

Banks

Initiation Report
September 7, 2017

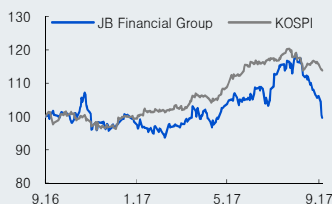
(Initiate)	Buy
Target Price(12M, W)	7,800
Share Price (09/06/17, W)	5,850
Expected Return	33.3%

NP (18F, Wbn)	195
Consensus NP (18F, Wbn)	190

EPS Growth (17F, %)	16.7
Market EPS Growth (17F, %)	44.9
P/E (17F, x)	5.3
Market P/E (17F, x)	9.6
KOSPI	2,319.82

Market Cap (Wbn)	909
Shares Outstanding (mn)	155
Free Float (%)	85.1
Foreign Ownership (%)	40.9
Beta (12M)	0.88
52-Week Low	5,500
52-Week High	6,970

(%)	1M	6M	12M
Absolute	-14.3	1.9	-0.5
Relative	-11.6	-8.6	-11.4



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JB Financial Group

(175330 KS)

Bullish on medium/long-term growth strategy and near-term earnings outlook

Medium/long-term growth strategy well-suited to internal and external conditions

JB Financial Group (JBFG) is a financial holding company that owns: 1) 100% of Jeonbuk Bank, which operates primarily in North Jeolla Province; 2) 56.97% of Kwangju Bank, which operates primarily in Gwangju/South Jeolla Province; 3) 100% of JB Woori Capital, an auto-finance company; and 4) 100% of JB Asset Management.

JBFG has made continued efforts to drive strategic growth (organically), while seeking new sources of growth via M&As (inorganically) in consumer finance, banking, and asset management. More recently, the group purchased a stake in Cambodia's Phnom Penh Commercial Bank (PPCB), making it a second-tier subsidiary. From a medium- and long-term standpoint, and in light of the low-growth, low-profit domestic environment, we view JBFG's push into M&As and overseas as a logical move. In the banking business, the group has aligned its loan growth strategy to the broader goal of raising its CET1 ratio, focusing on household loans with lower risk weights (such as group loans for interim payment in apartment purchases). In addition, the group has made aggressive moves into medium-interest loans. We believe this retail-driven growth strategy - focused on risk weight and profitability - is a step in the right direction, from a risk/return perspective.

Concerns over relatively low CET1 ratio easing gradually

We believe JBFG's biggest discount factors are concerns regarding its relatively low capital ratios (especially CET1) and Jeonbuk Bank's asset quality and credit costs. While the group is not entirely out of the woods yet, we believe the risk factors are easing gradually.

Since 2H16, JBFG has been restructuring its asset portfolio with a greater focus on the rate of return on risk-weighted assets (RoRWA), as it seeks to raise its CET1 ratio to 8.5-8.8% by end-2017, and 9.3-9.6% by end-2018. Over the past several years, the group's CET1 ratio has actually beaten its targets, improving from 7.12% at end-2014 to 7.4% at end-2015, 7.92% at end-2016, and 8.3% at end-2Q17. Jeonbuk Bank's NPL ratio has fallen steadily from 1.43% at end-2015 to 1.32% at end-2016 and 1.04% at end-2Q17, while new NPL formation has remained relatively well-contained since 2016, when excluding the Doosan Infracore China (DICC) acquisition financing loans and livestock-backed loans. We thus expect Jeonbuk Bank's credit cost ratio to decline from 64bps in 2014-15 and 67bps in 2016 to 46bps in 2017 and 44bps in 2018-19.

Initiate coverage with Buy rating and TP of W7,800

Shares of JBFG are currently trading at a 2017F P/B of 0.36x (expected ROE of 7.2%) and P/E of 5.3x (expected EPS growth of 16.7%), based on our estimates. Even after accounting for discount factors, such as limited upside to dividend payout ratio, we believe the stock is deeply undervalued. We initiate our coverage on JBFG with a Buy rating and target price of W7,800 (target P/B of 0.48x).

Fiscal year-end	12/14	12/15	12/16	12/17F	12/18F	12/19F
Net interest inc. (Wbn)	565	977	1,019	1,147	1,230	1,308
Net non-interest inc. (Wbn)	5	13	16	-6	-26	-34
Operating profit (Wbn)	82	196	253	341	375	405
Net profit (Wbn)	549	115	143	173	195	213
EPS (W)	6,076	908	951	1,110	1,254	1,370
EPS growth (%)	574.7	-85.1	4.8	16.7	12.9	9.3
P/E (x)	1.0	6.4	6.2	5.3	4.7	4.3
P/PPOP (x)	3.9	2.1	2.0	1.7	1.6	1.5
P/B (x)	0.40	0.42	0.40	0.36	0.33	0.29
ROE (%)	41.3	5.7	6.4	7.2	7.3	7.2
Dividend yield (%)	1.7	0.9	0.9	1.7	2.1	2.2

Note: All figures are based on consolidated K-IFRS; NP refers to net profit attributable to controlling interests
Source: Company data, Mirae Asset Daewoo Research estimates

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Recommendation and valuation

Initiate coverage with Buy and TP of W7,800

We initiate our coverage on JBFG with a Buy rating and target price of W7,800. Our target price is based on our 2017 BPS estimate and a target multiple of 0.48x, and implies 33.3% upside from the current share price (as of September 6th close). Our target P/B assumes sustainable ROE of 7.1%, long-term growth rate of 3%, and COE of 11.5% (risk-free rate of 2.2%, beta of 1.43, and market risk premium of 6.5%).

Our target price of W7,800 equals 0.48x 2017F BPS, 0.43x 2018F BPS, and 0.39x 2019F BPS, or 7.0x 2017F EPS, 6.2x 2018F EPS, and 5.7x 2019F EPS.

