BNK FINANCIAL GROUP

BNK FINANCIAL GROUP INC.

SEPARATE FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

ATTACHMENT: INDEPENDENT AUDITORS' REPORT

BNK FINANCIAL GROUP INC.

Deloitte.

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Independent Auditors' Report

English Translation of Independent Auditors' Report Originally Issued in Korean on March 15, 2017.

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 statements of BNK Financial Group Inc. (the "Company"), which are composed of separate statements of financial position as of December 31, 2016 and 2015, respectively, and separate statements of comprehensive income, separate statements of changes in shareholders' equity and separate statements of cash flows, all expressed in Korean won, 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.

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of the BNK Financial Group Inc. as of December 31, 2016 and 2015, respectively, and its financial performance and its cash flows for the years then ended in accordance with K-IFRS.

Deloitte Anjin LLC

March 15, 2017

Notice to Readers

This report is effective as of March 15, 2017, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying separate financial statements and may result in modifications to the auditors' report.

BNK FINANCIAL GROUP INC. (the “Company”)

SEPARATE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015

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.

SEPARATE STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2016 AND 2015

	Korean won			
	December 31, 2016		December 31, 2015	
ASSETS	(In thousands)			
Cash and due from banks (Notes 6, 23 and 24)	₩	101,083,615	₩	50,463,955
Investments in subsidiaries (Note 7)		5,611,104,716		5,131,104,716
Loans and receivables (Notes 4, 5, 8 and 23)		89,941,503		59,607,376
Tangible assets (Notes 9 and 23)		4,268,192		1,229,304
Intangible assets (Note 10)		1,678,762		1,733,366
Other assets (Note 11)		17,196		221,078
	₩	5,808,093,984	₩	5,244,359,795
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES:				
Debentures (Notes 4, 5 and 12)	₩	1,138,411,840	₩	1,108,436,608
Net defined benefit liability (Notes 13 and 23)		1,299,601		87,661
Current income tax liabilities (Note 21)		81,854,362		42,504,525
Other liabilities (Notes 5 and 14)		7,164,679		7,221,641
		1,228,730,482		1,158,250,435
SHAREHOLDERS' EQUITY:				
Capital stock (Note 15)		1,629,676,230		1,279,676,230
Hybrid equity securities (Note 15)		259,277,011		259,277,011
Other paid-up capital (Note 15)		2,276,821,837		2,158,724,206
Other components of equity (Note 15)		(1,680,077)		(1,251,640)
Retained earnings (Note 16)		415,268,501		389,683,553
		4,579,363,502		4,086,109,360
	₩	5,808,093,984	₩	5,244,359,795

See accompanying notes.

BNK FINANCIAL GROUP INC.

SEPARATE STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Korean won			
	2016		2015	
	(In thousands, except per share amounts)			
NET INTEREST LOSS (Notes 17 and 23):				
Interest revenues	₩	18,420	₩	30,070
Interest expenses		(35,558,625)		(35,925,833)
		(35,540,205)		(35,895,763)
NET COMMISSION INCOME (LOSS) (Notes 18 and 23):				
Commission revenues		10,426,550		5,339,491
Commission expenses		(989,093)		(2,191,625)
		9,437,457		3,147,866
DIVIDEND INCOME		120,021,955		60,109,633
GENERAL AND ADMINISTRATIVE EXPENSES (Notes 19 and 23):		(16,053,188)		(16,951,080)
OPERATING INCOME		77,866,019		10,410,656
NET NON-OPERATING INCOME (LOSS) (Note 20):				
Non-operating revenues		1,153,981		7,696
Non-operating expenses		(3,001,216)		(4,047,190)
		(1,847,235)		(4,039,494)
INCOME BEFORE INCOME TAX		76,018,784		6,371,162
INCOME TAX EXPENSE (Note 21)		-		-
NET INCOME (Note 16)		76,018,784		6,371,162
OTHER COMPREHENSIVE LOSS:				
Remeasurement elements		(428,437)		(125,911)
TOTAL COMPREHENSIVE INCOME	₩	75,590,347	₩	6,245,251
EARNINGS PER SHARE (Note 22):				
Basic and diluted (in currency units)	₩	199	₩	6

See accompanying notes.

BNK FINANCIAL GROUP INC.

SEPARATE STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	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, 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
Balance at January 1, 2016	₩ 1,279,676,230	₩ 259,277,011	₩ 2,158,724,206	₩ (1,251,640)	₩ 389,683,553	₩ 4,086,109,360
Paid-in capital increase	350,000,000	-	118,097,631	-	-	468,097,631
Dividend from hybrid equity securities	-	-	-	-	(12,045,778)	(12,045,778)
Annual dividends	-	-	-	-	(38,388,058)	(38,388,058)
Net income	-	-	-	-	76,018,784	76,018,784
Remeasurement elements	-	-	-	(428,437)	-	(428,437)
Balance at December 31, 2016	₩ 1,629,676,230	₩ 259,277,011	₩ 2,276,821,837	₩ (1,680,077)	₩ 415,268,501	₩ 4,579,363,502

See accompanying notes.

BNK FINANCIAL GROUP INC.

