# BNK FINANCIAL GROUP INC.
# (FORMERLY “BS FINANCIAL GROUP INC.”)

## SEPARATE FINANCIAL STATEMENTS
## AS OF AND FOR THE YEAR ENDED
## DECEMBER 31, 2015 AND 2014

## ATTACHMENT:
## INDEPENDENT AUDITORS’ REPORT

**BNK FINANCIAL GROUP INC.**

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# Independent Auditors' Report

English Translation of Independent Auditors' Report Originally Issued in Korean on March 17, 2015

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

**Report on the Financial Statements**

We have audited the accompanying separate financial statement of BNK Financial Group Inc. (formerly "BS Financial Group Inc.") (the "Company"), which is comprised of separate statements of financial position as of December 31, 2015 and December 31, 2014, respectively, and 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 audits 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 auditors 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.

Deloitte.

**Opinion**

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of the BNK Financial Group Inc.(previously known as “BS Financial Group Inc.”) as of December 31, 2015, and December 31, 2014, respectively, and its financial performance and its cash flows for the years then ended in accordance with K-IFRS.

Deloitte Anjin LLC

March 17, 2015

Notice to Readers

This report is effective as of March 17, 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.

# BNK FINANCIAL GROUP INC. (FORMERLY “BS FINANCIAL GROUP INC.”) (the “Company”)

## SEPARATE FINANCIAL STATEMENTS

## AS OF AND FOR THE YEAR ENDED

## DECEMBER 31, 2015 AND 2014

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
BNK Financial Group Inc.

BNK FINANCIAL GROUP INC. (FORMERLY “BS FINANCIAL GROUP INC.”)

SEPARATE STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2015 AND 2014

| | Korean won | | | |
|---|---|---|---|---|
| | December 31, 2015 | | December 31, 2014 | |
| ASSETS | (In thousands) | | | |
| Cash and due from banks (Notes 6, 23 and 24) | ₩ | 50,463,955 | ₩ | 14,545,845 |
| Investments in subsidiaries (Note 7) | | 5,131,104,716 | | 4,460,154,793 |
| Loans and receivables (Notes 4, 5, 8 and 23) | | 59,607,376 | | 60,896,377 |
| Tangible assets (Notes 9 and 23) | | 1,229,304 | | 1,642,767 |
| Intangible assets (Note 10) | | 1,733,366 | | 1,795,464 |
| Other assets (Note 11) | | 221,078 | | 464,829 |
| | ₩ | 5,244,359,795 | ₩ | 4,539,500,075 |
| LIABILITIES AND SHAREHOLDERS’ EQUITY | | | | |
| LIABILITIES: | | | | |
| Debentures (Notes 4, 5 and 12) | ₩ | 1,108,436,608 | ₩ | 928,130,895 |
| Net defined benefit liability (Notes 13 and 23) | | 87,661 | | 1,294,368 |
| Current income tax liabilities (Note 21) | | 42,504,525 | | 52,846,363 |
| Other liabilities (Notes 5 and 14) | | 7,221,641 | | 6,381,754 |
| | | 1,158,250,435 | | 988,653,380 |
| SHAREHOLDERS’ EQUITY: | | | | |
| Capital stock (Note 15) | | 1,279,676,230 | | 1,171,899,495 |
| Hybrid equity securities (Note 15) | | 259,277,011 | | - |
| Other paid-up capital (Note 15) | | 2,158,724,206 | | 1,945,002,225 |
| Other components of equity (Note 15) | | (1,251,640) | | (1,125,729) |
| Retained earnings (Note 16) | | 389,683,553 | | 435,070,704 |
| | | 4,086,109,360 | | 3,550,846,695 |
| | ₩ | 5,244,359,795 | ₩ | 4,539,500,075 |

See accompanying notes.

BNK FINANCIAL GROUP INC. (FORMERLY "BS FINANCIAL GROUP INC.")

SEPARATE STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014

| | Korean won | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | (In thousands, except per share amounts) | | | |
| NET INTEREST LOSS (Notes 17 and 23): | | | | |
| Interest revenues | ₩ | 30,070 | ₩ | 4,378,401 |
| Interest expenses | | (35,925,833) | | (31,399,161) |
| | | (35,895,763) | | (27,020,760) |
| NET COMMISSION INCOME (LOSS) (Notes 18 and 23): | | | | |
| Commission revenues | | 5,339,491 | | 11,950 |
| Commission expenses | | (2,191,625) | | (5,497,421) |
| | | 3,147,866 | | (5,485,471) |
| DIVIDEND INCOME | | 60,109,633 | | 400,042,818 |
| GENERAL AND ADMINISTRATIVE EXPENSES (Notes 19 and 23): | | (16,951,080) | | (11,853,484) |
| OPERATING INCOME | | 10,410,656 | | 355,683,103 |
| NET NON-OPERATING INCOME (LOSS) (Note 20): | | | | |
| Non-operating revenues | | 7,696 | | 877,558 |
| Non-operating expenses | | (4,047,190) | | (146,589) |
| | | (4,039,494) | | 730,969 |
| INCOME BEFORE INCOME TAX | | 6,371,162 | | 356,414,072 |
| INCOME TAX EXPENSE (Note 21) | | - | | - |
| NET INCOME (Note 16) | | 6,371,162 | | 356,414,072 |
| OTHER COMPREHENSIVE LOSS: | | | | |
| Remeasurement elements | | (125,911) | | (936,843) |
| TOTAL COMPREHENSIVE INCOME | ₩ | 6,245,251 | ₩ | 355,477,229 |
| EARNINGS PER SHARE (Note 22): | | | | |
| Basic and diluted (in currency units) | ₩ | 26 | ₩ | 1,677 |

See accompanying notes.

BNK FINANCIAL GROUP INC. (FORMERLY "BS FINANCIAL GROUP INC.")