JBFG has made continued efforts to drive strategic growth internally (organically), while seeking new sources of growth via M&As (inorganically) in consumer finance, banking, and asset management. More recently, the group entered the Southeast Asian market by purchasing a stake in Cambodia's Phnom Penh Commercial Bank (PPCB). The group has also established a partnership with a fintech firm using an open bank platform in an effort to attract new customers. From a medium- and long-term standpoint and in light of the low-growth, low-profit domestic environment, we view JBFG's push into M&As and overseas as a logical move. In the banking business, the group is pursuing a retail-driven loan growth strategy focused on risk weight and profitability, which we believe is a step in the right direction from a risk/return perspective.

Table 1. Target price calculation

Sustainable ROE	7.1%
Growth	3.0%
Cost of equity	11.5%
Cost of equity	11.5%
Risk-free rate	2.2%
Beta	1.43
Market premium	6.5%
Fair P/B (x)	0.48
2017F BPS (W)	16,139
Target price (W)	7,800

Source: Mirae Asset Daewoo Research estimates

Table 2. Valuation metrics at target price of W7,800

	2014	2015	2016	2017F	2018F	2019F
P/B (x)	0.53	0.56	0.53	0.48	0.43	0.39
P/E (x)	1.3	8.6	8.2	7.0	6.2	5.7
ROE (%)	41.3	5.7	6.4	7.2	7.3	7.2
EPS growth (%)	574.7	-85.1	4.8	16.7	12.9	9.3
	-47.8	93.0	4.8	16.7	12.9	9.3
Dividend yield (%)	1.3	0.6	0.6	1.3	1.5	1.7

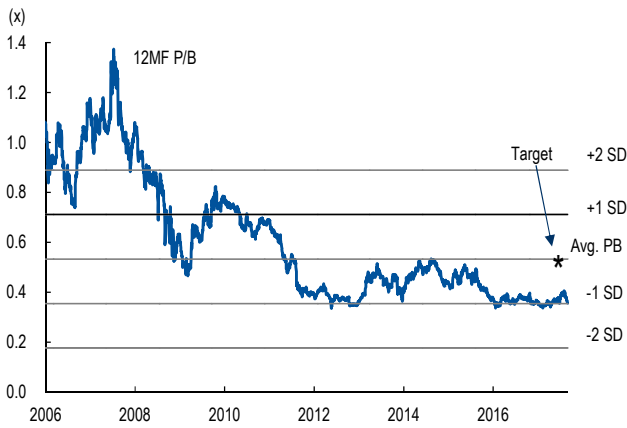
Source: Company data, Mirae Asset Daewoo Research estimates

In light of JBFG's broader goal of raising its CET1 ratio, we expect its dividend payout ratio to remain low; its dividend payout ratio is projected to rise steadily to 8.9% in 2017, 9.4% in 2018, and 9.3% in 2019 (versus 6.7% in 2015, and 5.4% in 2016). We forecast its DPS to rise modestly to W100 in 2017, W120 in 2018, and W130 in 2019 (versus W50 in 2015-16). Based on the September 6th closing price, these estimates translate into a dividend yield of 1.7% for 2017; 2.1% for 2018; and 2.2% for 2019.

Given the firm's 2017-19E average ROE of over 7%, our target price (0.48x 2017E P/B) appears within reach. Even after accounting for discount factors, such as limited upside to dividend payout ratio, we believe the stock is deeply undervalued.

2. Band chart

Figure 1. 12-month forward P/B and target P/B



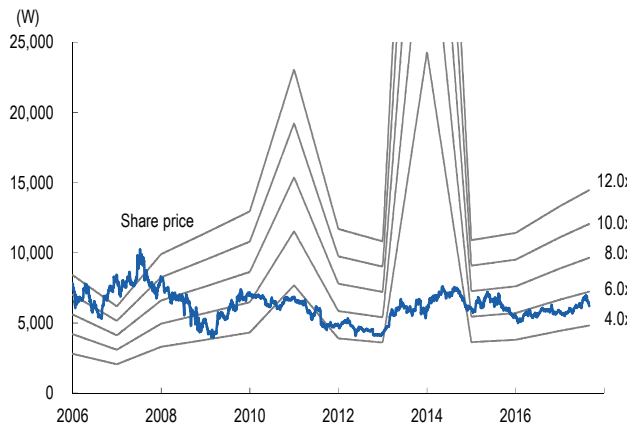
Source: Company data, Quantiwis, Mirae Asset Daewoo Research

Figure 2. 12-month forward P/B



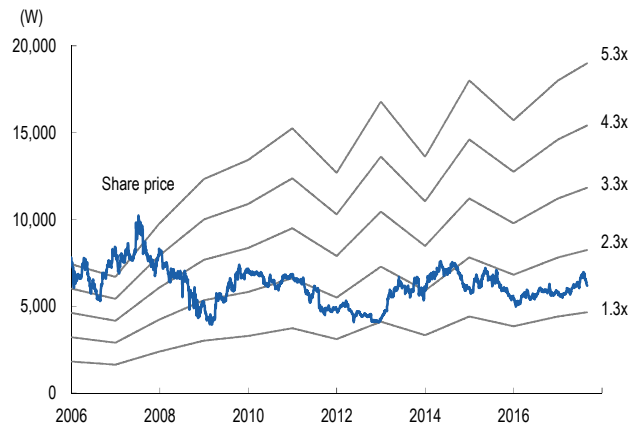
Source: Company data, Quantiwis, Mirae Asset Daewoo Research