SEPARATE STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Korean won	
	2016	2015
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	₩ 76,018,784	₩ 6,371,162
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Interest revenues	(18,420)	(30,071)
Interest expenses	35,558,625	35,925,833
Depreciation and amortization	714,935	593,588
Loss on disposal of tangible assets	-	3,675
Provision for severance benefits	934,003	876,307
Dividend income	(120,021,955)	(60,109,633)
	(82,832,812)	(22,740,301)
Changes in working capital:		
Net increase (decrease) in receivables	(1,015,755)	678,582
Net decrease in defined benefit liability	(293,722)	(97,095)
Net decrease (increase) in plan assets	143,222	(1,800,000)
Net decrease in other assets	203,882	243,751
Net increase (decrease) in other liabilities	875,049	(258,596)
	(87,324)	(1,233,358)
Cash received from operating activities:		
Interest revenues received	21,884	30,901
Interest expenses paid	(35,845,400)	(34,736,350)
Dividends received	130,049,955	50,081,633
	94,226,439	15,376,184
Net cash provided by (used in) operating activities	87,325,087	(2,226,313)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in subsidiaries	(480,000,000)	(348,697,485)
Acquisition of tangible assets	(3,654,548)	(123,612)
Acquisition of intangible assets	(44,671)	(40,090)
Disposal of tangible assets	-	42,000
Net cash used in investing activities	₩ (483,699,219)	₩ (348,819,187)

(Continued)

BNK FINANCIAL GROUP INC.

SEPARATE STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Korean won			
	2016		2015	
	(In thousands)			
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from debentures	₩	309,214,219	₩	179,601,300
Repayment of debentures		(280,000,000)		-
Dividends paid		(38,388,058)		(46,875,980)
Hybrid equity securities issued		-		259,277,011
Share issue expense		-		(539,748)
Dividends from hybrid equity securities		(11,930,000)		(4,285,000)
Share repurchase		-		(213,973)
Paid-in capital increase		468,097,631		-
Net cash provided by financing activities		446,993,792		386,963,610
NET INCREASE IN CASH AND CASH EQUIVALENTS		50,619,660		35,918,110
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR		50,463,955		14,545,845
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	₩	101,083,615	₩	50,463,955

(Concluded)

See accompanying notes.

1. GENERAL:

BNK 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 ₩1,629,676 million as of December 31, 2016.

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-IFRS, and new interpretations were issued that are mandatorily effective for accounting 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 application of these amendments has no material impact on the disclosures or the amounts recognized in the Company's separate financial statements.

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 application of these amendments has no material impact on the disclosures or the amounts recognized in the Company's separate financial statements.

Amendments to K-IFRS 1001 – Disclosure Initiative

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 application of these amendments has no material impact on the disclosures or the amounts recognized in the Company's separate financial statements.

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 application of these amendments has no material impact on the disclosures or the amounts recognized in the Company's separate financial statements.

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, which 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 application of these amendments has no material impact on the disclosures or the amounts recognized in the Company's separate financial statements.

Amendments to K-IFRS 1016 – Property, Plant and Equipment and K-IFRS 1041 – Agriculture: Bearer Plants

The amendments to K-IFRS 1016 and K-IFRS 1041 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 application of these amendments has no material impact on the disclosures or the amounts recognized in the Company's separate financial statements.

Annual Improvements to K-IFRS 2012-2014 Cycle

The annual improvements include amendments to a number of K-IFRS. 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 a 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 material impact on the disclosures or the amounts recognized in the Company's separate financial statements.

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 application of these amendments has no material impact on the disclosures or the amounts recognized 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-IFRS that have been issued, but are not yet effective:

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 in the hedge effectiveness test. The amendments are effective for annual periods beginning on or after January 1, 2018.

Adoption of K-IFRS 1109 will generally be applied retrospectively, except for the following:
- Exemption allowing the Company not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes; and
- Prospective application of new hedge accounting, except for those specified in K-IFRS 1109 for retrospective application such as accounting for the time value of options.

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.

To ensure smooth implementation of K-IFRS 1109, the Company needs to assess the financial impact of adopting K-IFRS 1109 to formulate the accounting policy and to design, implement and stabilize the accounting system and related controls. The actual impact of adopting such standard on the Company's financial statements in 2018 may vary since it depends on the financial instruments held by the Company and economic conditions at that time, as well as accounting elections and judgments made by the Company in connection with the adoption of K-IFRS 1109.

With the implementation of K-IFRS 1109, the Company has not modified its system of internal controls over reporting for financial instruments or accounting system. In addition, the Company has not evaluated the financial impact of K-IFRS 1109 adoption on its separate financial statements. For each key transitional provision, the impacts of K-IFRS adoption on the financial statements are as follows:

a. Classification and Measurement of Financial Assets

Classification under K-IFRS 1109 for financial assets is driven by the entity's business model for managing financial assets and their contractual cash flow characteristics. This standard requires the classification of financial assets into three categories: amortized cost, fair value through profit or loss ("FVTPL") and fair value through other comprehensive income ("FVTOCI"), as described in the table below. Derivatives embedded in contracts where the host is a financial asset are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

	Contractual cash flow characteristics	
Business model	Solely payments of principal and interest ("SPPI")	Others
Hold to collect contractual cash flows	Amortized cost (*1)	
Hold to collect contractual cash flows and sell financial assets	FVTOCI (*1)	FVTPL (*2)
Hold to sell financial assets and others	FVTPL	

(*1) To eliminate or reduce the accounting mismatch, the Company may irrevocably designate a financial asset as measured at FVTPL using the fair value option at initial recognition.
(*2) Equity instruments that are not held for trading may be irrevocably designated as at FVTOCI using the fair value option.

As new classification requirements for financial assets measured at amortized cost or FVTOCI under K-IFRS 1109 are more stringent than requirements under K-IFRS 1109, the adoption of the new standard may result in increase in financial assets designated as at FVTPL and higher volatility in profit or loss of the Company.

As of December 31, 2016, the Company holds ₩89,941,503 thousand of loans and receivables.

According to K-IFRS 1109, a debt instrument can be measured at amortized cost only if it is held within a business model whose objective is to collect the contractual cash flows and has contractual cash flows that are SPPI on the principal amount outstanding. As of December 31, 2016, ₩89,941,503 thousand of loans and receivables are measured at amortized cost.

b. Classification and measurement of financial liabilities

Under K-IFRS 1109, for the financial liabilities designated as at FVTPL using the fair value option, the element of gains or losses attributable to changes in the own credit risk should normally be recognized in other comprehensive income ("OCI"), with the remainder recognized in profit or loss. These amounts recognized in OCI are not recycled to profit or loss even when the liability is derecognized. However, if presentation of the fair value change in respect of the liability's credit risk in OCI creates or enlarges an accounting mismatch in profit or loss, gains and losses are entirely presented in profit or loss.

