months	3–12 months	More than 1 year	Total
Debentures	₩ 2,137,500	₩ 5,461,100	₩ 230,708,300	₩ 604,070,150	₩ 842,377,050

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

(3) Capital risk management

The Company calculates the double leverage ratio ('total amount of investment ÷ (total amount shareholders' equity - provided reserve for bad debts)') and debt ratio ('total amount of liabilities ÷ (total amount shareholders' equity - provided reserve for bad debts)') in accordance with financial holding company regulations in order to manage the capital risk.

5. FINANCIAL ASSETS AND LIABILITIES:

(1) The carrying amount by category of financial instruments

Financial assets and liabilities are measured at fair value or amortized cost. The carrying amount of financial assets and financial liabilities by each category as of December 31, 2014 and 2013, is as follows (Unit: Korean won in thousands):

Financial assets	December 31, 2014	December 31, 2013
Due from banks	₩ 14,545,845	₩ 153,719,230
Loans	-	170,000,000
Receivables	60,896,377	27,514,094
	₩ 75,442,222	₩ 351,233,324

Financial liabilities	December 31, 2014	December 31, 2013
Debentures	₩ 928,130,895	₩ 738,530,106
Other liabilities (*1)	6,181,464	9,988,249
	₩ 934,312,359	₩ 748,518,355

(*1) Consist of accounts payable and accrued expenses.

(2) Fair value assessment method and assumptions for each type of financial instruments are as follows:

Classification	Fair value measurement technique
Loans and receivables	Discounted cash flow model is used to determine the fair value of loans and receivables. Fair value is determined by using appropriate discount rate and 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 reset period of less than three months, the carrying amount is regarded as fair value.
Debentures	Fair value is determined by using the valuation of independent third-party pricing services in accordance with the market prices that are quoted in active markets.
Other financial liabilities	For financial liabilities with the residual maturities of less than three months as of the closing date and the ones with reset period of less than three months, the carrying amount is regarded as fair value.

(3) Fair value of the accounts

The book value and the fair value of financial instruments subsequently not measured at fair value as of December 31, 2014 and 2013, are as follows (Unit: Korean won in thousands):

	December 31, 2014	
Classification	Book value	Fair value
Financial assets:		
Loans	₩ -	₩ -
Financial liabilities:		
Debentures	₩ 928,130,895	₩ 962,320,730

	December 31, 2013	
Classification	Book value	Fair value
Financial assets:		
Loans	₩ 170,000,000	₩ 170,390,169
Financial liabilities:		
Debentures	₩ 738,530,106	₩ 752,391,950

Except for the debentures described above, the Company's management considers the amortized cost of financial assets and liabilities to be similar to that of fair value.

Fair value is the amount for which an asset could be exchanged, or a liability could be settled, between knowledgeable, willing parties in an arm's-length transaction. The Company presents a comparative disclosure of fair value and book value by the type of financial assets and liabilities. The best evidence of fair value is a quoted price in an active market.

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. Valuation techniques include using recent arm's-length market transactions between knowledgeable, willing parties, if available, with reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option-pricing models. If there is a valuation technique commonly used by market participants to price the instrument and the technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Company uses that technique.

Although the Company believes that the valuation techniques it has used are appropriate and the fair values recorded in the separate statements of financial position are reasonably estimated, the application of assumptions and estimates means that any selection of different assumptions and valuation techniques would cause the reported results to differ. Furthermore, as various valuation techniques and assumptions are used in estimating fair values, it might be difficult to compare the Company's results with fair values determined by other financial institutions.

6. **CASH AND DUE FROM BANKS:**

Cash and due from banks as of December 31, 2014 and 2013, consist of the following (Unit: Korean won in thousands):

Classification	Financial institution	Interest rate (%)	December 31, 2014	December 31, 2013
Checking deposits	Busan Bank	-	₩ 14,433,853	₩ 125,946
Corporate savings deposits	Busan Bank	-	111,992	10,793,284
Time deposits	Busan Bank	-	-	142,800,000
			₩ 14,545,845	₩ 153,719,230

7. INVESTMENTS IN SUBSIDIARIES:

(1) Book value and acquisition cost of investments in subsidiaries

The details of investments in subsidiaries as of December 31, 2014 and 2013, are as follows (Unit: Korean won in thousands):