Figure 3. 12-month Forward P/E



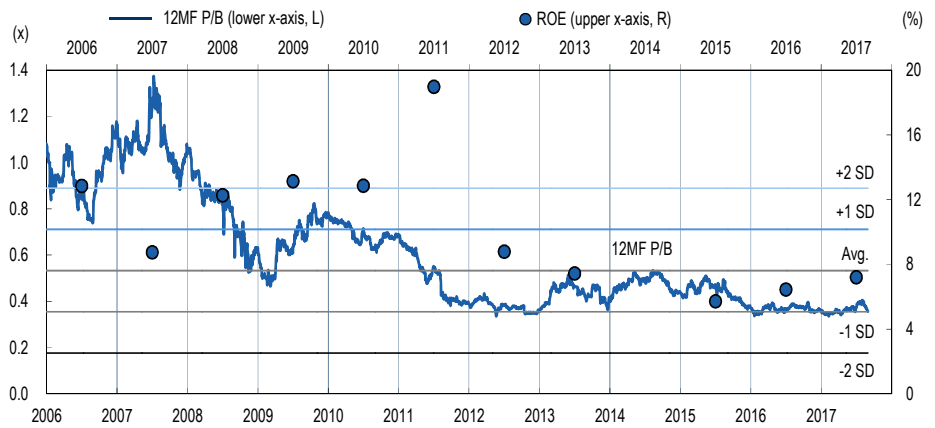
Source: Company data, Quantiwis, Mirae Asset Daewoo Research

Figure 4. 12-month forward P/PPOP



Source: Company data, Quantiwis, Mirae Asset Daewoo Research

Figure 5. 12-month forward P/B vs. ROE



Source: Company data, Quantiwis, Mirae Asset Daewoo Research

3. Valuation comparison

Table 3. Banking and card companies: Valuation table

Company		SFG	KBFG	HFG	IBK	BNKFG	DGBFG	JBFG	Kwangju	Samsung Card
Code		055550	105560	086790	024110	138930	139130	175330	192530	029780
Rating		Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Hold
Target price (W)		63,500	73,000	61,000	18,500	13,000	14,500	7,800	16,000	-
Current price (W)		48,000	51,100	43,850	14,000	9,510	9,970	5,850	12,100	35,750
Upside (Downside)		32.3	42.9	39.1	32.1	36.7	45.4	33.3	32.2	
Mkt. cap. (Wbn)		22,762	21,365	12,980	7,840	3,100	1,686	909	621	4,142
Foreign ownership (%)		69.6	68.5	74.1	19.5	50.6	63.1	40.9	13.7	12.4
P/B (x)	2015	0.76	0.69	0.59	0.53	0.41	0.48	0.42	0.45	0.62
	2016	0.73	0.69	0.58	0.51	0.46	0.46	0.40	0.42	0.63
	2017F	0.68	0.62	0.54	0.47	0.43	0.43	0.36	0.39	0.62
	2018F	0.64	0.58	0.50	0.45	0.40	0.41	0.33	0.36	0.61
P/E (x)	2015	9.8	11.6	14.1	8.0	4.9	5.3	6.4	10.7	12.4
	2016	8.3	9.3	9.8	7.9	6.2	5.9	6.2	6.0	11.9
	2017F	6.7	6.3	7.1	6.4	5.6	5.2	5.3	4.4	11.9
	2018F	7.1	6.7	6.5	5.9	5.2	4.7	4.7	4.3	12.0
P/PPOP (x)	2015	5.8	6.9	5.9	3.4	2.2	2.7	1.7	5.9	6.3
	2016	5.4	9.0	5.1	3.3	2.8	2.9	2.0	3.7	5.8
	2017F	4.7	4.5	3.9	2.9	2.5	2.6	1.7	2.6	5.5
	2018F	4.5	4.2	3.7	2.8	2.4	2.4	1.6	2.5	5.4
Dividend yield (%)	2015	2.5	1.9	1.5	3.2	1.6	2.8	0.9	1.7	4.2
	2016	3.0	2.4	2.4	3.4	2.4	3.0	0.9	1.7	4.2
	2017F	3.8	3.9	3.6	4.5	3.2	3.7	1.7	1.7	4.5
	2018F	4.0	4.1	4.2	5.0	3.7	4.4	2.1	1.7	4.8
ROE (%)	2015	7.9	6.1	4.2	7.0	9.1	9.2	5.7	4.3	5.1
	2016	9.0	7.2	6.0	6.6	7.9	8.0	6.4	7.2	5.3
	2017F	10.5	10.2	7.9	7.6	7.9	8.5	7.2	9.1	5.2
	2018F	9.2	9.0	7.9	7.7	8.0	9.0	7.3	8.6	5.1
ROA (%)	2015	0.7	0.5	0.3	0.5	0.6	0.6	0.3	0.3	1.8
	2016	0.7	0.6	0.4	0.5	0.5	0.6	0.3	0.5	1.7
	2017F	0.8	0.8	0.5	0.5	0.6	0.6	0.4	0.6	1.5
	2018F	0.7	0.8	0.5	0.6	0.6	0.6	0.4	0.6	1.4
EPS growth (%)	2015	13.7	21.2	-3.7	11.0	-43.9	10.1	-85.1	7.3	-49.1
	2016	18.2	25.6	44.4	0.7	-20.6	-9.8	4.8	78.7	4.7
	2017F	23.5	46.6	38.2	23.1	10.4	11.7	16.7	35.2	-0.5
	2018F	-5.5	-5.6	7.8	8.7	8.2	12.1	12.9	2.6	-0.6

Source: Company data, Mirae Asset Daewoo Research

Note: September 6th closing price (foreign ownership rate figures are as of September 5th)