Adoption of K-IFRS 1109 might result in decrease in profit or loss since the amount of fair value changes that is attributable to changes in the credit risk of the liability is presented in OCI.

As of December 31, 2016, the Company does not have financial liabilities designated as at FVTPL using fair value option.

c. Impairment: financial assets and contract assets

Under the current K-IFRS 1039 impairment model (the "incurred loss model"), impairment loss can only be recognized when there is objective evidence that an impairment loss has been incurred. However, K-IFRS 1109 impairment model (the expected credit loss impairment model) is applied to debt instruments measured at amortized cost or at FVOCI, lease receivables, contract assets, loan commitments and financial guarantee contracts.

As described below, financial instruments in scope of impairment model are assigned to one of three stages depending on whether there has been a significant increase in credit risk since initial recognition. In addition, it is required to measure the loss allowance for financial instruments at an amount equal to either 12-month expected credit losses or lifetime expected credit losses. Therefore, the new impairment requirements are designed to result in earlier recognition of credit loss compared to the incurred loss model of K-IFRS 1039.

Stages (*1)		Loss allowance
Stage 1	No significant increase in credit risk since initial recognition (*2)	12-Month Expected Credit Losses: The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on financial instruments that are possible within 12 months after the reporting date.
Stage 2	Significant increase in credit risk since initial recognition	Lifetime Expected Credit Losses: The expected credit losses that result from all possible default events over the expected life of a financial instrument.
Stage 3	Objective evidence of credit risk management	

(*1) In cases of trade receivable or contract assets in scope of K-IFRS 1115 'Revenue from Contracts with Customers,' if there is no significant financing component in contracts with customers, loss allowance for such assets shall be measured at lifetime expected credit losses. If a significant financing component exists, entities can elect to measure the loss allowance for trade receivable or contract assets at lifetime expected credit losses. In cases of lease receivable, entities can elect to measure the loss allowance at lifetime expected credit losses as well.

(*2) If financial instruments have low credit risk at the end of the reporting period, it is also considered that credit risk of such instruments has not increased significantly since initial recognition.

Under K-IFRS 1109, the Company shall only recognize the cumulative change in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets.

As of December 31, 2016, the Company recognizes a debt instrument measured at amortized cost (loans and receivables) amounting to ₩89,941,503 thousand. However, the Company does not recognize any loss allowance for the instrument.

d. Hedge accounting

K-IFRS 1109 maintains the mechanics of hedge accounting from those in K-IFRS 1039. However, K-IFRS 1109 replaces existing rule-based requirements under K-IFRS 1039 that are complex and difficult to apply with principle-based requirement focusing more on the Company’s risk management purposes and procedures. Under K-IFRS 1109, more hedging instruments and hedged items are permitted and 80%-125% effectiveness requirement is removed.

By complying with the hedging rules in K-IFRS 1109, the Company may apply hedge accounting for transactions that currently do not meet the hedging criteria under K-IFRS 1039 thereby reducing volatility in profit or loss.

As of December 31, 2016, the Company does not have any assets, liabilities, firm commitments and forecasted transactions with external parties qualified for hedge accounting.

When initially applying K-IFRS 1109, the Company may choose as its accounting policy to continue to apply hedge accounting requirements under K-IFRS 1039 instead of the requirements in K-IFRS 1109.

<u>Amendments to K-IFRS 1115 – Revenue from Contracts with Customers</u>

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.

<u>Amendments to K-IFRS 1102 – Share-based Payment</u>

The amendments include: 1) When measuring the fair value of share-based payment, the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment should be consistent with the measurement of equity-settled share-based payment; 2) Share-based payment transaction in which the Company settles the share-based payment arrangement net by withholding a specified portion of the equity instruments per statutory tax withholding requirements would be classified as equity-settled share-based payment in its entirety; otherwise, it would be classified as equity-settled share-based payment without the net settlement feature; and 3) When a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions, the original liability recognized is derecognized and the equity-settled share-based payment is recognized at the modification date fair value. Any difference between the carrying amount of the liability at the modification date and the amount recognized in equity at the same date would be recognized in profit and loss immediately. The amendments are effective for annual periods beginning on or after January 1, 2018.

Amendments to K-IFRS 1007 – Statement of Cash Flows

The amendments require that changes in liabilities arising from financial activities are disclosed. The amendments are effective for annual periods beginning on or after January 1, 2017.

Amendments to K-IFRS 1012 – Income Taxes

The amendments clarify that unrealized losses on fixed-rate debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the holder expects to recover the carrying amount of the debt instrument by sale or by use and that the estimate of probable future taxable profit may include the recovery of some of the assets for more than their carrying amount. When the Company assesses whether there will be sufficient taxable profit, it should compare the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2017.

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 OCI 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 separate financial statements, the results and financial position of each group entity are expressed in Korean won, which is the functional currency of the entity and the presentation currency for the consolidated financial statements.

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

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

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; 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 OCI 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 OCI 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 FVTPL are recognized immediately in profit or loss.

All regular-way purchases or sales of financial assets are recognized and derecognized on a trade-date basis. Regular-way purchase or sale is 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 at FVTPL include financial assets held for trading and financial assets designated as at FVTPL upon initial recognition. Financial assets are classified as held for trading if they are acquired or incurred principally for the purpose of selling or repurchasing in in the near term or if they are not designated and effective as hedging instruments.

Financial assets at FVTPL are measured at fair value, with any valuation gains or losses recognized in profit or loss.