	December 31, 2014				
Name of subsidiaries	Number of shares	Percentage of ownership	Beginning balance	Acquisition	Ending balance
Busan Bank	189,683,650	100%	₩ 2,678,140,154	₩ -	₩ 2,678,140,154
Kyongnam Bank	44,677,529	56.97%	-	1,226,908,000	1,226,908,000
BS Securities Co., Ltd.	17,000,000	100%	104,166,758	-	104,166,758
BS Capital Co., Ltd.	42,600,000	100%	248,488,236	80,000,000	328,488,236
BS Savings Bank Co., Ltd.	6,200,000	100%	115,000,600	-	115,000,600
BS Credit Information Co., Ltd.	600,000	100%	4,451,045	-	4,451,045
BS Information System Co., Ltd.	600,000	100%	3,000,000	-	3,000,000
			₩ 3,153,246,793	₩1,306,908,000	₩ 4,460,154,793

	December 31, 2013				
Name of subsidiaries	Number of shares	Percentage of ownership	Beginning balance	Acquisition	Ending balance
Busan Bank	189,683,650	100%	₩ 2,528,140,154	₩ 150,000,000	₩ 2,678,140,154
BS Securities Co., Ltd.	17,000,000	100%	104,166,758	-	104,166,758
BS Capital Co., Ltd.	41,000,000	100%	198,488,236	50,000,000	248,488,236
BS Savings Bank Co., Ltd.	6,200,000	100%	115,000,600	-	115,000,600
BS Credit Information Co., Ltd.	600,000	100%	4,451,045	-	4,451,045
BS Information System Co., Ltd.	600,000	100%	3,000,000	-	3,000,000
			₩ 2,953,246,793	₩ 200,000,000	₩ 3,153,246,793

(2) Major financial information of investment in subsidiaries

A summary of the financial information of investment in subsidiaries as of December 31, 2014, is as follows (Unit: Korean won in thousands):

Subsidiaries	Assets	Liabilities	Capital stock	Operating income	Net profit
Busan Bank and its subsidiaries	₩ 46,398,612,637	₩42,969,746,176	₩ 3,428,866,461	₩ 456,847,535	₩ 355,202,193
Kyongnam Bank and its subsidiaries	32,854,636,381	30,707,871,014	2,146,765,367	13,828,808	8,695,774
BS Securities Co., Ltd. and its subsidiaries	511,957,084	394,374,359	117,582,725	7,932,164	5,733,772
BS Capital Co., Ltd. and its subsidiaries	3,583,253,325	3,160,583,336	422,669,989	46,972,305	36,311,064
BS Savings Bank Co., Ltd. and its subsidiaries	736,087,488	617,367,590	118,719,898	14,001,307	10,456,406
BS Credit Information Co., Ltd.	7,111,110	374,890	6,736,220	504,725	487,514
BS Information System Co., Ltd.	6,797,480	1,961,401	4,836,079	876,768	724,276

8. LOANS AND RECEIVABLES:

Loans and receivables as of December 31, 2014 and 2013, consist of the following (Unit: Korean won in thousands):

Classification	December 31, 2014	December 31, 2013
Loans:	₩ -	₩ 170,000,000
Receivables:		
Accounts receivable	53,142,113	23,478,888
Guarantee deposits paid	7,748,841	3,636,326
Accrued income	5,423	398,880
	60,896,377	27,514,094
	₩ 60,896,377	₩ 197,514,094

9. TANGIBLE ASSETS:

The changes in book value of tangible assets for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in thousands):

	2014					
Account	Beginning balance	Acquisition	Disposal	Depreciation	Reclassification	Ending balance
Leasehold estates	₩ 151,634	₩ 185,428	₩ (117,696)	₩ (53,353)	₩ -	₩ 166,013
Business movable assets	1,504,030	382,162	(18,593)	(411,705)	20,860	1,476,754
Construction in progress	20,860	-	-	-	(20,860)	-
	₩ 1,676,524	₩ 567,590	₩ (136,289)	₩ (465,058)	₩ -	₩ 1,642,767

Account	2013				
	Beginning balance	Acquisition	Disposal	Depreciation	Ending Balance
Leasehold estates	₩ 134,419	₩ 65,110	₩ -	₩ (47,895)	₩ 151,634
Business movable assets	410,471	1,190,495	(36,285)	(60,651)	1,504,030
Construction in progress	-	20,860	-	-	20,860
	₩ 544,890	₩ 1,276,465	₩ (36,285)	₩ (108,546)	₩ 1,676,524

10. INTANGIBLE ASSETS:

The changes in intangible assets for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in thousands):