II. Investment points

1. Medium/long-term growth strategy well-suited to internal and external conditions

1) M&A-driven growth

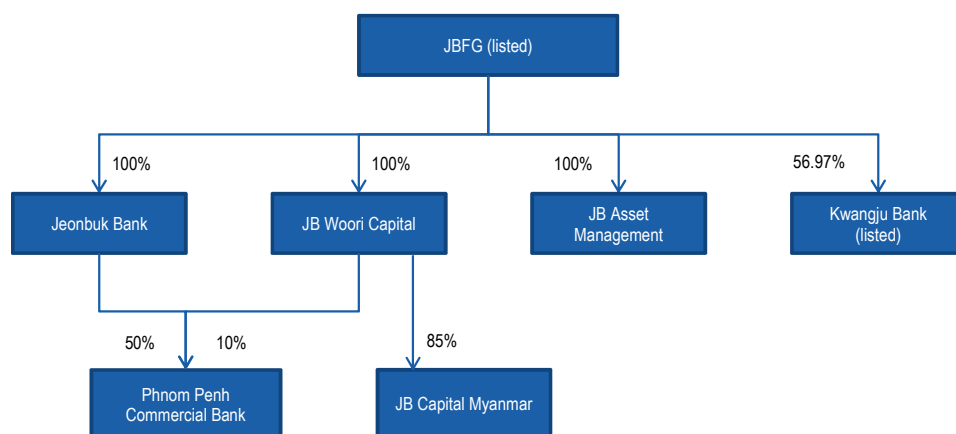
JBFG has made continued efforts to drive strategic growth internally, while seeking new sources of growth via M&As. In September 2011, Jeonbuk Bank incorporated JB Woori Capital (a credit finance company specializing in auto installment financing services) as its subsidiary by acquiring a 69.7% stake. After the establishment of JBFG, JB Woori Capital turned from a subsidiary of Jeonbuk Bank into a subsidiary of JBFG in November 2013. After raising its stake through third-party allocated rights issue and other measures, JBFG included JB Woori Capital as a wholly owned subsidiary through an equity swap in July 2014.

In addition, as part of the privatization of Woori Finance Holdings, JBFG took over Kwangju Bank as its subsidiary through the acquisition of a 56.97% stake from the Korea Deposit Insurance Corporation (KDIC). In March 2014, the firm acquired Kerr Asset Management (specializing in alternative investments in the areas of NPLs and real estate) as its subsidiary and changed its name to JB Asset Management.

In July 2016, the JBFG consortium, in which Jeonbuk Bank has a 50% stake, JB Woori Capital has 10%, and Apro Service Group (a company with such subsidiaries as Apro Financial, known by its brand name "Rush-and-Cash" and OK Savings Bank) 40%, acquired a Cambodian local bank Phnom Penh Commercial Bank (PPCB). In March 2017, JB Woori Capital obtained approval for its local subsidiary JB Capital Myanmar.

From a medium- and long-term standpoint, and in light of the low-growth, low-profit domestic environment, we view JBFG's push into M&As and overseas as a logical move. In the banking business, the group is pursuing a retail-driven loan growth strategy focused on risk weight and profitability, which we believe is a step in the right direction from a risk/return perspective.

Figure 6. Equity ownership structure



Source: Company data, Mirae Asset Daewoo Research

2) Strategic asset growth

JB Bank and Kwangju Bank have pursued loan asset growth in Seoul, the Seoul Metropolitan Area (SMA), and Daejeon, as well as their respective primary markets (North Jeolla Province and Gwangju/South Jeolla Province). As a result, they achieved combined won-denominated loan growth of 43.6% from end-2014 through end-2Q17, recording the strongest growth among the banks in our coverage.

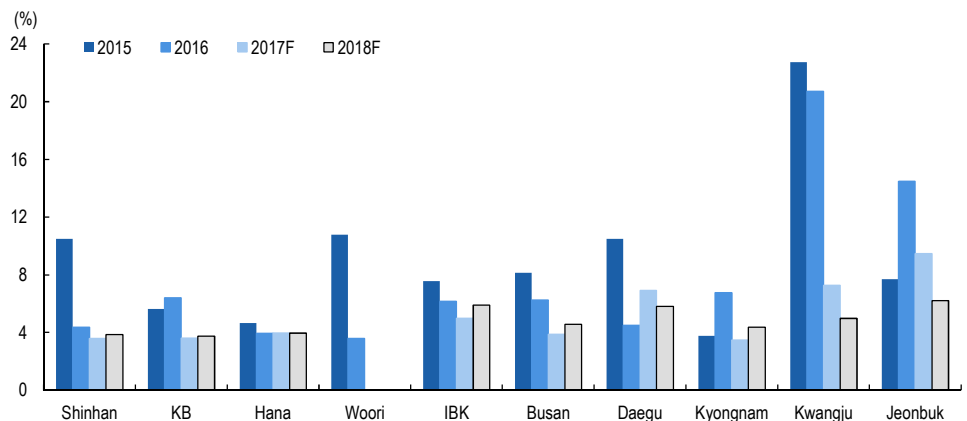
The Jeolla Province area has a relatively weaker industrial base and, thus, a smaller economy; as a result, a significant proportion of the population that hails from the area live and works in other regions of the country. Accordingly, JB Bank and Kwangju Bank have steadily expanded their presence in the Seoul Metropolitan Area (SMA) and Daejeon/Sejong area, based on retail-oriented strategies, mainly targeting small-sized stores (typically with staffs of 3-4, located on the second floor of buildings). They have also enjoyed benefits from the growth of the local economy on the back of the creation of industrial complexes, the designation of innovative cities for the relocation of public offices, and various development projects.

JB Bank’s won-denominated loans increased 16.7% YoY in end-2014 and 7.7% YoY in end-2015. In end-2016, won-denominated loan growth rebounded to 14.5% YoY, largely driven by household credits, including group loans for interim payment in apartment purchases. The bank’s won-denominated loans remained on an upward path, expanding 1.6% YoY in end-1Q17 and 3.6% YoY in end-2Q17. As of end-2014, SME loans accounted for 57.4% of the bank’s total won-denominated loans, with household loans making up 33.3%, large corporate loans 5.7%, and public sector and other loans 3.7%. Thanks to its asset portfolio restructuring efforts since then, the proportion of household loans rose to 43.2%, as of end-2Q17, while the proportion of SME loans fell to 50%, large corporation loans to 4.3%, and public sector and other loans to 2.5%.