SEPARATE STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014

| | Korean won | | | | | |
|---|---|---|---|---|---|---|
| Description | Capital stock | Hybrid equity securities | Other paid-up capital | Other components of equity | Retained earnings | Total |
| | (In thousands) | | | | | |
| Balance at January 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-up 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 December 31, 2014 | ₩ 1,171,899,495 | ₩ - | ₩ 1,945,002,225 | ₩ (1,125,729) | ₩ 435,070,704 | ₩ 3,550,846,695 |
| | | | | | | |
| Balance at January 1, 2015 | ₩ 1,171,899,495 | ₩ - | ₩ 1,945,002,225 | ₩ (1,125,729) | ₩ 435,070,704 | ₩ 3,550,846,695 |
| Stock exchange | 107,776,735 | - | 213,935,954 | - | - | 321,712,689 |
| Stock repurchase | - | - | (213,973) | - | - | (213,973) |
| Hybrid equity securities issued | - | 259,277,011 | - | - | - | 259,277,011 |
| Dividend from hybrid equity securities | - | - | - | - | (4,882,333) | (4,882,333) |
| Annual dividends | - | - | - | - | (46,875,980) | (46,875,980) |
| Net income | - | - | - | - | 6,371,162 | 6,371,162 |
| Remeasurement elements | - | - | - | (125,911) | - | (125,911) |
| Balance at December 31, 2015 | ₩ 1,279,676,230 | ₩ 259,277,011 | ₩ 2,158,724,206 | ₩ (1,251,640) | ₩ 389,683,553 | ₩ 4,086,109,360 |

See accompanying notes.

BNK FINANCIAL GROUP INC. (FORMERLY “BS FINANCIAL GROUP INC.”)

SEPARATE STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014

| | Korean won | |
|---|---|---|
| | 2015 | 2014 |
| | (In thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | ₩ 6,371,162 | ₩ 356,414,072 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Provision for severance benefits | 876,307 | 667,487 |
| Depreciation of tangible assets | 491,400 | 465,058 |
| Amortization of intangible assets | 102,188 | 20,027 |
| Loss on disposal of tangible assets | 3,675 | 136,289 |
| Interest expenses | 35,925,833 | 31,399,161 |
| Interest revenues | (30,070) | (4,378,401) |
| Dividend income | (10,028,000) | - |
| | 27,341,333 | 28,309,621 |
| Changes in working capital: | | |
| Net increase in receivables | 678,582 | (3,701,097) |
| Benefits paid | (97,096) | (341,726) |
| Net increase in plan assets | (1,800,000) | (758,274) |
| Net decrease (increase) in other assets | 243,751 | (81) |
| Net decrease in other liabilities | (258,595) | (1,283,901) |
| | (1,233,358) | (6,085,079) |
| Cash received from operating activities: | | |
| Interest revenues received | 30,901 | 4,771,858 |
| Interest expenses paid | (39,021,350) | (30,875,025) |
| | (38,990,449) | (26,103,167) |
| Net cash provided by (used in) operating activities | (6,511,312) | 352,535,447 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Investment in subsidiaries | (348,697,485) | (1,306,908,000) |
| Net decrease in loans | - | 170,000,000 |
| Acquisition of tangible assets | (123,612) | (567,590) |
| Disposal of tangible assets | 42,000 | - |
| Disposal of intangible assets | - | 100,000 |
| Acquisition of intangible assets | (40,090) | (420,160) |
| Net increase in other assets | - | (464,748) |
| Net cash used in investing activities | (348,819,187) | (1,138,260,498) |

(Continued)

BNK FINANCIAL GROUP INC. (FORMERLY "BS FINANCIAL GROUP INC.")

SEPARATE STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014

| | Korean won | |
|---|---|---|
| | 2015 | 2014 |
| | (In thousands) | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from debentures | ₩ 179,601,300 | ₩ 399,042,511 |
| Repayment of debentures | - | (210,000,000) |
| Dividends paid | (46,875,980) | (54,146,372) |
| Hybrid equity securities issued | 259,277,011 | - |
| Share issue expense | (539,749) | - |
| Share repurchase | (213,973) | - |
| Paid-up capital increase | - | 511,655,527 |
| Net cash provided by financing activities | 391,248,609 | 646,551,666 |
| NET DECREASE (INCREASE) IN CASH AND CASH EQUIVALENTS | 35,918,110 | (139,173,385) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR | 14,545,845 | 153,719,230 |
| CASH AND CASH EQUIVALENTS AT THE END OF YEAR | ₩ 50,463,955 | ₩ 14,545,845 |

(Concluded)

See accompanying notes.

## 1. GENERAL:

BNK Financial Group Inc. (formerly "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 common stock of Busan Bank; BNK Securities Co., Ltd.; BNK Capital Co., Ltd.; and BNK 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 BNK System Co., Ltd. and BNK Savings Bank Co., Ltd. as its subsidiaries with 100% share in 2011 and obtained 56.97% share in Kyongnam Bank in October 2014, after which the Company proceeded to take over the rest of Kyongnam Bank's shares through general exchange of shares on June 4, 2015. In July 2015, the Company obtained 51.01% shares of BNK Asset Management Co., Ltd. through acquisition and issue of shares, and incorporated it as its subsidiary. The Company's headquarters is at Busan Nam-gu Munhyeongeumyung-ro, 30, and the Company's capital stock amounts to ₩1,279,676 million as of December 31, 2015.

## 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 a 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

In the current year, the Company has applied a number of amendments to K-IFRSs and new interpretations issued that are mandatorily effective for accounting periods beginning on or after January 1, 2015.

Amendments to K-IFRS 1019 – *Employee Benefits*

The amendments permit the Company to recognize amount of contributions as a reduction in the service cost for the period in which the related service is rendered if the amount of the contributions is independent of the number of years of service. The application of these amendments has no significant impact on the disclosure in the Company's separate financial statements.

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 definitions 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 application of these amendments has no significant impact on the disclosure in 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-IFRSs that have been issued, but are not yet effective.

Amendments to K-IFRS 1001 – Presentation of Financial Statements

The amendments to K-IFRS 1001 clarify the concept of applying materiality in practice and restrict an entity reducing the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The amendments to K-IFRS 1001 are effective for annual periods beginning on or after January 1, 2016.

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 allow 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 to K-IFRS 1038 do not allow presumption that revenue is an appropriate basis for the amortization of intangible assets; 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. The amendments apply prospectively for annual periods beginning on or after January 1, 2016.

Amendments to K-IFRS 1016 – Property, plant and equipment and K-IFRS 1041 Agriculture: Bearer Plants

The amendments to K-IFRS 1016 '*Property, Plant and Equipment'* and K-IFRS 1041 '*Agriculture'* define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with K-IFRS 1016, instead of K-IFRS 1041. The amendments to K-IFRS 1016 and K-IFRS 1041 are effective for annual periods beginning on or after January 1, 2016.