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 statements of comprehensive income.

3) Held-to-maturity investments

Non-derivatives financial assets with fixed or determinable payments and fixed maturity dates for which 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 OCI (as investments revaluation reserve). When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in OCI 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 OCI.

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 an 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
- 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 and 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 options, 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 that 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 assets 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,
- probability that the borrower will enter into bankruptcy or financial reorganization or
- disappearance of an active market for the financial assets because of financial difficulties.

For certain categories of financial assets 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 assets 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 OCI 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 OCI. 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, it 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, it 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 cumulative gain or loss that had been recognized in OCI and accumulated in equity is recognized in profit or loss.

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

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

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

8) Derecognition of financial liabilities

The Company derecognize financial liabilities when the Company's obligations 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 its 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; 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 an 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 the 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. 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 the 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 Company 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 separate statements of financial position, with a charge or credit recognized in OCI in the period in which it occurs. Remeasurement recognized in OCI 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 OCI. Curtailment gains and losses are accounted for as past service costs.

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

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit 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-IFRS 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 a 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 statements of comprehensive income. Effective interest rate method calculates the amortized cost of financial assets or liabilities and allocates interest income or expense over the relevant period.

The effective interest rate discounts the expected future cash in and out through the expected life of financial instruments, or, if appropriate, through shorter period, to net carrying amount of financial assets or liabilities. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual financial instruments, except 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 separate statements of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2) Deferred tax

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

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries 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 assets 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 OCI or directly in equity, in which case the current tax and deferred tax are also recognized in OCI 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 separate financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of K-IFRS 1102 *Share-based payment*; leasing transactions that are within the scope of K-IFRS 1017 *Leases*; and measurements that have some similarities to fair value, but are not fair value, such as net 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 Levels 1, 2 or 3, based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the 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, concentrativeness, uncertainty of market factors, assumptions related to price determination and other risks because fair values lack objectivity.

2) Defined Benefit Plan

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

4. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS:

This outline indicates the level of exposure to 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 setup of credit ratings and credit screening and quantifying and regularly managing credit risks.

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

The Company's maximum exposure to credit risk as of December 31, 2016 and 2015, is summarized as follows (Unit: Korean won in thousands):

Classification	December 31, 2016	December 31, 2015
Loans and receivables	₩ 89,941,503	₩ 59,607,376

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, 2016 and 2015, is summarized as follows (Unit: Korean won in thousands):

Classification	December 31, 2016	December 31, 2015
Loans neither past due nor impaired	₩ 89,941,503	₩ 59,607,376
Loans past due, but not impaired	-	-
Impaired loans	-	-
	89,941,503	59,607,376
Allowance for credit loss	-	-
Book value	₩ 89,941,503	₩ 59,607,376

(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, 2016 and 2015, are summarized as follows (Unit: Korean won in thousands):

	December 31, 2016				
Classification	Less than 1 month	1 month– 3 months	3–12 months	More than 1 year	Total
Debentures	₩ 2,253,075	₩ 5,493,275	₩ 270,243,800	₩ 937,711,550	₩ 1,215,701,700

	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

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

(3) Capital risk management

The Company calculates the double leverage ratio ('total amount of investment ÷ (total amount of shareholders' equity - provided reserve for bad debts)') and the debt ratio ('total amount of liabilities ÷ (total amount of 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, 2016 and 2015, is as follows (Unit: Korean won in thousands):

Classification	December 31, 2016			December 31, 2015		
	Loans and receivables	Amortized financial liabilities	Total	Loans and receivables	Amortized financial liabilities	Total
Financial assets:						
Loans and receivables	₩ 89,941,503	₩ -	₩ 89,941,503	₩59,607,376	₩ -	₩ 59,607,376
	₩ 89,941,503	₩ -	₩ 89,941,503	₩59,607,376	₩ -	₩ 59,607,376
Financial liabilities:						
Debentures	-	1,138,411,840	1,138,411,840	-	1,108,436,608	1,108,436,608
Other liabilities (*)	-	6,703,930	6,703,930	-	6,758,610	6,758,610
	₩ -	₩1,145,115,770	₩1,145,115,770	₩ -	₩1,115,195,218	₩1,115,195,218

(*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 the 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, 2016 and 2015, are as follows (Unit: Korean won in thousands):

Classification	December 31, 2016	
	Book value	Fair value
Financial assets:		
Loans	₩ -	₩ -
Financial liabilities:		
Debentures	₩ 1,138,411,840	₩ 1,162,813,590

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

Except for the debentures described above, the Company's management anticipates that the book value of financial assets and liabilities measured at amortized cost is similar to the fair value.

Fair value is the amount for which an asset could be exchanged, or a liability could be settled, between knowledgeable and 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 and willing parties, if available, with reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option-pricing models. If there is a valuation technique commonly used by market participants to price the instrument and the technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Company uses that technique.

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

6. CASH AND DUE FROM BANKS:

Cash and due from banks as of December 31, 2016 and 2015, consist of the following (Unit: Korean won in thousands):

Classification	Financial institution	Interest rate (%)	December 31, 2016	December 31, 2015
Checking deposits	Busan Bank	-	₩ 100,006,888	₩ 48,203,262
Corporate savings deposits	Busan Bank	-	1,076,727	2,260,693
			₩ 101,083,615	₩ 50,463,955

7. INVESTMENTS IN SUBSIDIARIES:

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

The details of investments in subsidiaries as of December 31, 2016 and 2015, are as follows (Unit: Korean won in thousands):