Meanwhile, Kwangju Bank resumed asset growth in 2015, based on strategic efforts to enhance operating efficiency, after reducing its exposure to low-margin assets and closing branches in Seoul in 2014. The bank has reshuffled its asset portfolio by shifting its focus away from large corporate loans to household loans, such as group loans (for interim payment in apartment purchase).

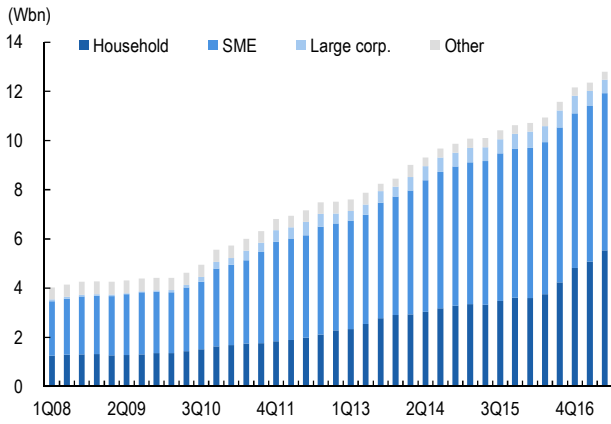
After falling 6.6% YoY in 2014, Kwangju Bank’s won-denominated loans grew 22.7% YoY in 2015 and 20.7% YoY in 2016, marking the fastest growth among banks under our coverage. Kwangju Bank’s won-denominated loan grew 3.5% QoQ for 1Q17 and 1.2% QoQ for 2Q17. At end-2014, won-denominated loans broke down to SME loans (58.8%); large corporation loans (6.7%); mortgage loans (22.8%); household credit loans (9.6%); and public sector and other loans (2.1%). Kwangju Bank’s portfolio restructuring efforts led to a sharp increase in mortgage loans (41.2%) and a drop in SME loans (46.4%), large corporation loans (3.7%), household credit loans (8.2%), and public and other loans (1%) at end-2Q17.

Figure 7. Won-denominated loan growth by bank



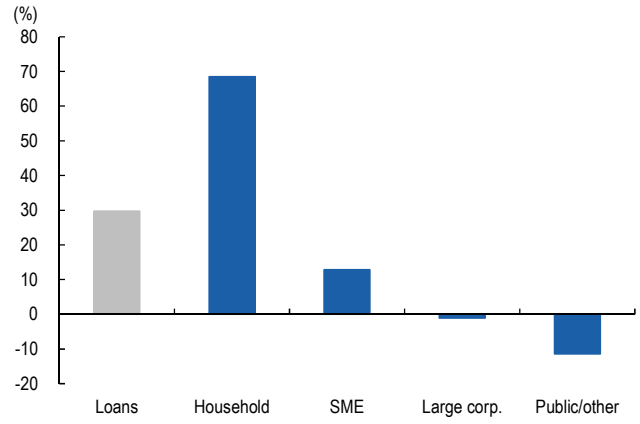
Source: Company data, Mirae Asset Daewoo Research

Figure 8. Jeonbuk Bank's won-denominated loan balance



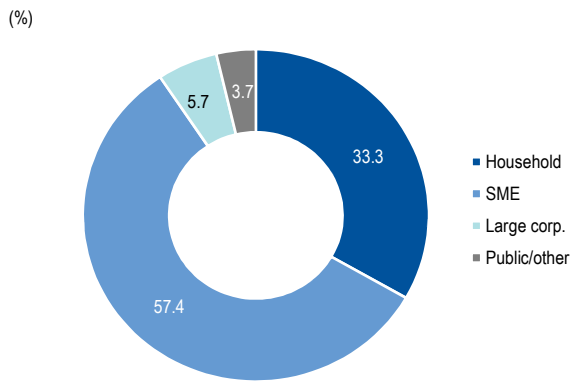
Source: Company data, Mirae Asset Daewoo Research

Figure 9. Jeonbuk Bank's won-denominated loan growth (end-2014 to end-2Q17)



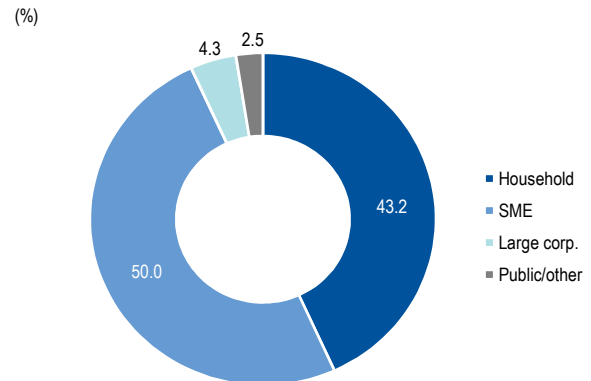
Source: Company data, Mirae Asset Daewoo Research

Figure 10. Jeonbuk Bank's won-denominated loan breakdown (end-2014)



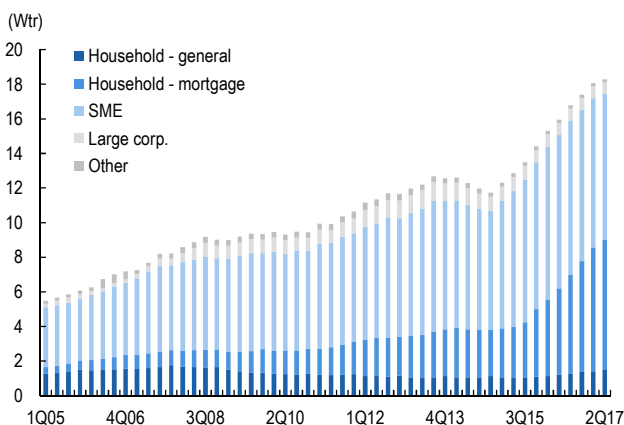
Source: Company data, Mirae Asset Daewoo Research

Figure 11. Jeonbuk Bank's won-denominated loan breakdown (end-2Q17)