Amendments to K-IFRS 1110 – Consolidated Financial Statements, K-IFRS 1112 Disclosure of interests in other entities and K-IFRS 1028 Investment in associates

The amendments clarify that in applying the equity method of accounting to an associate or a joint venture that is an investment entity, an investor may retain the fair value measurements that the associate or joint venture used for its subsidiaries. The amendments are effective for annual periods beginning on or after January 1, 2016.

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.

Amendments to K-IFRS 1109 – Financial Instruments

The amendments to K-IFRS 1109 contain the requirements for the classification and measurement of financial assets and financial liabilities based on a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and based on the contractual terms that give rise on specified dates to cash flows, impairment methodology based on the expected credit losses, broadened types of instruments that qualify as hedging instruments, the types of risk components of non-financial items that are eligible for hedge accounting and the change of the hedge effectiveness test. The amendments are effective for annual periods beginning on or after January 1, 2018.

Amendments to K-IFRS 1115 – Revenue from Contracts with Customers

The core principle under K-IFRS 1115 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments introduce a five-step approach to revenue recognition and measurement: 1) Identify the contract with a customer, 2) Identify the performance obligations in the contract, 3) Determine the transaction price, 4) Allocate the transaction price to the performance obligations in the contract and 5) Recognize revenue when (or as) the entity satisfies a performance obligation. This standard will supersede K-IFRS 1011 - Construction Contracts, K-IFRS 1018- Revenue, K-IFRS 2113 - Customer Loyalty Programmes, K-IFRS 2115-Agreements for the Construction of Real Estate, K-IFRS 2118 - Transfers of Assets from Customers and K-IFRS 2031-Revenue-Barter Transactions Involving Advertising Services. The amendments are effective for annual periods beginning on or after January 1, 2018.

Annual Improvements to K-IFRS 2012-2014 cycle

The annual improvements include amendments to a number of K-IFRSs. The amendments introduce specific guidance in K-IFRS 1105 Non-current Assets Held for Sale and Discontinued Operations when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa); such a change is considered as a continuation of the original plan of disposal, and not as a change to a plan of sale. Other amendments in the annual improvements include K-IFRS 1107 Financial Instruments: Disclosures, K-IFRS 1019 Employee Benefits, and K-IFRS 1034 Interim Financial Reporting.

The application of these amendments has no significant impact on the disclosure in the Company's separate financial statements.

(2) Business Combination

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

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

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with K-IFRS 1012 *Income Taxes* and K-IFRS 1019 *Employee Benefits*, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquiree are measured in accordance with K-IFRS 1102 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with K-IFRS 1105 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with such standard.

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

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

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

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement-period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with K-IFRS 1039 *Financial Instruments: Recognition and Measurement* or K-IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Company’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest was disposed of.

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

(3) Investments in subsidiaries in separate financial statements

The separate financial statements are prepared under K-IFRS 1027, and investments in subsidiaries are presented 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.

(4) 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 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 consolidated financial statements.

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

For the purpose of presenting consolidated financial statements, the assets and liabilities of the 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).

(5) 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.

(6) Financial instruments

Financial assets and financial liabilities are recognized when the Company 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 fair value through profit or loss ("FVTPL") are recognized immediately in profit or loss.

All regular-way purchase or sale of financial assets are recognized and derecognized on a trade-date basis. Regular-way purchase or sale are purchase or sale 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.

1) 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.

2) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is a contingent consideration that may be paid by an acquirer as part of business combination to which K-IFRS 1103 applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling 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 or contingent consideration that may be paid by an acquirer as part of a business combination 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 ‘Other gains and losses’ line item in the separate statement of comprehensive income.

3) Held-to-maturity investments

Non-derivatives 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.

4) 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 (as investments revaluation reserve). 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.

5) Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments and 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 where the effect of discounting is immaterial.

6) Recognition and measurement of financial assets

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 or 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 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 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 in 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.

7) 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 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 includes:

- 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 and an increase in the number of delayed payments in the portfolio past the average credit period of days, as well as 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 the 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.

In respect of 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. In respect of 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.

8) 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 recognize 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 assets 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 an 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.

(7) Financial liabilities and equity instruments

1) Classification as debt or equity

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

2) Equity instruments

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

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

3) Compound instruments

The component parts of compound instruments (convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company’s own equity instruments is an equity instrument.
At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortized cost basis using the effective interest method, until extinguished upon conversion or at the instrument’s maturity date.

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

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

4) 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 cost that is directly attributable to the issue of financial liabilities is deducted from the fair value of the financial liabilities on initial recognition. Transaction cost 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.

5) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is a contingent consideration that may be paid by an acquirer as part of a business combination to which K-IFRS 1103 applies, it is held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing 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 or contingent consideration that may be paid by an acquirer as part of a business combination 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 'Other gains and losses' line item in the separate statement of comprehensive income.

6) 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.

7) Financial guarantee contracts

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

Financial guarantee 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*

8) Derecognition of financial liabilities

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

(8) 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 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.

(9) Intangible assets

1) Intangible assets acquired separately

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

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

2) Internally generated intangible assets - research and development expenditure

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

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

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

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

3) Intangible assets acquired in a business combination

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

4) Derecognition of intangible assets

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

(10) Impairment of tangible and intangible assets other than goodwill

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

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

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

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

(11) Non-current assets held for sale

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

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

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

After the disposal takes place, the Company accounts for any retained interest in the associate or joint venture in accordance with K-IFRS 1039 *Financial Instruments: Recognition and Measurement*, unless the retained interest continues to be an associate or a joint venture, in which case the Company uses the equity method.

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

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*.

(12) 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 on the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position, with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are composed of service cost (including current service cost and 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 statement 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 or when the entity recognizes any related restructuring costs.

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

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

If contributions are linked to services, they reduce service costs. For the amount of contribution that is dependent on the number of years of service, the entity reduces service cost by attributing the contributions to periods of service using the attribution method required by K-KFRS 1019 paragraph 70 for the gross benefits. For the amount of contribution that is independent of the number of years of service, the entity reduces service cost in the period in which the related service is rendered/reduces service cost by attributing contributions to the employees' periods of service in accordance with K-IFRS 1019 paragraph 70.

(13) 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,* or the amount initially recognized, less cumulative amortization recognized in accordance with K-IFRS 1018, *Revenue*.

(14) 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 statement 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 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.