Account	2014				
	Beginning balance	Acquisition	Disposal	Amortization	Ending balance
Software	₩ 35,875	₩ 420,160	₩ -	₩ (20,027)	₩ 436,008
Right of membership	1,459,456	-	(100,000)	-	1,359,456
	₩ 1,495,331	₩ 420,160	₩ (100,000)	₩ (20,027)	₩ 1,795,464

Account	2013				
	Beginning balance	Acquisition	Amortization	Reclassification	Ending balance
Software	₩ 33,036	₩ 13,363	₩ (10,524)	₩ -	₩ 35,875
Right of membership	1,423,360	1,496	-	34,600	1,459,456
	₩ 1,456,396	₩ 14,859	₩ (10,524)	₩ 34,600	₩ 1,495,331

11. OTHER ASSETS:

The details of other assets as of December 31, 2014 and 2013, consisted of the following (Unit: Korean won in thousands):

Classification	December 31, 2014	December 31, 2013
Other guarantee deposit	₩ 464,748	₩ -
Others	81	-
	₩ 464,829	₩ -

12. BORROWINGS AND DEBENTURES:

The details of debentures as of December 31, 2014 and 2013, are as follows (Unit: Korean won in thousands):

Classification	Annual interest rate (%)	December 31, 2014	December 31, 2013
Debentures in Korean won	2.35–4.32	₩ 930,000,000	₩ 740,000,000
Present value discounts		(1,869,105)	(1,469,894)
		₩ 928,130,895	₩ 738,530,106

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

13. RETIREMENT BENEFIT OBLIGATION:

(1) As of December 31, 2014 and 2013, the amounts recognized in the separate statements of financial position related to retirement benefit obligation are as follows (Unit: Korean won in thousands):

Classification	December 31, 2014	December 31, 2013
Present value of defined benefit obligation	₩ 4,532,286	₩ 3,042,836
Fair value of plan assets	(3,237,918)	(2,318,505)
Net defined benefit liability	₩ 1,294,368	₩ 724,331

(2) Changes in net defined benefit liability for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in thousands):

	2014		
Classification	Present value of defined benefit obligation	Fair value of plan assets	Total
Beginning balance	₩ 3,042,836	₩ (2,318,505)	₩ 724,331
Current service cost	629,164	-	629,164
Interest expenses (revenues)	154,249	(115,926)	38,323
	3,826,249	(2,434,431)	1,391,818
Remeasurement elements:			
The return on plan assets	-	67,019	67,019
Actuarial gains and losses from changes in population of statistical assumptions	(122,882)	-	(122,882)
Actuarial gains and losses from changes in financial assumptions	234,034	-	234,034
Actuarial gains and losses from changes in experience adjustments	758,672	-	758,672
	869,824	67,019	936,843
Benefits paid	(341,726)	341,726	-
Contribution	-	(1,100,000)	(1,100,000)
Transfer of employees between the Company and the related companies	177,939	(112,232)	65,707
Ending balance	₩ 4,532,286	₩ (3,237,918)	₩ 1,294,368

	2013		
Classification	Present value of defined benefit obligation	Fair value of plan assets	Total
Beginning balance	₩ 2,781,512	₩ (2,560,502)	₩ 221,010
Current service cost	733,687	-	733,687
Interest expenses (revenues)	140,718	(108,822)	31,896
	3,655,917	(2,669,324)	986,593
Remeasurement elements:			
The return on plan assets	-	18,043	18,043
Actuarial gains and losses from changes in financial assumptions	13,677	-	13,677
	13,677	18,043	31,720
Benefits paid	(448,135)	448,135	-
Transfer of employees between the Company and the related companies	(178,623)	(115,359)	(293,982)
Ending balance	₩ 3,042,836	₩ (2,318,505)	₩ 724,331

(3) Details of fair values of plan assets as of December 31, 2014 and 2013, are as follows (Unit: Korean won in thousands):

Classification	December 31, 2014	December 31, 2013
Time deposit	₩ 3,237,918	₩ 2,318,505

(4) Actuarial assumptions as of December 31, 2014 and 2013, are as follows (Unit: %):

Classification	2014	2013
Discount rate	4.00	5.00
Weighted-average rate of salary increase	2.10	3.16
Mortality ratio	Standardized mortality ratio by Korea Insurance Development Institute	
Retirement ratio	0.93–6.50	0.93–6.50