	December 31, 2016				
Name of subsidiaries	Location	Percentage of ownership	Beginning balance	Acquisition	Ending balance
Busan Bank	Korea	100%	₩ 2,788,140,154	₩ 180,000,000	₩ 2,968,140,154
Kyongnam Bank	Korea	100%	1,699,160,438	250,000,000	1,949,160,438
BNK Securities Co., Ltd.	Korea	100%	134,166,758	50,000,000	184,166,758
BNK Capital Co., Ltd.	Korea	100%	378,488,236	-	378,488,236
BNK Savings Bank Co., Ltd.	Korea	100%	115,000,600	-	115,000,600
BNK Asset Management Co., Ltd.	Korea	51.01%	8,697,485	-	8,697,485
BNK Credit Information Co., Ltd.	Korea	100%	4,451,045	-	4,451,045
BNK System Co., Ltd.	Korea	100%	3,000,000	-	3,000,000
			₩ 5,131,104,716	₩ 480,000,000	₩ 5,611,104,716

	December 31, 2015				
Name of subsidiaries	Location	Percentage of ownership	Beginning balance	Acquisition	Ending balance
Busan Bank	Korea	100%	₩ 2,678,140,154	₩ 110,000,000	₩ 2,788,140,154
Kyongnam Bank	Korea	100%	1,226,908,000	472,252,438	1,699,160,438
BNK Securities Co., Ltd.	Korea	100%	104,166,758	30,000,000	134,166,758
BNK Capital Co., Ltd.	Korea	100%	328,488,236	50,000,000	378,488,236
BNK Savings Bank Co., Ltd.	Korea	100%	115,000,600	-	115,000,600
BNK Asset Management Co., Ltd.	Korea	51.01%	-	8,697,485	8,697,485
BNK Credit Information Co., Ltd.	Korea	100%	4,451,045	-	4,451,045
BNK System Co., Ltd.	Korea	100%	3,000,000	-	3,000,000
			₩ 4,460,154,793	₩ 670,949,923	₩ 5,131,104,716

(2) Major financial information of investment in subsidiaries

A summary of the financial information of investment in subsidiaries as of December 31, 2016, is as follows (Unit: Korean won in thousands):

Subsidiaries	Assets	Liabilities	Equity	Operating income	Net profit
Busan Bank and its subsidiaries	₩51,649,492,394	₩47,436,007,452	₩4,213,484,942	₩426,608,424	₩326,864,999
Kyongnam Bank and its subsidiaries	35,559,532,621	32,712,012,036	2,847,520,585	267,757,076	208,165,108
BNK Securities Co., Ltd. and its subsidiaries	1,064,120,506	849,993,141	214,127,365	12,518,447	9,356,202
BNK Capital Co., Ltd. and its subsidiaries	4,692,577,878	4,130,222,541	562,355,337	74,327,650	57,207,366
BNK Savings Bank Co., Ltd. and its subsidiaries	769,063,766	653,632,299	115,431,467	12,917,855	(8,050,307)
BNK Asset Management Co., Ltd.	10,623,846	456,755	10,167,091	204,480	138,690
BNK Credit Information Co., Ltd.	8,587,098	598,617	7,988,481	907,231	686,600
BNK System Co., Ltd.	8,721,535	2,379,376	6,342,159	999,669	766,950

8. LOANS AND RECEIVABLES:

Loans and receivables as of December 31, 2016 and 2015, consist of the following (Unit: Korean won in thousands):

Classification	December 31, 2016	December 31, 2015
Loans:	₩ -	₩ -
Receivables:		
Accounts receivable	81,854,376	52,536,784
Guarantee deposits paid	8,086,000	7,066,000
Accrued income	1,127	4,592
	89,941,503	59,607,376
	₩ 89,941,503	₩ 59,607,376

9. TANGIBLE ASSETS:

The changes in book value of tangible assets for the year ended December 31, 2016 and 2015, are as follows (Unit: Korean won in thousands):

Account	2016					
	Beginning balance	Acquisition	Disposal	Depreciation	Reclassification	Ending balance
Leasehold estates	₩ 128,809	₩ -	₩ -	₩ (37,203)	₩ -	₩ 91,606
Business movable assets	1,065,481	1,362,548	-	(578,457)	-	1,849,572
Construction in progress	35,014	2,292,000	-	-	-	2,327,014
	₩ 1,229,304	₩ 3,654,548	₩ -	₩ (615,660)	₩ -	₩ 4,268,192

Account	2015					
	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

10. INTANGIBLE ASSETS:

The changes in intangible assets for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in thousands):

Account	2016				
	Beginning balance	Acquisition	Disposal	Amortization	Ending balance
Software	₩ 373,910	₩ -	₩ -	₩ (99,275)	₩ 274,635
Right of membership	1,359,456	44,671	-	-	1,404,127
	₩ 1,733,366	₩ 44,671	₩ -	₩ (99,275)	₩ 1,678,762

Account	2015				
	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

11. OTHER ASSETS:

The details of other assets as of December 31, 2016 and 2015, consisted of the following (Unit: Korean won in thousands):

Classification	December 31, 2016	December 31, 2015
Other guarantee deposit	₩ -	₩ -
Accrued expense	-	149,611
Others	17,196	71,467
	₩ 17,196	₩ 221,078

12. BORROWINGS AND DEBENTURES:

The details of debentures as of December 31, 2016 and 2015, are as follows (Unit: Korean won in thousands):

Classification	Annual interest rate (%)	December 31, 2016	December 31, 2015
Debentures in Korean won	1.50–4.18	₩ 1,140,000,000	₩ 1,110,000,000
Present value of discounts		(1,588,160)	(1,563,392)
		₩ 1,138,411,840	₩ 1,108,436,608

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

13. RETIREMENT BENEFIT OBLIGATION:

(1) As of December 31, 2016 and 2015, the amounts recognized in the separate statements of financial position related to retirement benefit obligation are as follows (Unit: Korean won in thousands):