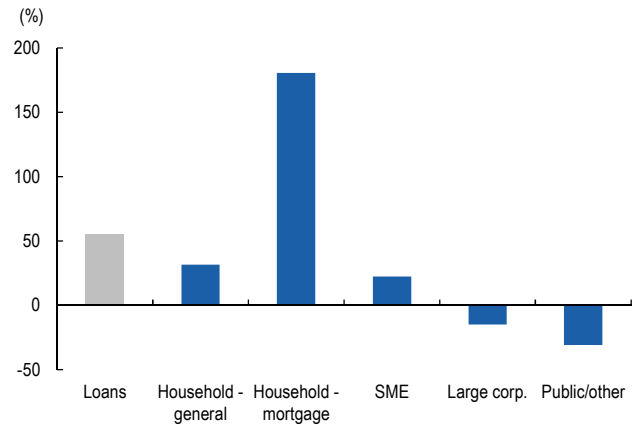
Source: Company data, Mirae Asset Daewoo Research

Figure 12. Kwangju Bank's won-denominated loan balance



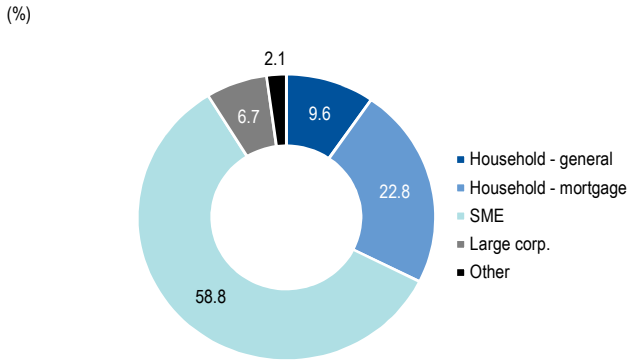
Source: Kwangju Bank, Mirae Asset Daewoo Research

Figure 13. Kwangju Bank's won-denominated loan growth (end-2014 to end-2Q17)



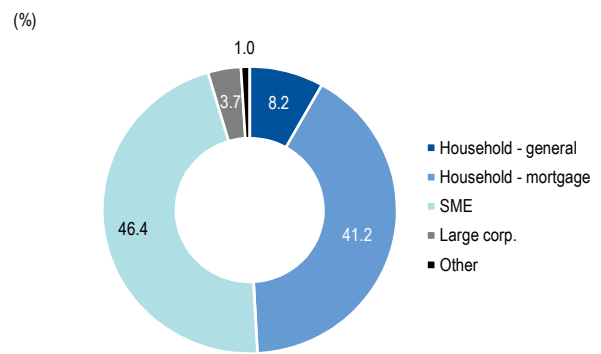
Source: Kwangju Bank, Mirae Asset Daewoo Research

Figure 14. Kwangju Bank's won-denominated loan breakdown (end-2014)



Source: Kwangju Bank, Mirae Asset Daewoo Research

Figure 15. Kwangju Bank's won-denominated loan breakdown (end-2Q17)



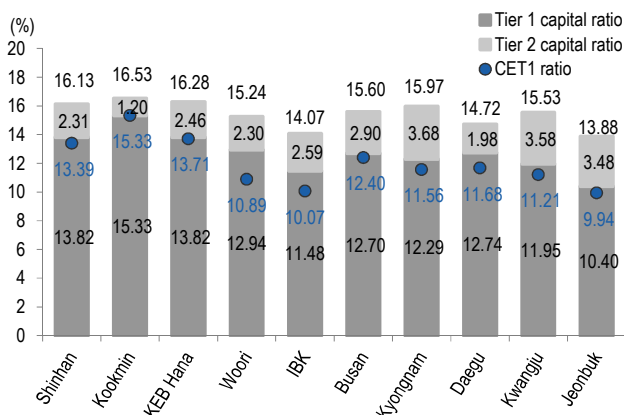
Source: Kwangju Bank, Mirae Asset Daewoo Research

Figure 16. Basel III CET1 ratio dependent on countercyclical capital buffer requirements for both DSIBs and non-D-SIBs

(%)	2013	2014	2015	2016	2017	2018	2019	Total
Common Equity Tier 1 ratio(A)	3.5	4.0	4.5	4.5	4.5	4.5	4.5	
Capital conservation buffer(B)				0.625	1.25	1.875	2.5	+2.5
D-SIB chosen, additional capital required(D)				0.25	0.5	0.75	1.0	+1.0
Total (A)+(B)+(D)				5.375	6.25	7.125	8.0	
① Countercyclical capital buffer (C) 0%				0	0	0	0	
② Countercyclical capital buffer (C) 1%				0.25	0.50	0.75	1.0	
③ Countercyclical capital buffer (C) 2%				0.5	1.0	1.5	2.0	
④ Countercyclical capital buffer (C) 2.5%				0.625	1.25	1.875	2.5	
Total (A)+(B)+(C)①+(D)				5.375	6.250	7.125	8.0	Current(C=0)
Total (A)+(B)+(C)②+(D)				5.625	6.750	7.875	9.0	D-SIB
Total (A)+(B)+(C)③+(D)				5.875	7.250	8.625	10.0	C=2.5%
Total (A)+(B)+(C)④+(D)				6.0	7.5	9.0	10.5	
Total (A)+(B)+(C)①				5.125	5.750	6.375	7.0	Current(C=0)
Total (A)+(B)+(C)②				5.375	6.250	7.125	8.0	Non
Total (A)+(B)+(C)③				5.625	6.750	7.875	9.0	D-SIB
Total (A)+(B)+(C)④				5.750	7.0	8.250	9.5	C=2.5%