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

Description	1-percentage increase	1-percentage decrease
Change of discount rate	(474,429)	554,608
Change of future salary increase rate	560,279	(487,261)

14. OTHER LIABILITIES:

Other liabilities as of December 31, 2014 and 2013, consisted of the following (Unit: Korean won in thousands):

Classification	December 31, 2014	December 31, 2013
Accounts payable	₩ 390,890	₩ 2,887,987
Accrued expenses	5,790,574	7,100,262
Others	200,290	125,946
	₩ 6,381,754	₩ 10,114,195

15. SHAREHOLDERS' EQUITY:

(1) Capital stock

As of December 31, 2014, the Company has 700 million common shares authorized with a par value per share of ₩5,000, and 234,379,899 shares have been issued. Capital stock is ₩1,171,899 million.

(2) 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 stock.

(3) Other components of equity

Other components of equity for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in thousands):

	2014			
Classification	Beginning balance	Increase (decrease)	Deferred income tax effect	Ending balance
Remeasurements of defined benefit plans	₩ (188,886)	₩ (936,843)	₩ -	₩ (1,125,729)

	2013			
Classification	Beginning balance	Increase (decrease)	Deferred income tax effect	Ending balance
Remeasurements of defined benefit plans	₩ (157,166)	₩ (31,720)	₩ -	₩ (188,886)

16. RETAINED EARNINGS:

(1) Retained earnings as of December 31, 2014 and 2013, are summarized as follows (Unit: Korean won in thousands):

Classification	December 31, 2014	December 31, 2013
Reserve:		
Legal reserve	₩ 26,415,000	₩ 20,301,000
Reserve for bad debts	970,000	1,792,000
Voluntary reserve	51,271,000	49,413,000
	78,656,000	71,506,000
Retained earnings before appropriations	356,414,704	61,297,004
	₩ 435,070,704	₩ 132,803,004

(2) Separate statements of appropriations of retained earnings are as follows (Unit: Korean won):

Classification	2014	2013
Retained earnings before appropriations:		
Beginning	₩ 632,401	₩ 157,350,289
Net income	356,414,071,825	61,139,653,832
	356,414,704,226	61,297,004,121
Transfer from voluntary reserves:		
Regulatory reserve for bad debts	704,000,000	822,000,000
	704,000,000	822,000,000
Appropriations:		
Legal reserve	35,641,407,183	6,114,000,000
Special reserve	274,601,000,000	1,858,000,000
Cash dividends (Dividends per share FY2014: ₩200 (4.00%) FY2013: ₩280 (5.60%))	46,875,979,800	54,146,371,720
	357,118,386,983	62,118,371,720
Unappropriated retained earnings to be carried forward to subsequent year	₩ 317,243	₩ 632,401

Date of appropriation was March 27, 2015, for the year ended December 31, 2014, and March 28, 2014, for the year ended December 31, 2013.

(3) Dividends

Dividends in the separate statements of appropriations of retained earnings as of December 31, 2014 and 2013, are summarized as follows (Unit: Korean won):

1) Calculation of dividends paid

Classification	December 31, 2014	December 31, 2013
Dividends per share	₩ 200 (4.00%)	₩ 280 (5.60%)
Shares outstanding	234,379,899	193,379,899
Total dividend paid	₩ 46,875,979,800	₩ 54,146,371,720

2) Dividend payout ratio

Classification	December 31, 2014	December 31, 2013
Total dividend paid	₩ 46,875,979,800	₩ 54,146,371,720
Net income	356,414,071,825	61,139,653,832
Dividend payout ratio	13.15%	88.56%

3) Dividend yield ratio of ordinary shares

Classification	December 31, 2014	December 31, 2013
Dividends per share	₩ 200	₩ 280
Market price as of year-end	14,500	16,000
Dividend yield ratio	1.38%	1.75%

(4) Regulatory reserve for bad debts

In accordance with the Regulations for Supervision of Financial Holding Company, if allowances for credit loss under K-IFRS do not meet the allowances that were calculated for the regulatory purpose, the Company discloses such shortfall amounts as regulatory reserve for bad debts.