(15) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

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 from the Company and all domestic subsidiaries over which the Company has complete control 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 that 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 statement 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.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred 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 and associates and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred 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 asset to be recovered.

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

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

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 the economic benefits embodied in the investment properties over time, rather than through sale.

3) Current tax and deferred tax for the year

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

(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 consolidated 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 realisable 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 Level 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 Company 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 those 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 (see Note 3.(2)), 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, concentratedness, 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 and understand the source and scale of risk. This system aims to increase the asset's soundness and is operated by organization of risk management.

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

(1) Credit risk

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

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

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

The Company's maximum exposure to credit risk as of December 31, 2015 and 2014, is summarized as follows (Unit: Korean won in thousands):

| Classification | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Loans and receivables | ₩ 59,607,376 | ₩ 60,896,377 |

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, 2015 and 2014, is summarized as follows (Unit: Korean won in thousands):

| Classification | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Loans neither past due nor impaired | ₩ 59,607,376 | ₩ 60,896,377 |
| Loans past due, but not impaired | - | - |
| Impaired loans | - | - |
| | 59,607,376 | 60,896,377 |
| Allowance for credit loss | - | - |
| Book value | ₩ 59,607,376 | ₩ 60,896,377 |

(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, 2015 and 2014, are summarized as follows (Unit: Korean won in thousands):

| | December 31, 2015 | | | | |
|---|---|---|---|---|---|
| Classification | Less than 1 month | 1 month–3 months | 3–12 months | More than 1 year | Total |
| Debentures | ₩ 52,979,375 | ₩ 6,163,675 | ₩ 254,509,525 | ₩ 894,239,125 | ₩ 1,207,891,700 |

| | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| Classification | Less than 1 month | 1 month–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 |

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 statement 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, 2015 and 2014, is as follows (Unit: Korean won in thousands):

| Financial assets | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Loans | ₩ - | ₩ - |
| Receivables | 59,607,376 | 60,896,377 |
| | ₩ 59,607,376 | ₩ 60,896,377 |

| Financial liabilities | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Debentures | ₩ 1,108,436,608 | ₩ 928,130,895 |
| Other liabilities (*1) | 6,758,610 | 6,181,464 |
| | ₩ 1,115,195,218 | ₩ 934,312,359 |

(*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 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 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, 2015 and 2014, are as follows (Unit: Korean won in thousands):

| | December 31, 2015 | |
|---|---|---|
| Classification | Book value | Fair value |
| Financial assets: | | |
| Loans | ₩ - | ₩ - |
| Financial liabilities: | | |
| Debentures | ₩ 1,108,436,608 | ₩ 1,143,589,210 |

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

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 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 statement 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, 2015 and 2014, consist of the following (Unit: Korean won in thousands):

| Classification | Financial institution | Interest rate (%) | December 31, 2015 | December 31, 2014 |
|---|---|---|---|---|
| Checking deposits | Busan Bank | - | ₩ 48,203,262 | ₩ 14,433,853 |
| Corporate savings deposits | Busan Bank | - | 2,260,693 | 111,992 |
| | | | ₩ 50,463,955 | ₩ 14,545,845 |

## 7. INVESTMENTS IN SUBSIDIARIES:

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

The details of investments in subsidiaries as of December 31, 2015 and 2014, are as follows (Unit: Korean won in thousands):

| | December 31, 2015 | | | | |
|---|---|---|---|---|---|
| Name of subsidiaries | Number of shares | Percentage of ownership | Beginning balance | Acquisition | Ending balance |
| Busan Bank | 191,883,650 | 100% | ₩ 2,678,140,154 | ₩ 110,000,000 | ₩ 2,788,140,154 |
| Kyongnam Bank | 81,418,390 | 100% | 1,226,908,000 | 472,252,438 | 1,699,160,438 |
| BNK Securities Co., Ltd. | 17,600,000 | 100% | 104,166,758 | 30,000,000 | 134,166,758 |
| BNK Capital Co., Ltd. | 43,600,000 | 100% | 328,488,236 | 50,000,000 | 378,488,236 |
| BNK Savings Bank Co., Ltd. | 6,200,000 | 100% | 115,000,600 | - | 115,000,600 |
| BNK Asset Management Co., Ltd. | 1,739,497 | 51% | - | 8,697,485 | 8,697,485 |
| BNK Credit Information Co., Ltd. | 600,000 | 100% | 4,451,045 | - | 4,451,045 |
| BNK System Co., Ltd. | 600,000 | 100% | 3,000,000 | - | 3,000,000 |
| | | | ₩ 4,460,154,793 | ₩ 670,949,923 | ₩ 5,131,104,716 |

| | 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 |
| BNK Securities Co., Ltd. | 17,000,000 | 100% | 104,166,758 | - | 104,166,758 |
| BNK Capital Co., Ltd. | 42,600,000 | 100% | 248,488,236 | 80,000,000 | 328,488,236 |
| BNK Savings Bank Co., Ltd. | 6,200,000 | 100% | 115,000,600 | - | 115,000,600 |
| BNK Credit Information Co., Ltd. | 600,000 | 100% | 4,451,045 | - | 4,451,045 |
| BNK System Co., Ltd. | 600,000 | 100% | 3,000,000 | - | 3,000,000 |
| | | | ₩ 3,153,246,793 | ₩ 1,306,908,000 | ₩ 4,460,154,793 |

(2) Major financial information of investment in subsidiaries

A summary of the financial information of investment in subsidiaries as of December 31, 2015, is as follows (Unit: Korean won in thousands):

| Subsidiaries | | Assets | | Liabilities | | Controlling interests equity | | Non-controlling interests equity | | Operating income | | Net profit |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Busan Bank and its subsidiaries | ₩ | 50,262,692,295 | ₩ | 46,460,590,948 | ₩ | 3,802,101,347 | ₩ | - | ₩ | 418,815,463 | ₩ | 320,341,202 |
| Kyongnam Bank and its subsidiaries | | 34,641,993,009 | | 32,184,385,767 | | 2,457,607,242 | | - | | 260,526,791 | | 210,537,668 |
| BNK Securities Co., Ltd. and its subsidiaries | | 539,944,159 | | 384,678,098 | | 155,266,061 | | - | | 10,208,860 | | 7,797,388 |
| BNK Capital Co., Ltd. and its subsidiaries | | 4,287,109,539 | | 3,781,824,681 | | 504,760,632 | | 524,226 | | 55,358,872 | | 43,446,320 |
| BNK Savings Bank Co., Ltd. and its subsidiaries | | 795,606,993 | | 672,121,660 | | 123,485,333 | | - | | 5,292,115 | | 4,765,435 |
| BNK Asset Management Co., Ltd. | | 10,430,135 | | 401,734 | | 10,028,401 | | - | | (707,209) | | (641,584) |
| BNK Credit Information Co., Ltd. | | 7,710,523 | | 408,642 | | 7,301,881 | | - | | 739,964 | | 565,661 |
| BNK System Co., Ltd. | ₩ | 10,387,711 | ₩ | 4,812,503 | ₩ | 5,575,208 | ₩ | - | ₩ | 969,277 | ₩ | 739,130 |