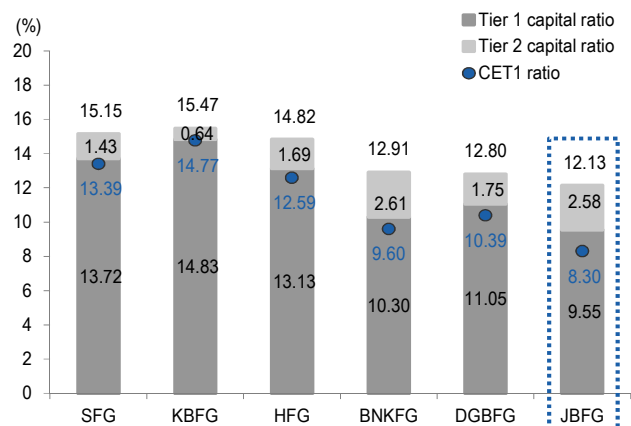
Source: BIS, FSC, FSS, BOK, Mirae Asset Daewoo Research

Figure 17. Major banks' BIS CAR (2Q17P)



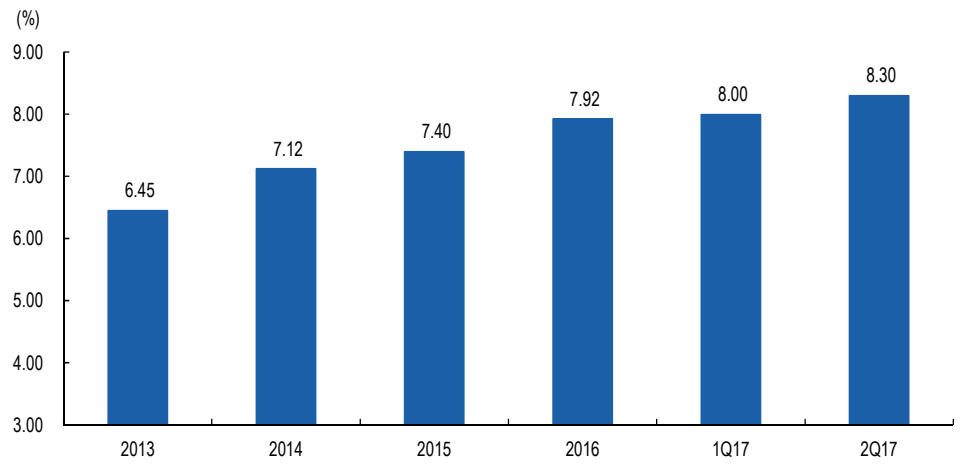
Source: Company data, Mirae Asset Daewoo Research

Figure 18. Major financial groups' BIS CAR (2Q17P)



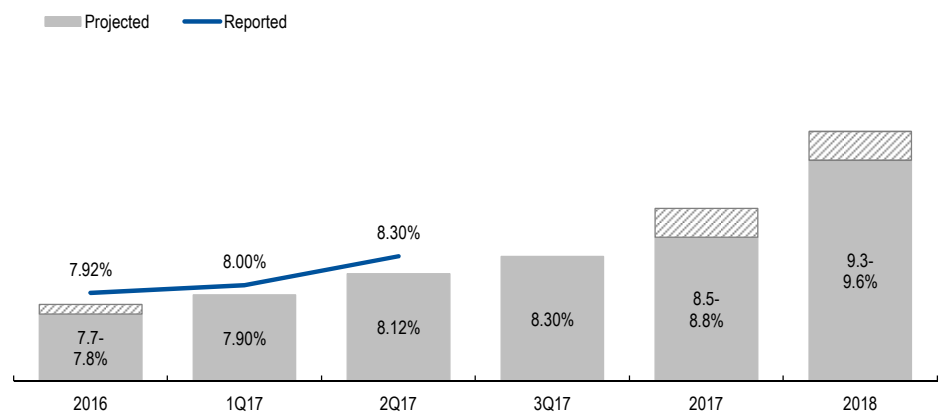
Source: Company data, Mirae Asset Daewoo Research

Figure 19. JBFG's CET1 ratio trend



Source: Company data, Mirae Asset Daewoo Research

Figure 20. JBFG's CET1 ratio versus target

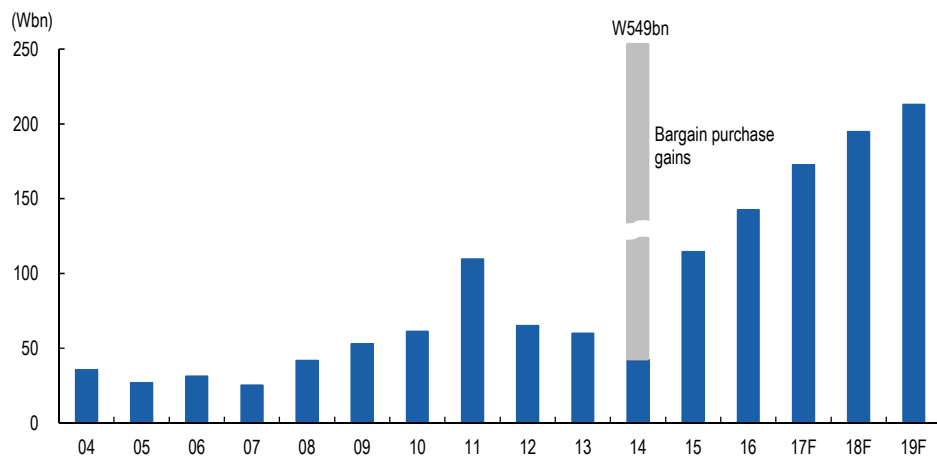


Source: Company data, Mirae Asset Daewoo Research

2. Solid net profit growth

JBFG's net profit attributable to controlling interests reached W142.7bn (+24.4% YoY) in 2016, and W111.3bn (+16.3% YoY) in 1H17; for 2017, we forecast growth in net profit of 21% YoY to W172.5bn, aided by: 1) interest income growth at subsidiaries; 2) lower SG&A expenses and credit costs; and 3) the onset of earnings contribution from PPCB. We project that net profit will expand further to W194.9bn (+12.9% YoY) in 2018 and W213bn (+9.3% YoY) in 2019.