Balances of regulatory reserve for bad debt as of December 31, 2014 and 2013, are as follows (Unit: Korean won in thousands):

Classification	December 31, 2014	December 31, 2013
Accumulated reserve for bad debt	₩ 970,000	₩ 1,792,000
Expected reserve (reversal) for bad debt	(704,000)	(822,000)
	₩ 266,000	₩ 970,000

Reserve provided and net income after the reserve for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in thousands, except for earnings per share):

Classification	2014	2013
Net income	₩ 356,414,072	₩ 61,139,654
Reserve provided	704,000	822,000
Net income after the reserve provided	357,118,072	61,961,654
Earnings per share after the reserve provided (in currency unit)	₩ 1,680	₩ 320

17. NET INTEREST LOSS:

Net interest loss, interest revenues and expenses for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in thousands):

Classification		2014		2013
Interest revenues:				
Cash and due from banks	₩	866,302	₩	1,161,617
Loans		3,512,099		11,939,747
		4,378,401		13,101,364
Interest expenses:				
Borrowings		-		(14)
Debentures		(31,399,161)		(27,981,541)
		(31,399,161)		(27,981,555)
Net interest expense	₩	(27,020,760)	₩	(14,880,191)

18. NET COMMISSION LOSS:

Net commission loss, commission revenues and expenses for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in thousands):

Classification		2014		2013
Commission revenues	₩	11,950	₩	33,150
Commission expenses		(5,497,421)		(2,572,144)
Net commission loss	₩	(5,485,471)	₩	(2,538,994)

19. GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in thousands):

Classification		2014		2013
Employee benefits:				
Salaries	₩	5,078,346	₩	5,394,039
Provision for severance benefits		667,487		765,583
		5,745,833		6,159,622
Depreciation and amortization:				
Depreciation of tangible assets		465,058		108,546
Amortization of intangible assets		20,027		10,524
		485,085		119,070
Other administrative expenses		5,622,566		5,089,715
	₩	11,853,484	₩	11,368,407

20. NET NON-OPERATING INCOME (LOSS):

Net non-operating income (loss), non-operating revenues and expenses for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in thousands):

Classification	2014	2013
Non-operating revenues:		
Income on disposal of tangible assets	₩ -	₩ 5,029
Miscellaneous income	3,525	10,811
Miscellaneous interest	816,480	-
Gain on foreign currency transaction	57,553	-
	877,558	15,840
Non-operating expenses:		
Loss on disposal of tangible assets	(136,289)	(2,860)
Donations	(10,300)	(2,082,304)
	(146,589)	(2,085,164)
Net non-operating income (loss)	₩ 730,969	₩ (2,069,324)

21. INCOME TAX EXPENSE:

(1) The components of income tax expense for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in thousands):

Classification	2014	2013
Income tax currently payable	₩ -	₩ -
Changes in deferred income tax assets by temporary difference (*1)	-	-
Changes in deferred income tax assets by deficit (*1)	-	-
Tax effect	-	-
Changes in deferred income tax liabilities reflected directly in shareholders’ equity	-	-
	₩ -	₩ -

(*1) The Company did not recognize deferred income tax assets because the realization of temporary difference and taxable loss is almost uncertain.

(2) Reconciliation between the accounting profit and income tax expense for the years ended December 31, 2014 and 2013, is as follows (Unit: Korean won in thousands):

Description	2014	2013
Income before income tax	₩ 356,414,072	₩ 61,139,654
Taxes payable	85,790,205	14,333,796
Reconciliation items:		
Non-taxable income	(92,436,070)	(18,573,392)
Non-deductible expenses	145,412	222,718
Adjustments from consolidated taxation	6,500,453	4,016,878
Income tax expense	₩ -	₩ -
Effective tax rate (income tax expense/income before income tax)	0.00%	0.00%

(3) The details of the changes in temporary differences, tax loss carryforward and deferred tax for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in thousands):

	2014			
Classification	Beginning balance	Decrease	Increase (*1)	Ending balance
Unconfirmed costs	₩ 1,779,230	₩ 1,779,230	₩ 1,442,317	₩ 1,442,317
Commissions paid (bond discount)	285,802	285,802	152,273	152,273
Allowance for retirement	1,155,245	341,726	1,653,237	2,466,756
Stock compensation cost	215,807	215,807	295,711	295,711
Tax loss carryforward (*2)	4,620,123	-	-	4,620,123
Plan assets	(1,540,955)	(341,726)	(1,455,172)	(2,654,401)
Depreciation in excess of tax limit	-	-	557	557
	6,515,252	2,280,839	2,088,923	6,323,336
Not recognized as deferred tax assets (*3)	6,515,252			6,323,336
Recognized as deferred tax assets	-			-
Deferred tax assets	₩ -			₩ -

(*1) Differences in amounts between FY2013 audit report and the income tax adjustment were reflected in the increase.
(*2) The Company does not recognize deferred tax assets from tax loss carryforward at the end of the reporting date due to its uncertainty of realization.
(*3) The Company does not recognize deferred tax assets from temporary difference and tax losses due to its uncertainty of realization.