## 8. LOANS AND RECEIVABLES:

Loans and receivables as of December 31, 2015 and 2014, consist of the following (Unit: Korean won in thousands):

| Classification | | December 31, 2015 | | December 31, 2014 |
|---|---|---|---|---|
| Loans: | ₩ | - | ₩ | - |
| Receivables: | | | | |
| Accounts receivable | | 52,536,784 | | 53,142,113 |
| Guarantee deposits paid | | 7,066,000 | | 7,748,841 |
| Accrued income | | 4,592 | | 5,423 |
| | | 59,607,376 | | 60,896,377 |
| | ₩ | 59,607,376 | ₩ | 60,896,377 |

## 9. TANGIBLE ASSETS:

The changes in book value of tangible assets for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in thousands):

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| Account | Beginning balance | Acquisition | Disposal | Depreciation | Reclassification | Ending balance |
| Leasehold estates | ₩ 166,013 | ₩ - | ₩ - | ₩ (37,204) | ₩ - | ₩ 128,809 |
| Business movable assets | 1,476,754 | 88,598 | (45,675) | (454,196) | - | 1,065,481 |
| Construction in progress | - | 35,014 | - | - | - | 35,014 |
| | ₩ 1,642,767 | ₩ 123,612 | ₩ (45,675) | ₩ (491,400) | ₩ - | ₩ 1,229,304 |

| | 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 |

## 10. INTANGIBLE ASSETS:

The changes in intangible assets for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in thousands):

| | 2015 | | | | |
|---|---|---|---|---|---|
| Account | Beginning balance | Acquisition | Disposal | Amortization | Ending balance |
| Software | ₩ 436,008 | ₩ 40,090 | ₩ - | ₩ (102,188) | ₩ 373,910 |
| Right of membership | 1,359,456 | - | - | - | 1,359,456 |
| | ₩ 1,795,464 | ₩ 40,090 | ₩ - | ₩ (102,188) | ₩ 1,733,366 |

| | 2014 | | | | |
|---|---|---|---|---|---|
| Account | 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 |

## 11. OTHER ASSETS:

The details of other assets as of December 31, 2015 and 2014, consisted of the following (Unit: Korean won in thousands):

| Classification | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Other guarantee deposit | ₩ - | ₩ 464,748 |
| Accured expense | 149,611 | - |
| Others | 71,467 | 81 |
| | ₩ 221,078 | ₩ 464,829 |

## 12. BORROWINGS AND DEBENTURES:

The details of debentures as of December 31, 2015 and 2014, are as follows (Unit: Korean won in thousands):

| Classification | Annual interest rate (%) | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|---|
| Debentures in Korean won | 1.90–4.32 | ₩ | 1,110,000,000 | ₩ | 930,000,000 |
| Present value of discounts | | | (1,563,392) | | (1,869,105) |
| | | ₩ | 1,108,436,608 | ₩ | 928,130,895 |

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

## 13. RETIREMENT BENEFIT OBLIGATION:

(1) As of December 31, 2015 and 2014, the amounts recognized in the separate statement of financial position related to retirement benefit obligation are as follows (Unit: Korean won in thousands):

| Classification | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| Present value of defined benefit obligation | ₩ | 5,241,727 | ₩ | 4,532,286 |
| Fair value of plan assets | | (5,154,066) | | (3,237,918) |
| Net defined benefit liability | ₩ | 87,661 | ₩ | 1,294,368 |

(2) Changes in net defined benefit liability for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in thousands):

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| Classification | Present value of defined benefit obligation | | Fair value of plan assets | | Total | |
| Beginning balance | ₩ | 4,532,286 | ₩ | (3,237,918) | ₩ | 1,294,368 |
| Current service cost | | 808,865 | | - | | 808,865 |
| Interest expenses (revenues) | | 189,706 | | (122,264) | | 67,442 |
| | | 5,530,857 | | (3,360,182) | | 2,170,675 |
| Remeasurement elements: | | | | | | |
| Return on plan assets | | - | | 62,148 | | 62,148 |
| Actuarial gains and losses from changes in population of statistical assumptions | | (272) | | - | | (272) |
| Actuarial gains and losses from changes in financial assumptions | | (58,440) | | - | | (58,440) |
| Actuarial gains and losses from changes in experience adjustments | | 122,475 | | - | | 122,475 |
| | | 63,763 | | 62,148 | | 125,911 |
| Benefits paid | | (132,101) | | 35,006 | | (97,095) |
| Contribution | | - | | (1,800,000) | | (1,800,000) |
| Transfer of employees between the Company and the related companies | | (220,792) | | (91,038) | | (311,830) |
| Ending balance | ₩ | 5,241,727 | ₩ | (5,154,066) | ₩ | 87,661 |

| Classification | 2014 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: | | | |
| 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 |

(3) Details of fair values of plan assets as of December 31, 2015 and 2014, are as follows (Unit: Korean won in thousands):

| Classification | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Time deposit | ₩ 5,154,066 | ₩ 3,237,918 |

(4) Actuarial assumptions as of December 31, 2015 and 2014, are as follows (Unit: Percentage (%)):

| Classification | 2015 | 2014 |
|---|---|---|
| Discount rate | 3.50 | 4.00 |
| Weighted-average rate of salary increase | 2.00 | 2.10 |
| Mortality ratio | Standardized mortality ratio by Korea Insurance Development Institute | |
| Retirement ratio | Retirement ratio per age group | |

(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 | One-percentage increase | One-percentage decrease |
|---|---|---|
| Change in discount rate | ₩ (481,611) | ₩ 561,196 |
| Change in future salary increase rate | 564,606 | (492,928) |

## 14. OTHER LIABILITIES:

Other liabilities as of December 31, 2015 and 2014, consisted of the following (Unit: Korean won in thousands):

| Classification | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Accounts payable | ₩ 113,180 | ₩ 390,890 |
| Accrued expenses | 6,645,430 | 5,790,574 |
| Others | 463,031 | 200,290 |
| | ₩ 7,221,641 | ₩ 6,381,754 |

## 15. SHAREHOLDERS' EQUITY:

(1) Capital stock

As of December 31, 2015, the Company has 700 million common shares authorized with a par value per share of ₩5,000, and 255,935,246 shares have been issued. Capital stock is ₩1,279,676 million.