Classification	December 31, 2016	December 31, 2015
Present value of defined benefit obligation	₩ 6,434,510	₩ 5,241,727
Fair value of plan assets	(5,134,909)	(5,154,066)
Net defined benefit liability	₩ 1,299,601	₩ 87,661

(2) Changes in net defined benefit liability for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in thousands):

	2016		
Classification	Present value of defined benefit obligation	Fair value of plan assets	Total
Beginning balance	₩ 5,241,727	₩ (5,154,066)	₩ 87,661
Current service cost	922,642	-	922,642
Interest expenses (revenues)	179,394	(168,033)	11,361
	6,343,763	(5,322,099)	1,021,664
Remeasurement elements:			
Return on plan assets	-	97,182	97,182
Actuarial gains and losses from changes in financial assumptions	(64,965)	-	(64,965)
Actuarial gains and losses from changes in experience adjustments	396,220	-	396,220
	331,255	97,182	428,437
Benefits paid	(293,722)	143,222	(150,500)
Contribution	-	-	-
Transfer of employees between the Company and the related companies	53,214	(53,214)	-
Ending balance	₩ 6,434,510	₩ (5,134,909)	₩ 1,299,601

Classification	2015 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

(3) Details of fair values of plan assets as of December 31, 2016 and 2015, are as follows (Unit: Korean won in thousands):

Classification	December 31, 2016		December 31, 2015	
Time deposit	₩	5,134,909	₩	5,154,066

(4) Actuarial assumptions as of December 31, 2016 and 2015, are as follows (Unit: Percentage (%)):

Classification	2016	2015
Discount rate	3.30	3.50
Weighted-average rate of salary increase	1.90	2.00
Mortality ratio	Standardized mortality ratio by Korea Insurance Development Institute	
Retirement ratio	Retirement ratio per age group	

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

Description	One-percentage increase		One-percentage decrease	
Change in discount rate	₩	(614,895)	₩	721,814
Change in future salary increase rate		725,424		(628,724)

14. OTHER LIABILITIES:

Other liabilities as of December 31, 2016 and 2015, consisted of the following (Unit: Korean won in thousands):

Classification	December 31, 2016		December 31, 2015	
Accounts payable	₩	796,981	₩	113,180
Accrued expenses		5,906,950		6,645,430
Others		460,748		463,031
	₩	7,164,679	₩	7,221,641

15. SHAREHOLDERS' EQUITY:

(1) Capital stock

As of December 31, 2016, the Company has 700 million common shares authorized with a par value per share of ₩5,000 and 325,935,246 shares have been issued. Capital stock is ₩1,629,676 million.

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

	Issue date	Maturity	Interest rates (%)	December 31, 2016	
Local currency for hybrid equity securities	2015.06.24	2045.06.24	4.60	₩	80,000,000
	2015.06.24	2045.06.24	5.10		30,000,000
	2015.08.31	2045.08.31	4.48		150,000,000
Issuance cost					(722,989)
				₩	259,277,011

(3) Other paid-in capital

Other paid-in capital is the amount of difference in the acquisition cost of subsidiaries and par value of the Company's transfer stock, net of treasury stocks acquired to eliminate fractional shares arising from the share exchange (Unit: Korean won in thousands):

Classification	December 31, 2016		December 31, 2015	
Paid-in capital in excess of par value	₩	2,277,035,810	₩	2,158,938,179
Treasury stock		(213,973)		(213,973)
	₩	2,276,821,837	₩	2,158,724,206

(4) Other components of equity

Other components of equity for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in thousands):

	2016							
Classification	Beginning balance		Decrease		Deferred income tax effect		Ending balance	
Remeasurements of defined benefit plans	₩	(1,251,640)	₩	(428,437)	₩	-	₩	(1,680,077)

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

16. RETAINED EARNINGS:

(1) Retained earnings as of December 31, 2016 and 2015, are summarized as follows (Unit: Korean won in thousands):

Classification	December 31, 2016	December 31, 2015
Reserve:		
Legal reserve	₩ 62,694,407	₩ 62,056,407
Reserve for bad debts	263,000	266,000
Reserve for claims liability	2,000,000	-
Voluntary reserve	286,338,000	325,872,000
	351,295,407	388,194,407
Retained earnings before appropriation	63,973,094	1,489,146
	₩ 415,268,501	₩ 389,683,553

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

Classification	2016	2015
Retained earnings before appropriation:		
Beginning	₩ 86,957	₩ 317,243
Dividend from hybrid capital instruments	(12,045,777,778)	(4,882,333,333)
Net income	76,018,784,306	6,371,161,697
	63,973,093,485	1,489,145,607
Transfer from retained earnings:		
Voluntary reserve	18,737,000,000	39,534,000,000
Regulatory reserve for bad debts	-	3,000,000
	18,737,000,000	39,537,000,000
Appropriations:		
Legal reserve	7,602,000,000	638,000,000
Voluntary reserve	146,000,000	-
Reserve for claims liability	-	2,000,000,000
Cash dividends (Dividends per share FY2016: ₩230 (4.60%) FY2015: ₩150 (3.00%))	74,961,689,930	38,388,058,650
	82,709,689,930	41,026,058,650
Unappropriated retained earnings to be carried forward to subsequent year	₩ 403,555	₩ 86,957

Date of appropriation was March 24, 2017, for the year ended December 31, 2016, and March 25, 2016, for the year ended December 31, 2015.

(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 are less than allowances that were calculated for the regulatory purpose, the Company is required to appropriate such shortfall amount as regulatory reserve for bad debts. The reserve for credit losses is included in retained earnings and is allowed to reduce the reserve amount required by the related financial regulation if the reserve for credit losses is over the required reserve. If there is an accumulated deficit, the reserve for credit losses is not appropriated until the undisposed accumulated deficit is disposed of.