	2013			
Classification	Beginning balance	Decrease	Increase (*1)	Ending balance
Unconfirmed costs	₩ 627,001	₩ 627,001	₩ 1,779,230	₩ 1,779,230
Commissions paid (bond discount)	184,817	184,817	285,802	285,802
Allowance for retirement	721,454	448,135	881,926	1,155,245
Stock compensation cost	102,003	(448,135)	(334,331)	215,807
Tax loss carryforward (*2)	4,620,123	-	-	4,620,123
Plan assets	(787,995)	(787,995)	(1,540,955)	(1,540,955)
	5,467,403	23,823	1,071,672	6,515,252
Not recognized as deferred tax assets (*3)	5,467,403			6,515,252
Recognized as deferred tax assets	-			-
Deferred tax assets	₩ -			₩ -

(*1) Differences in amounts between FY2012 audit report and the income tax adjustment were reflected in the increase.
(*2) The Company does not recognize deferred tax assets from tax loss carryforward at the end of the reporting date due to its uncertainty of realization.
(*3) The Company does not recognize deferred tax assets from temporary difference and tax losses due to its uncertainty of realization.

(4) At the end of the reporting date, the amount of tax loss carryforward and the deductible deadline are as follows (Unit: Korean won in thousands):

Occurrence year	Occurrence amount (*1)	Used tax loss	Ending balance	Deductible deadline
2011	₩ 4,620,123	₩ -	₩ 4,620,123	Until the end of 2021
	₩ 4,620,123	₩ -	₩ 4,620,123	

(*1) Differences in amounts between FY2011 and FY2012 audit reports and the income tax adjustment were reflected in the increase. As the Company adopted consolidated taxation system since FY2012, tax loss cannot occur for the year ended December 31, 2013.

(5) The Company, as the parent company on behalf of its subsidiaries, recognizes total corporate income tax payables as a current tax liability amounting to ₩52,846,363 thousand as of December 31, 2014, in accordance with the consolidated corporate tax system.

22. EARNINGS PER SHARE:

(1) Basic net income per share for the years ended December 31, 2014 and 2013, is as follows (Unit: Korean won, share):

Classification	2014	2013
Net income	₩ 356,414,071,825	₩ 61,139,653,832
Weighted-average number of shares	212,588,118	193,379,899
Net income per share	₩ 1,677	₩ 316

(2) Weighted-average number of common shares for the years ended December 31, 2014 and 2013, is as follows (Unit: share):

	2014				
Account	Beginning	End	Day	Number of shares	Accumulation of days
January 1, 2014	2014-01-01	2014-07-13	194	193,379,899	37,515,700,406
Paid-in capital increase	2014-07-14	2014-12-31	171	234,379,899	40,078,962,729
			365		77,594,663,135
Weighted-average number of common shares					212,588,118

	2013				
Account	Beginning	End	Day	Number of shares	Accumulation of days
January 1, 2013	2013-01-01	2013-12-31	365	193,379,899	70,583,663,135
Weighted-average number of common shares					193,379,899

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

23. RELATED-PARTY TRANSACTIONS:

(1) Related parties as of December 31, 2014, are as follows:

Relationship	Name of the related party
Subsidiary	Busan Bank, Kyongnam Bank Co., Ltd., BS Securities Co., Ltd., BS Capital Co., Ltd., BS Savings Bank Co., Ltd., BS Credit Information Co., Ltd., BS Information System Co., Ltd. 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, Shinyoung Private Securities Investment Trust KN-1st, Shinyoung Private Securities Investment Trust KN-2nd, Yuri Balance Private Investment Trust 11st, Daishin Balance Private Securities Investment Trust 51th, Daishin Balance Private Securities Investment Trust 55th, Hanhwa Private Securities Investment Trust 72th, HDC Dual Private Securities Investment Trust 1st, Samsung Plus Alpha Private Equity Securities 21th, Hanhwa Private Securities Investment Trust 15th, Consus 6th LLC, Plus Private Real Estate Investment Trust 6, KJM Partners Co., Ltd. 10th, KBSC (Cambodia) Plc, BS Capital Myanmar Co., Ltd.