(2) Hybrid equity securities classified as non-controlling equity are as follows (Unit: Korean won in millions):

| | Issue date | Maturity | Interest rates (%) | December 31, 2015 |
|---|---|---|---|---|
| Local currency for hybrid equity securities | 2015.06.24 | 2045.06.24 | 4.6 | ₩ 80,000,000 |
| | 2015.06.24 | 2045.06.24 | 5.1 | 30,000,000 |
| | 2015.08.31 | 2045.08.31 | 4.5 | 150,000,000 |
| Issuance cost | | | | (722,989) |
| | | | | ₩ 259,277,011 |

(3) Other paid-up capital

As of December 31, 2015 and 2014, other paid-up capital is summarized as follows (Unit: Korean won in millions):

| Classification | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Paid-up capital in excess of par value | ₩ 2,158,938,179 | ₩ 1,945,002,225 |
| Treasury stock | (213,973) | - |
| | ₩ 2,158,724,206 | ₩ 1,945,002,225 |

(4) Other components of equity

Other components of equity for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in thousands):

| | 2015 | | | |
|---|---|---|---|---|
| Classification | Beginning balance | Increase (decrease) | Deferred income tax effect | Ending balance |
| Remeasurements of defined benefit plans | ₩ (1,125,729) | ₩ (125,911) | ₩ - | ₩ (1,251,640) |

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

## 16. RETAINED EARNINGS:

(1) Retained earnings as of December 31, 2015 and 2014, are summarized as follows (Unit: Korean won in thousands):

| Classification | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Reserve: | | |
| Legal reserve | ₩ 62,056,407 | ₩ 26,415,000 |
| Reserve for bad debts | 266,000 | 970,000 |
| Voluntary reserve | 325,872,000 | 51,271,000 |
| | 388,194,407 | 78,656,000 |
| Retained earnings before appropriation | 1,489,146 | 356,414,704 |
| | ₩ 389,683,553 | ₩ 435,070,704 |

(2) Separate statement of appropriation of retained earnings are as follows (Unit: Korean won):

| Classification | 2015 | 2014 |
|---|---|---|
| Retained earnings before appropriation: | | |
| Beginning | ₩ 317,243 | ₩ 632,401 |
| Dividend from hybrid capital instruments | (4,882,333,333) | - |
| Net income | 6,371,161,697 | 356,414,071,825 |
| | 1,489,145,607 | 356,414,704,226 |
| Transfer from retained earnings: | | |
| Voluntary reserve | 39,534,000,000 | - |
| Regulatory reserve for bad debts | 3,000,000 | 704,000,000 |
| | 39,537,000,000 | 704,000,000 |
| Appropriations: | | |
| Legal reserve | 638,000,000 | 35,641,407,183 |
| Voluntary reserve | - | 274,601,000,000 |
| Reserve for claims liability | 2,000,000,000 | - |
| Cash dividends (Dividends per share FY2015: ₩150 (3.00%) FY2014: ₩200 (4.00%)) | 38,388,058,650 | 46,875,979,800 |
| | 41,026,058,650 | 357,118,386,983 |
| Unappropriated retained earnings to be carried forward to subsequent year | ₩ 86,957 | ₩ 317,243 |

Date of appropriation was March 25, 2016, for the year ended December 31, 2015, and March 27, 2015, for the year ended December 31, 2014.

(3) 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, 2015 and 2014, are as follows (Unit: Korean won in thousands):

| Classification | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Accumulated reserve for bad debt | ₩ 266,000 | ₩ 970,000 |
| Expected reversal for bad debt | (3,000) | (704,000) |
| | ₩ 263,000 | ₩ 266,000 |

Reserve provided and net income after the reserve for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in thousands, except for earnings per share):

| Classification | 2015 | 2014 |
|---|---|---|
| Net income | ₩ 6,371,162 | ₩ 356,414,072 |
| Reserve provided | 3,000 | 704,000 |
| Net income after the reserve provided | 6,374,162 | 357,118,072 |
| Earnings per share after the reserve provided (in currency unit) | ₩ 25 | ₩ 1,680 |

## 17. NET INTEREST LOSS:

Net interest loss and interest revenues and expenses for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in thousands):

| Classification | | 2015 | | 2014 |
|---|---|---|---|---|
| Interest revenues: | | | | |
| Cash and due from banks | ₩ | 30,070 | ₩ | 866,302 |
| Loans | | - | | 3,512,099 |
| | | 30,070 | | 4,378,401 |
| Interest expenses: | | | | |
| Borrowings | | - | | - |
| Debentures | | (35,925,833) | | (31,399,161) |
| | | (35,925,833) | | (31,399,161) |
| Net interest expense | ₩ | (35,895,763) | ₩ | (27,020,760) |

## 18. NET COMMISSION LOSS:

Net commission loss and commission revenues and expenses for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in thousands):

| Classification | | 2015 | | 2014 |
|---|---|---|---|---|
| Commission revenues: | | | | |
| Brand revenues | ₩ | 5,328,941 | ₩ | - |
| Other commission revenues | | 10,550 | | 11,950 |
| | | 5,339,491 | | 11,950 |
| Commission expenses: | | | | |
| Other commission expenses | | (2,191,625) | | (5,497,421) |
| | ₩ | 3,147,866 | ₩ | (5,485,471) |

## 19. GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in thousands):

| Classification | | 2015 | | 2014 |
|---|---|---|---|---|
| Employee benefits: | | | | |
| Salaries | ₩ | 5,718,742 | ₩ | 5,078,345 |
| Welfare cost | | 2,998,509 | | 3,016,498 |
| Provision for severance benefits | | 876,307 | | 667,487 |
| | | 9,593,558 | | 8,762,330 |
| Rent expense | | 130,706 | | 71,334 |
| Business promotion expenses | | 710,505 | | 632,718 |
| Depreciation of tangible assets | | 491,400 | | 465,058 |
| Depreciation of intangible assets | | 102,188 | | 20,027 |
| Tax and dues | | 122,388 | | 57,445 |
| Other administrative expenses | | 5,800,335 | | 1,844,572 |
| | | 7,357,522 | | 3,091,154 |
| | ₩ | 16,951,080 | ₩ | 11,853,484 |