Balances of regulatory reserve for bad debt as of December 31, 2016 and 2015, are as follows (Unit: Korean won in thousands):

Classification	December 31, 2016		December 31, 2015	
Accumulated reserve for bad debt	₩	263,000	₩	266,000
Expected reversal for bad debt		146,000		(3,000)
	₩	409,000	₩	263,000

Provided reserve and net income after the provided reserve for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in thousands, except for earnings per share):

Classification	2016		2015	
Net income	₩	76,018,784	₩	6,371,162
Provided reserve		(146,000)		3,000
Net income after the provided reserve	₩	75,872,784	₩	6,374,162
Earnings per share after the provided reserve (in currency unit)	₩	198	₩	6

Net income and earnings per share after reserve for bad debts are not in accordance with K-IFRS, but are calculated on the assumption that provision or reversal of reserve for bad debts is adjusted to the net income (loss). Earnings per share after reserve for bad debts are presented net of dividends on hybrid equity securities.

17. NET INTEREST LOSS:

Net interest loss and interest revenues and expenses for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in thousands):

Classification	2016		2015	
Interest revenues:				
Cash and due from banks	₩	18,420	₩	30,070
Interest expenses:				
Debentures		(35,558,625)		(35,925,833)
Net interest expense	₩	(35,540,205)	₩	(35,895,763)

18. NET COMMISSION LOSS:

Net commission loss and commission revenues and expenses for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in thousands):

Classification	2016		2015	
Commission revenues:				
Brand revenues	₩	10,414,000	₩	5,328,941
Other commission revenues		12,550		10,550
		10,426,550		5,339,491
Commission expenses:				
Other commission expenses		(989,093)		(2,191,625)
	₩	9,437,457	₩	3,147,866

19. GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in thousands):

Classification	2016		2015	
Employee benefits:				
Salaries	₩	8,356,057	₩	5,718,742
Welfare cost		2,080,794		2,998,509
Provision for severance benefits		934,003		876,307
		11,370,854		9,593,558
Rent expense		185,313		130,706
Business promotion expenses		725,279		710,505
Depreciation of tangible assets		615,660		491,400
Amortization of intangible assets		99,275		102,188
Tax and dues		136,717		122,388
Other administrative expenses		2,920,090		5,800,335
		4,682,334		7,357,522
	₩	16,053,188	₩	16,951,080

20. NET NON-OPERATING INCOME (LOSS):

Net non-operating income (loss) and non-operating revenues and expenses for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in thousands):

Classification	2016		2015	
Non-operating revenues:				
Miscellaneous income	₩	1,153,981	₩	7,696
Non-operating expenses:				
Loss on disposal of tangible assets		-		(3,675)
Donations		(3,001,100)		(4,043,515)
Miscellaneous expense		(116)		-
		(3,001,216)		(4,047,190)
Net non-operating loss	₩	(1,847,235)	₩	(4,039,494)

21. INCOME TAX EXPENSE:

(1) The components of income tax expense for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in thousands):

Classification	2016		2015	
Income tax currently payable	₩	-	₩	-
Changes in deferred income tax assets by temporary difference (*)		-		-
Changes in deferred income tax assets by deficit (*)		-		-
Tax effect		-		-
Changes in deferred income tax liabilities reflected directly in shareholders' equity		-		-
Income tax expense	₩	-	₩	-

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

(2) Reconciliation between the accounting profit and income tax expense for the years ended December 31, 2016 and 2015, is as follows (Unit: Korean won in thousands):

Description	2016	2015
Income before income tax	₩ 76,018,784	₩ 6,371,162
Taxes payable	16,304,133	1,254,232
Reconciliation items:		
Non-taxable income	(18,371,658)	(6,974,757)
Non-deductible expenses	157,674	137,082
Adjustments from consolidated taxation	1,909,851	5,583,443
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 years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in thousands):

	2016			
Classification	Beginning balance	Decrease	Increase (*1)	Ending balance
Unconfirmed costs	₩ 1,399,619	₩ 1,399,619	₩ 1,855,497	₩ 1,855,497
Commissions paid (bond discount)	167,980	167,980	8,143	8,143
Allowance for retirement	3,494,084	1,507,152	1,433,291	3,420,223
Pension plan asset	(3,365,571)	(1,507,152)	(1,561,804)	(3,420,223)
Stock compensation cost	172,870	172,870	283,938	283,938
Depreciation in excess of tax limit	38,403	3,456	43,355	78,302
Accounts payable	616,392	597,333	713,111	732,170
	2,523,777	2,341,258	2,775,531	2,958,050
Tax loss carried forward (*2)	4,620,123	-	-	4,620,123
Not recognized as deferred tax assets (*3)	7,143,900			7,578,173
Recognized as deferred tax assets	-	-	-	-
Deferred tax assets	₩ -	₩ -	₩ -	₩ -

	2015			
Classification	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.

(4) At the end of the reporting date, the amount of tax loss carried forward 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 ₩81,854,362 thousand as of December 31, 2016, in accordance with the consolidated corporate tax system.

22. EARNINGS PER SHARE:

(1) Basic net income per share for the years ended December 31, 2016 and 2015, is as follows (Unit: Korean won, share):

Classification	2016	2015
Net income	₩ 76,018,784,306	₩ 6,371,161,697
Dividends from hybrid equity securities	(12,045,777,778)	(4,882,333,333)
Net income attributable to common shareholders	63,973,006,528	1,488,828,364
Weighted-average number of shares	321,712,741	246,832,074
Net income per share	₩ 199	₩ 6

(2) Weighted-average number of common shares for the years ended December 31, 2016 and 2015, is as follows (Unit: share):

	2016				
Account	Beginning	Ending	Days	Number of shares	Accumulation of days
Beginning	2016-01-01	2016-01-22	22	255,920,391	5,630,248,602
Paid-in capital increase	2016-01-23	2016-12-31	344	325,920,391	112,116,614,504
	Total		366		117,746,863,106
Weighted-average number of common shares					321,712,741