(2) Transactions with related parties for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in thousands):

2014

Subsidiary	Revenues: Interest revenues	Revenues: Other revenues	Expenses: Interest expenses	Expenses: Other expenses	Acquisition of tangible assets	Acquisition of intangible assets
Busan Bank	₩ 866,303	₩ 400,048,268	₩ -	₩ 256,986	₩ -	₩ -
Kyongnam Bank	-	-		24,231	-	-
BS Securities Co., Ltd.	-	450	-	-	-	-
BS Capital Co., Ltd.	3,512,099	3,000	-	-	-	-
BS Credit Information Co., Ltd.	-	-	-	-	-	-
BS Information System Co., Ltd.	-	2,300	-	212,583	71,610	-
BS Saving Bank	-	750	-	-	-	-
	₩ 4,378,402	₩ 400,054,768	₩ -	₩ 496,800	₩ 71,610	₩ -

2013

Subsidiary	Revenues: Interest revenues	Revenues: Other revenues	Expenses: Interest expenses	Expenses: Other expenses	Acquisition of tangible assets	Acquisition of intangible assets
Busan Bank	₩ 1,161,617	₩ 19,550	₩ -	₩ 190,694	₩ -	₩ -
BS Securities Co., Ltd.	-	8,700	-	-	-	-
BS Capital Co., Ltd.	11,939,747	4,000	-	-	-	-
BS Credit Information Co., Ltd.	-	900	-	-	-	-
BS Information System Co., Ltd.	-	-	-	314,685	882,954	-
BS Saving Bank	-	-	-	-	-	-
	₩ 13,101,364	₩ 33,150	₩ -	₩ 505,379	₩ 882,954	₩ -

(3) Fund transactions with related parties for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in thousands):

	2014					
	Loan		Deposit		Investment	
Subsidiary	Increase	Decrease	Increase	Decrease	Capital expansion	Capital reduction
Busan Bank	₩ 14,545,845	₩ 153,719,230	₩ -	₩ -	₩ -	₩ -
Kyongnam Bank	-	-	-	-	-	-
BS Securities Co., Ltd.	-	-	-	-	-	-
BS Capital Co., Ltd.	-	170,000,000	-	-	80,000,000	-
BS Credit Information Co., Ltd.	-	-	-	-	-	-
BS Information System Co., Ltd.	-	-	-	-	-	-
BS Saving Bank	-	-	-	-	-	-
	₩ 14,545,845	₩ 323,719,230	₩ -	₩ -	₩ 80,000,000	₩ -

	2013					
	Loan		Deposit		Investment	
Subsidiary	Increase	Decrease	Increase	Decrease	Capital expansion	Capital reduction
Busan Bank	₩ 153,719,230	₩ 87,082,979	₩ -	₩ -	₩ 150,000,000	₩ -
BS Securities Co., Ltd.	-	-	-	-	-	-
BS Capital Co., Ltd.	-	148,000,000	-	-	50,000,000	-
BS Credit Information Co., Ltd.	-	-	-	-	-	-
BS Information System Co., Ltd.	-	-	-	-	-	-
BS Saving Bank	-	-	-	-	-	-
	₩ 153,719,230	₩ 235,082,979	₩ -	₩ -	₩ 200,000,000	₩ -

(4) Outstanding receivables and payables from related parties as of December 31, 2014 and 2013, are as follows (Unit: Korean won in thousands):

	December 31, 2014			
	Receivables		Payables	
Subsidiary	Loans/ due from banks	Other assets	Deposits	Other liabilities
Busan Bank	₩ 14,545,845	₩ 51,057,865	₩ -	₩ 91,637
BS Securities Co., Ltd.	-	887,834	-	-
BS Capital Co., Ltd.	-	8,142,717	-	-
BS Credit Information Co., Ltd.	-	37,436	-	-
BS Information System Co., Ltd.	-	148,694	-	-
BS Saving Bank	-	-	-	17,482
	₩ 14,545,845	₩ 60,274,546	₩ -	₩ 109,119

	December 31, 2013			
	Receivables		Payables	
Subsidiary	Loans/ due from banks	Other assets	Deposits	Other liabilities
Busan Bank	₩ 153,719,230	₩ 23,660,214	₩ -	₩ -
BS Securities Co., Ltd.	-	-	-	1,261,520
BS Capital Co., Ltd.	170,000,000	3,101,717	-	-
BS Credit Information Co., Ltd.	-	92,953	-	-
BS Information System Co., Ltd.	-	53,499	-	-
BS Saving Bank	-	-	-	1,434,401
	₩ 323,719,230	₩ 26,908,383	₩ -	₩ 2,695,921