## 20. NET NON-OPERATING INCOME (LOSS):

Net non-operating income (loss) and non-operating revenues and expenses for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in thousands):

| Classification | 2015 | 2014 |
|---|---|---|
| Non-operating revenues: | | |
| Miscellaneous income | ₩ 7,696 | ₩ 3,525 |
| Miscellaneous interest | - | 816,480 |
| Gain on foreign currency transaction | - | 57,553 |
| | 7,696 | 877,558 |
| Non-operating expenses: | | |
| Loss on disposal of tangible assets | (3,675) | (136,289) |
| Donations | (4,043,515) | (10,300) |
| | (4,047,190) | (146,589) |
| Net non-operating income (loss) | ₩ (4,039,494) | ₩ 730,969 |

## 21. INCOME TAX EXPENSE:

(1)The components of income tax expense for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in thousands):

| Classification | 2015 | 2014 |
|---|---|---|
| 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 | - | - |
| Income tax expense | ₩ - | ₩ - |

(*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 year ended December 31, 2015 and 2014, is as follows (Unit: Korean won in thousands):

| Description | 2015 | 2014 |
|---|---|---|
| Income before income tax | ₩ 6,371,162 | ₩ 356,414,072 |
| Taxes payable | 1,254,232 | 85,790,205 |
| Reconciliation items: | | |
| Non-taxable income | (6,974,757) | (92,436,070) |
| Non-deductible expenses | 137,082 | 145,412 |
| Adjustments from consolidated taxation | 5,583,443 | 6,500,453 |
| 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 carried forward and deferred tax for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in thousands):

| Classification | 2015 Beginning balance | Decrease | Increase (*1) | Ending balance |
|---|---|---|---|---|
| Unconfirmed costs | ₩ 1,442,317 | ₩ 1,442,317 | ₩ 1,399,619 | ₩ 1,399,619 |
| Commissions paid (bond discount) | 152,273 | 152,273 | 167,980 | 167,980 |
| Allowance for retirement | 2,466,756 | 35,006 | 1,062,334 | 3,494,084 |
| Pension plan asset | (2,654,401) | (35,006) | (746,176) | (3,365,571) |
| Stock compensation cost | 295,711 | 295,711 | 172,870 | 172,870 |
| Depreciation in excess of tax limit | 557 | - | 37,846 | 38,403 |
| Accounts payable | - | - | 616,392 | 616,392 |
| | 1,703,213 | 1,890,301 | 2,710,865 | 2,523,777 |
| Tax loss carried forward (*2) | 4,620,123 | - | - | 4,620,123 |
| Not recognized as deferred tax assets (*3) | 6,323,336 | | | 7,143,900 |
| Recognized as deferred tax assets | - | - | - | - |
| Deferred tax assets | ₩ - | ₩ - | ₩ - | ₩ - |

(*1) Tax adjustments include adjustments that eventuated from additional adjustments made at the time of filing of taxation report.
(*2) The Company does not recognize deferred tax assets from tax loss carried forward 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.

| Classification | 2014 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 |
| Pension plan asset | (1,540,955) | (341,726) | (1,455,172) | (2,654,401) |
| Stock compensation cost | 215,807 | 215,807 | 295,711 | 295,711 |
| Depreciation in excess of tax limit | - | - | 557 | 557 |
| | 1,895,129 | 2,280,839 | 2,088,923 | 1,703,213 |
| Tax loss carried forward (*2) | 4,620,123 | - | - | 4,620,123 |
| Not recognized as deferred tax assets (*3) | 6,515,252 | | | 6,323,336 |
| Recognized as deferred tax assets | - | - | - | - |
| Deferred tax assets | ₩ - | ₩ - | ₩ - | ₩ - |

(*1) Tax adjustments include adjustments that eventuated from additional adjustments made at the time of filing the taxation report.
(*2) The Company does not recognize deferred tax assets from tax loss carried forward 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 |

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

(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 ₩42,504,525 thousand as of December 31, 2015, in accordance with the consolidated corporate tax system.

## 22. EARNINGS PER SHARE:

(1) Basic net income per share for the year ended December 31, 2015 and 2014, is as follows (Unit: Korean won, share):

| Classification | 2015 | 2014 |
|---|---|---|
| Net income | ₩ 6,371,161,697 | ₩ 356,414,071,825 |
| Weighted-average number of shares | 246,832,074 | 212,588,118 |
| Net income per share | ₩ 26 | ₩ 1,677 |

(2) Weighted-average number of common shares for the year ended December 31, 2015 and 2014, is as follows (Unit: share):

| | 2015 | | | | |
|---|---|---|---|---|---|
| Account | Beginning | Ending | Days | Number of shares | Accumulation of days |
| Beginning | 2015-01-01 | 2015-06-03 | 154 | 234,379,899 | 36,094,504,446 |
| Exchange shares | 2015-06-04 | 2015-06-04 | - | 255,935,246 | - |
| Acquisition of treasury stock | 2015-06-04 | 2015-12-31 | 211 | 255,920,391 | 53,999,202,501 |
| | Total | | 365 | | 90,093,706,947 |
| Weighted-average number of common shares | | | | | 246,832,074 |

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

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, 2015, are as follows:

| Relationship | Name of the related party |
|---|---|
| Subsidiary | Busan Bank Co., Ltd., Kyongnam Bank Co., Ltd., BNK Securities Co., Ltd., BNK Capital Co., Ltd., BNK Savings Bank Co., Ltd., BNK Asset Management Co., Ltd., BNK Credit Information Co., Ltd., BNK System Co., Ltd., BNK 'Strong' Short-term Government Bond 1st, 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, Daishin Balance Private Securities Investment Trust 51 th, Daishin Balance Private Securities Investment Trust 55th, HDC Dual Private Securities Investment Trust 1st, Hanhwa Private Securities Investment Trust 15th, Consus 6th LLC, Plus Private Real Estate Investment Trust 6th, CS Partners Co., Ltd. 1st, CS Partners Co., Ltd. 2nd, BSCORAO Co., Ltd. 1st, Stock secured loan Money Market Trust, KBSC (Cambodia) Plc, BNK Capital Myanmar Co., Ltd., BNK Capital Lao Leasing Co., Ltd. and BNK Auto First Securitization Specialty Co., Ltd. |

