2019.2Q Earnings Conference Call Script

BNK FINANCIAL GROUP

(Page 1) Greetings

Dear shareholders,

I am Hyoung Guk Myoung, CFO of BNK Financial Group.

Thank you for joining our 2019.2Q Earnings Conference Call.

Now our session will start with the 'Highlights' portion in the PT.

(Page 3) 2019.2Q Group Earnings Highlights
-Group Earnings & Profitability

19.2Q NI of 174.1 KRW bn, 19.1H NI of 351.2 KRW bn, YoY -1.8%; however, over 19.1H target by +18.8%(55.7 KRW bn).

Although bank's NIM decrease led to lower interest income, tight provision control & higher non-bank earnings enabled sound profitability.

Interest Income decreased YoY, even with SME-led growth due to bank's NIM drop, and change in the accounting method for credit cards, lowered merchant fees etc. led to a decrease in interest income.

Fee Income increased by 13.2%(14.6 KRW bn) YoY, due to growth in major subsidiarie's PF fee income & decrease in credit card fee expense based on accounting change.

Other Income increased by 58.4 KRW bn YoY, due to growth in gains in securities & accounting change for loan sales.

<u>Next, SG&A will be explained.</u>

Group SG&A increased 9.4% YoY.

If we consider the 4Q seasonality impact(21.6 KRW bn as of 2Q) now dispersed throughout the quarters, YoY growth was at 5.6%.

By excluding the above impact, BSB +4.4%, KNB +6.8% YoY, and we expect to maintain YoY SG&A growth within 2.6% by the yearend.

Provision Expense(185.6 KRW bn) decreased by 13.4%(28.6 KRW bn) YoY, due to lower insolvencies in larger-size loans, provision writeback based on financial structure improvements etc.

<u>Next, Subsidiaries will be explained.</u>

BSB saw decrease in interest income & lower gains on NPL Sales leading a YoY decrease in earnings, while KNB & all other major subsidiaries saw earnings growth YoY.

Even with lower interest income, KNB saw 10.8% YoY NI growth due to higher fee income & lower provision expenses. The Capital & Savings Bank maintained stable provision levels, while showing PF fee income growth & gains on NPL Sales etc. leading a higher net income YoY.

The Securities has maintained the internal target level of profitability, and due to based effect regarding the ABCP loss on CERCG(China Energy Reserve and Chemical Group), saw a large jump in earnings YoY.

The Asset Management also saw growth in fee income & better control over AUM leading a sound earnings growth YoY.

In the 2H, we expect to see further improvements in non-bank earnings that will help diversify the income stream, and will continue to work on showing & developing the potential of the non-bank entities with non-interest income growth.

(Page 4) Bank NIMs & KRW Loans Growth

19.2Q Bank's NIM(BSB 2.10%, KNB 1.98%) saw 6bps & 5bps decrease QoQ. Due to the lower bank's NIM's, the 19.2Q Group NIM recorded 2.05%, a 5bp decrease QoQ.

Both bank's NIM decrease was from the impact of continuing growth in higher credit quality loans & decreasing market rates based on the benchmark rate cut.

Increasing interest rates on higher credit quality loans & widening the interest gap amongst different loan customer base(divided by credit quality) etc. that will help improve the falling NIM within the 2 banks. Although, due to the recent benchmark rate cut(resulting in a market rate decrease), short-term NIM improvement may be difficult.

Next, the Banks' KRW Loan Growth will be explained.

BSB 19.2Q KRW Loans increased 1.4%, 3.1% each QoQ YoY, maintaining a stable growth trend. Both corporate & household continued stable loan growth, and SOHO under SME saw 5.1% growth YTD.

On the other hand, KNB's KRW Loan growth decreased by 0.8%, 0.1% each QoQ, YoY, due to large-scale Group Loans maturing in the 19.1H.

Corporate Loans did show increase with SOHO growth by 2.4% YTD, while Household loans saw 4.7% decrease YTD, due to maturing Group Loans of 1.8 KRW tn.

For the 2H, we expect BSB to continue a solid growth trend, around 4.5% YoY, while KNB is expected to show lower-than expected yearend growth, due to continued Group Loans maturing.

(Page 5) Asset Quality & Capital Adequacy

19.2Q Group NPL Ratio recorded 1.20%, improved by 6 bps YTD, due to decrease in new NPL formation, continued NPL sales/write-offs, & Hanjin Heavy related debt-to-equity swap(20.3 KRW bn). BSB NPL Ratio saw a large-scale decrease down to 0.99%, 15 bps down QoQ, while KNB NPL Ratio recorded 1.14%, 4bps down QoQ.

In addition, by excluding the following impact(17.4Q BSB's preemptive NPL asset reclassification of 71.3 KRW bn & 18.4Q government-led stricter provision guidance related NPL transfers of 96.7 KRW bn), the

Group NPL would be around 0.99%.

19.2Q Group Delinquency Ratio 0.81%, down by 4bps QoQ, while BSB, KNB recorded 0.58% & 0.72%, each down by 7bps, 2bps.

With continued efforts to such as NPL sales & write-offs and large-scale insolvencies coming down, we expect the NPL Ratio will be below 1% by the yearend.

19.1H Group Provision Expense was 185.6 KRW bn, -13.4% YoY, due to decrease in larger-scale insolvencies & provision writeback. Credit Costs also recorded 47bps, down by 9bps YoY.

With continued asset quality improvements & provision writebacks etc., we expect a lower yearend provision expense(around 400.0 KRW bn).

Next, Capital Adequacy will be explained.

19.2Q BIS Ratio recorded 13.32%, up by 17bps YTD, 19.2Q CET1 Ratio recorded 9.66%, up by 11bps YTD.

Now, we will explain about the Group IRB transfer.

We have continuously consulted with the FSC, and have targeted an approval date by 2020. However, in dealing with testing & examining the new unified single model proposed by FSC, the expected transfer date has been delayed and we are expecting 2021.2H approval.
At least for the retail & external audit corps. exposure, we expect a partial

transfer. With the full IRB transfer, 80bps improvement in CET1 Ratio is expected, +35bps for the initial retail exposure transfer(end of 2020), and +45bps for the later impact is expected(end of 2021).

<u>I have briefly explained the Highlights, and now I will summarize.</u>

Even though both banks saw growth in total assets in the 1H, NIM drastically decreased YoY, leading to a huge drop in net interest income. However, with lower insolvencies under the higher credit quality loan growth & provision writeback based on financial structure improvements etc. has led to a large-scale decrease in provision expense.

Also, focus on non-banks has led a growth in non-interest income starting from the securities, while diversifying our earnings channels.

With the recent benchmark rate cut & lower market rates, NIM will be hard to improve. Nonetheless, we will work on better control over NIM & continue to strive for lower provision expenses, and also increase non-bank earnings enabling us to go over the net income target of 600.0 KRW bn.

Also, while meeting yearend targets, we expect to maintain stable growth in dividend payout to give back more to our investors.

That ends our session.

Thank you.