(5) Compensation for key executives for the years ended December 31, 2014 and 2013, is as follows (Unit: Korean won in thousands):

Classification	2014	2013
Short-term employee benefits:		
Salaries	₩ 1,354,524	₩ 1,633,809
Social security contributions	34,054	39,675
	₩ 1,388,578	₩ 1,673,484
Share-based payment:		
Short-term compensation cost	₩ 420,838	₩ 1,833,486
Long-term compensation cost	-	1,208,994
Stock compensation expenses	79,904	113,804
	₩ 500,742	₩ 3,156,284

24. CASH FLOWS:

(1) The Company's cash and cash equivalents in the separate statements of cash flows as of December 31, 2014 and 2013, are as follows (Unit: Korean won in thousands):

Classification	December 31, 2014	December 31, 2013
Due from banks	₩ 14,545,845	₩ 153,719,230

Cash and cash equivalents in the separate statements of cash flows include cash, bank deposits and investments in money market, which mature within three months after the date of acquisition.

The cash and cash equivalents in the separate statements of cash flows are the same as the cash and cash equivalents in the separate statements of financial position.

(2) Material or significant transactions without cash inflow and outflow for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in thousands):

Classification	2014	2013
Provision of plan assets to subsidiaries	₩ 112,231	₩ 115,359
Replacement from advance payments to intangible assets	20,860	34,600

25. CONTINGENT LIABILITIES:

Supreme Court has handed down sentences in ordinary wages. The Company reviewed the effect by Supreme Court ruling on the consolidated entity's financial statements, and the Company determined not to recognize provisions because the Company anticipates that the outflows of resources are unlikely to be realized.

26. APPROVAL OF SEPARATE FINANCIAL STATEMENTS:

The separate financial statements were issued and approved on February 4, 2015, and will get a final approval during the shareholders' meeting on March 27, 2015.

Internal Control over Financial Reporting ("ICFR") Review Report

English Translation of Independent Auditors' Report Originally Issued in Korean on March 18, 2015

To the Chief Executive Officer of
BS Financial Group Inc.:

We have reviewed the accompanying Report on the Management's Assessment of IACS (the "Management's Report") of BS Financial Group Inc. (the "Company") as of December 31, 2014. The Management's Report, and the design and operation of IACS are the responsibility of the Company's management. Our responsibility is to review the Management's Report and issue a review report based on our procedures. The Company's management stated in the accompanying Management's Report that "based on the assessment of the IACS as of December 31, 2014, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2014, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association."

We conducted our review in accordance with the IACS Review Standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform a review, objective of which is to obtain a lower level of assurance than an audit, of the Management's Report in all material respects. A review includes obtaining an understanding of a Company's IACS and making inquiries regarding the Management's Report and, when deemed necessary, performing a limited inspection of underlying documents and other limited procedures.

The Company's IACS represents internal accounting policies and a system to manage and operate such policies to provide reasonable assurance regarding the reliability of financial statements prepared, in accordance with accounting principles generally accepted in the Republic of Korea, for the purpose of preparing and disclosing reliable accounting information. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness of IACS to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that the Management's Report referred to above is not fairly stated, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association.

Our review is based on the Company's IACS as of December 31, 2014, and we did not review its IACS subsequent to December 31, 2014. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in the Republic of Korea and may not be appropriate for other purposes or for other users.

Deloitte Anjin LLC

Report on the Effectiveness of the Internal Control over Financial Reporting ("ICFR")

To the Board of Directors and Audit Committee of BS Financial Group

I, as the Internal Control over Financial Reporting Officer of BS Financial Group ("the Company"), assessed the effectiveness of the design and operation of the Company's ICFR for the year ended December 31, 2014.

The Company's management, including myself, is responsible for designing and operating an ICFR. I assessed the design and operational effectiveness of the ICFR in the prevention and detection of an error or fraud which may cause a misstatement in the preparation and disclosure of reliable financial statements. I followed the Best Practice Guideline to evaluate the effectiveness of the ICFR design and operation.

Based on the assessment results, I believe that the Company's ICFR, as of December 31, 2014, is effectively design and operating, in all material respects, in conformity with the Best Practice Guideline.

February 13 2015

Internal Control over Financial Reporting Officer

Chief Executive Officer