	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

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, 2016, 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 51st, Daishin Balance Private Securities Investment Trust 55th, HDC Dual Private Securities Investment Trust 1st, Hanhwa Private Securities Investment Trust 15th, BNKC (Cambodia) MFI 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 years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in thousands):

2016

Subsidiary	Revenues: Interest revenues	Revenues: Other revenues	Expenses: Interest expenses	Expenses: Other expenses	Acquisition of tangible assets	Acquisition of intangible assets
Busan Bank Co., Ltd.	₩ 18,420	₩ 85,839,063	₩ -	₩ 36,112	₩ -	₩ -
Kyongnam Bank Co., Ltd.	-	43,294,242	-	83,882	-	-
BNK Securities Co., Ltd.	-	278,150	-	-	-	-
BNK Capital Co., Ltd.	-	849,750	-	34,844	-	-
BNK Saving Bank Co., Ltd.	-	99,300	-	-	-	-
BNK Asset Management Co., Ltd.	-	6,000	-	-	-	-
BNK Credit Information Co., Ltd.	-	6,000	-	-	-	-
BNK System Co., Ltd.	-	76,000	-	182,746	2,879,760	-
	₩ 18,420	₩130,448,505	₩ -	₩ 337,584	₩ 2,879,760	₩ -

2015

Subsidiary	Revenues: Interest revenues	Revenues: Other revenues	Expenses: Interest expenses	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	113,506	-
	₩ 30,070	₩ 5,338,091	₩ -	₩ 1,019,905	₩ 113,506	₩ -

(3) Fund transactions with related parties for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in thousands):

	2016					
	Loan		Deposit		Investment	
Subsidiary	Increase	Decrease	Increase	Decrease	Capital expansion	Capital reduction
Busan Bank Co., Ltd.	₩764,714,886	₩714,094,226	₩ -	₩ -	₩180,000,000	₩ -
Kyongnam Bank Co., Ltd.	-	-	-	-	250,000,000	-
BNK Securities Co., Ltd.	-	-	-	-	50,000,000	-
	₩764,714,886	₩714,094,226	₩ -	₩ -	₩480,000,000	₩ -

	2015					
	Loan		Deposit		Investment	
Subsidiary	Increase	Decrease	Increase	Decrease	Capital expansion	Capital reduction
Busan Bank Co., Ltd.	₩316,724,883	₩280,806,773	₩ -	₩ -	₩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 Asset Management Co., Ltd.	-	-	-	-	4,050,000	-
	₩316,724,883	₩280,806,773	₩ -	₩ -	₩344,050,000	₩ -

(4) Outstanding receivables and payables from related parties as of December 31, 2016 and 2015, are as follows (Unit: Korean won in thousands):

	December 31, 2016			
	Receivables		Payables	
Subsidiary	Due from banks	Other assets	Deposits	Other liabilities
Busan Bank Co., Ltd.	₩ 101,083,615	₩ 56,098,245	₩ -	₩ 55,919
Kyongnam Bank Co., Ltd.	-	16,258,866	-	-
BNK Securities Co., Ltd.	-	436,171	-	-
BNK Capital Co., Ltd.	-	14,900,663	-	-
BNK Saving Bank Co., Ltd	-	1,836,055	-	-
BNK Credit Information Co., Ltd.	-	133,827	-	-
BNK System Co., Ltd.	-	117,662	-	-
	₩ 101,083,615	₩ 89,781,489	₩ -	₩ 55,919

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

(5) Compensation for key executives for the years ended December 31, 2016 and 2015, is as follows (Unit: Korean won in thousands):

Classification	2016	2015
Short-term employee benefits	₩ 691,720	₩ 703,640
Performance compensation	191,410	133,563
	₩ 883,130	₩ 837,203

24. CASH FLOWS:

(1) The cash and cash equivalents in the separate statements of cash flows include cash, bank deposits and investment in money market, which mature within three months after the date of acquisition. The Company's cash and cash equivalents in the separate statements of cash flows as of December 31, 2016 and 2015, are as follows (Unit: Korean won in thousands):

Classification	December 31, 2016	December 31, 2015
Due from banks	₩ 101,083,615	₩ 50,463,955

(2) Significant transactions not involving cash inflows and outflows for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in thousands):

Classification	2016	2015
Stock acquisition of subsidiary companies by share exchange	₩ -	₩ 322,252,438
Transfer of plan assets to affiliated companies	53,214	91,038
Dividends payable on hybrid equity securities	115,778	597,333

25. CONTINGENT LIABILITIES:

The Company filed a lawsuit against the Korea Deposit Insurance Corporation to seek compensation for damages (amount spent on litigation: ₩53.2 billion) as at the end of the reporting period. 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 9, 2017, and will get a final approval during the shareholders' meeting on March 24, 2017.

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

English Translation of Independent Auditors' Report Originally Issued in Korean on March 15, 2017

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, 2016. 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, 2016, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2016, 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 the 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 separate 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 separate 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, 2016, and we did not review its IACS subsequent to December 31, 2016. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in the Republic of Korea and may not be appropriate for other purposes or for other users.

Deloitte Anjin LLC

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

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

I, as the Internal Control over Financial Reporting Officer ("ICFRO") 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, 2016.

The Company's management, including myself, is responsible for designing and operating the ICFR. I assessed whether the ICFR has been appropriately designed and is effectively operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of preparing and disclosing reliable financial statements. I, as the ICFRO, applied the Best Practice Guideline for the assessment of the design and operation of the ICFR

Based on the assessment results, the Company's ICFR has been appropriately designed and is operating effectively as of December 31, 2016, in all material respects, in accordance with the Best Practice Guidance.

February 22 , 2017

Internal Control over Financial Reporting Officer

Chief Executive Officer