(2) Transactions with related parties for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in thousands):

2015

| Subsidiary | Revenues | | Expenses | | | |
|---|---|---|---|---|---|---|
| | Interest revenues | Other revenues | Interest expenses | Other expenses | Acquisition of tangible assets | Acquisition of intangible assets |
| Busan Bank Co., Ltd. | ₩ 30,070 | ₩ 3,231,750 | ₩ - | ₩ 189,349 | ₩ - | ₩ - |
| Kyongnam Bank Co., Ltd. | - | 1,580,500 | - | 660,275 | - | - |
| BNK Securities Co., Ltd. | - | 111,050 | - | - | - | - |
| BNK Capital Co., Ltd. | - | 343,250 | - | 21,340 | - | - |
| BNK Saving Bank Co., Ltd. | - | 48,100 | - | - | - | - |
| BNK Asset Management Co., Ltd. | - | 3,441 | - | - | - | - |
| BNK Credit Information Co., Ltd. | - | 3,000 | - | - | - | - |
| BNK System Co., Ltd. | - | 17,000 | - | 148,941 | 43,351 | 70,155 |
| | ₩ 30,070 | ₩ 5,338,091 | ₩ - | ₩ 1,019,905 | ₩ 43,351 | ₩ 70,155 |

2014

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

(3) Fund transactions with related parties for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in thousands):

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Loan | | Deposit | | Investment | |
| Subsidiary | Increase | Decrease | Increase | Decrease | Capital expansion | Capital reduction |
| Busan Bank Co., Ltd. | ₩ 50,463,955 | ₩ 14,545,845 | ₩ - | ₩ - | ₩ 110,000,000 | ₩ - |
| Kyongnam Bank Co., Ltd. | - | - | - | - | 150,000,000 | - |
| BNK Securities Co., Ltd. | - | - | - | - | 30,000,000 | - |
| BNK Capital Co., Ltd. | - | - | - | - | 50,000,000 | - |
| BNK Saving Bank Co., Ltd. | - | - | - | - | - | - |
| BNK Asset Management Co., Ltd. | - | - | - | - | 4,050,000 | - |
| BNK Credit Information Co., Ltd. | - | - | - | - | - | - |
| BNK System Co., Ltd. | - | - | - | - | - | - |
| | ₩ 50,463,955 | ₩ 14,545,845 | ₩ - | ₩ - | ₩ 344,050,000 | ₩ - |

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

(4) Outstanding receivables and payables from related parties as of December 31, 2015 and 2014, are as follows (Unit: Korean won in thousands):

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Receivables | | Payables | |
| Subsidiary | Loans/ due from banks | Other assets | Deposits | Other liabilities |
| Busan Bank Co., Ltd. | ₩ 50,463,955 | ₩ 35,959,775 | ₩ - | ₩ 113,180 |
| Kyongnam Bank Co., Ltd. | - | - | - | - |
| BNK Securities Co., Ltd. | - | 1,228,840 | - | - |
| BNK Capital Co., Ltd. | - | 20,631,188 | - | - |
| BNK Saving Bank Co., Ltd | - | 1,422,545 | - | - |
| BNK Asset Management Co., Ltd. | - | - | - | - |
| BNK Credit Information Co., Ltd. | - | 97,411 | - | - |
| BNK System Co., Ltd. | - | 123,359 | - | - |
| | ₩ 50,463,955 | ₩ 59,463,118 | ₩ - | ₩ 113,180 |

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

(5) Compensation for key executives for the year ended December 31, 2015 and 2014, is as follows (Unit: Korean won in thousands):

| Classification | 2015 | 2014 |
|---|---|---|
| Short-term employee benefits | ₩ 703,640 | ₩ 1,388,578 |
| Performance compensation | 133,563 | 500,742 |
| | ₩ 837,203 | ₩ 1,889,320 |

## 24. CASH FLOWS:

(1) The Company's cash and cash equivalents in the separate statement of cash flows as of December 31, 2015 and 2014, are as follows (Unit: Korean won in thousands):

| Classification | December 31, 2015 | December 31, 2014 |
| --- | --- | --- |
| Due from banks | ₩ 50,463,955 | ₩ 14,545,845 |

The 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 year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in thousands):

| Classification | 2015 | 2014 |
| --- | --- | --- |
| Stock acquisition of subsidiary companies by share exchange | ₩ 322,252,438 | ₩ - |
| Transfer of plan assets to affiliated companies | 91,038 | 112,231 |

## 25. CONTINGENT LIABILITIES:

The Supreme Court has handed down sentences on ordinary wages. The Company reviewed the effect of Supreme Court ruling on the consolidated entity's financial statements, and the Company determined not to recognize provisions because it 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 3, 2016, and will get a final approval during the shareholders' meeting on March 25, 2016.

## 27. SUBSEQUENT EVENTS:

Issue of additional shares subsequent to the end of the reporting period is summarized as follows:

| Classification | Details |
| --- | --- |
| Type of share | Common stock |
| Issuing method | Ordinary public offering of forfeited stock after allocation to shareholder |
| Number of shares issued | 70,000,000 shares |
| Amount of share issued | ₩472,500 million |
| Capital call date | January 22, 2016 |

# Internal Control over Financial Reporting (“ICFR”) Review Report

English Translation of Independent Auditors’ Report Originally Issued in Korean on March 17, 2015

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

We have reviewed the accompanying Report on the Management’s Assessment of IACS (the “Management’s Report”) of BNK Financial Group Inc. (the “Company”) as of December 31, 2015. 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, 2015, the Company’s IACS has been appropriately designed and is operating effectively as of December 31, 2015, 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, the 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, 2015, and we did not review its IACS subsequent to December 31, 2015. 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 안진 LLC

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

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

I, as the Internal Control over Financial Reporting Officer of BNK Financial Group ("the Company"), assessed the effectiveness of the design and operation of the Company's ICFR for the year ended December 31, 2015.

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, 2015, is effectively design and operating, in all material respects, in conformity with the Best Practice Guideline.

February 17 2016

Park Young Bong

Internal Control over Financial Reporting Officer

Sung Se whan

Chief Executive Officer