Figure 21. JBFG's net profit trend and forecast



Source: Company data, Mirae Asset Daewoo Research

III. Earnings forecast

JBFG posted net profit of W142.7bn (+24.4% YoY) and ROE of 6.4% in 2016. We forecast growth in net profit to W172.5bn (+21% YoY; ROE of 7.2%) in 2017, W194.9bn (+12.9% YoY; ROE of 7.3%) in 2018, and W213bn (+9.3% YoY; ROE of 7.2%) in 2019.

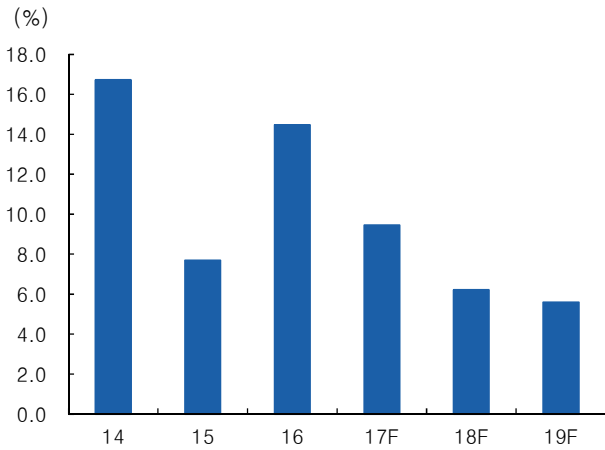
We expect net interest income to reach W1.15tr (+12.5% YoY) in 2017, W1.23tr (+7.3% YoY) in 2018, and W1.31tr (+6.3% YoY) in 2019, backed by solid loan growth and NIM.

In 4Q16, JBFG executed massive voluntary retirement programs, incurring voluntary retirement expenses of W37bn (including W33.9bn for Kwangju Bank, which reduced headcount by 102). In 2Q17, Jeonbuk Bank reduced headcount via a voluntary retirement program, recognizing W4.2bn in voluntary retirement expenses. JBFG's SG&A expenses reached W589.7bn in 2016, and its cost-to-income ratio stood at 57% (+0.4%p YoY) in 2016 and 49.2% (-2.1%p YoY) in 1H17. Going forward, SG&A expenses will likely increase modestly, despite a decline in labor costs arising from voluntary retirement programs, as depreciation expenses on Kwangju Bank's next-generation IT system investments (W38bn) will be recognized gradually over the next five years. We forecast SG&A expenses at W613.3bn (+4% YoY) in 2017, W631.6bn (+3% YoY) in 2018, and W660.8bn (+4.6% YoY) in 2019. The cost-to-income ratio is likely to decline steadily to 53.7% in 2017, 52.5% in 2018, and 51.9% 2019.

JBFG's credit cost ratio fell to 56bps in 2014 (versus the 2012-13 average of 89bps). In 2015, however, the credit cost ratio climbed to 74bps, due to Kwangju Bank's provisions for exposure to Keangnam Enterprises, Dongbu Metal, and Sambu Construction. In 2016, the credit cost ratio stood at 52bps, due to Jeonbuk Bank's provisions for DICC acquisition loans and livestock-backed loans. In 1H17, the credit cost ratio reached 43bps (annualized). Of note, excluding a provision write-back (W5bn), stemming from the recovery of written-off loans in 2Q17, the credit cost ratio stood at 45bps during the period.

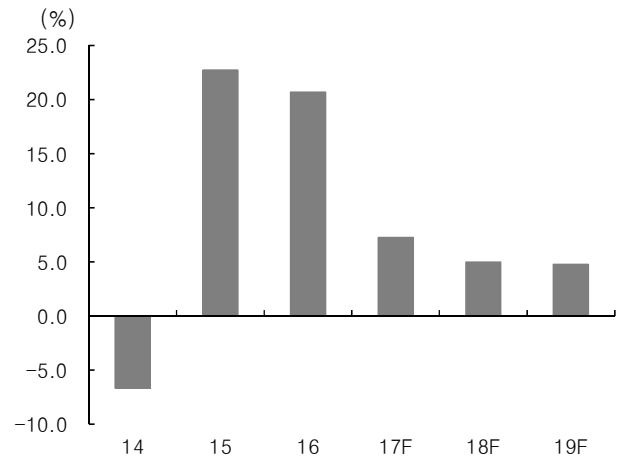
JBFG's credit costs will likely stabilize at lower levels, given: its 1) improving asset quality; and 2) loan portfolio restructuring (reducing corporate lending, but expanding household and secured loans) over the past three years. In particular, Jeonbuk Bank's asset quality has improved markedly, while its delinquency ratio before NPL sales and write-offs has been falling steadily.

Figure 22. Jeonbuk Bank's won-denominated loan growth



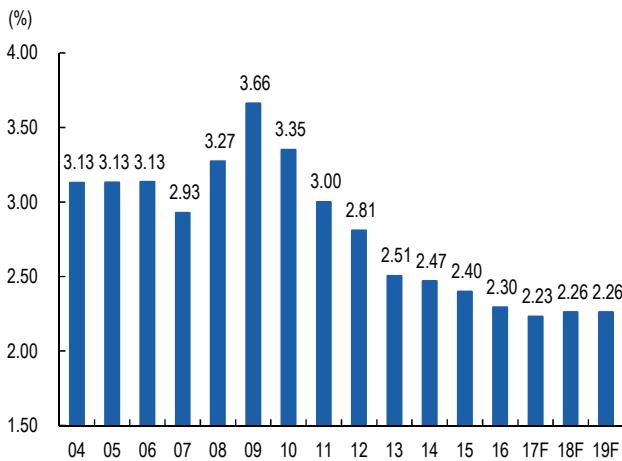
Source: Company data, Mirae Asset Daewoo Research

Figure 23. Kwangju Bank's won-denominated loan growth



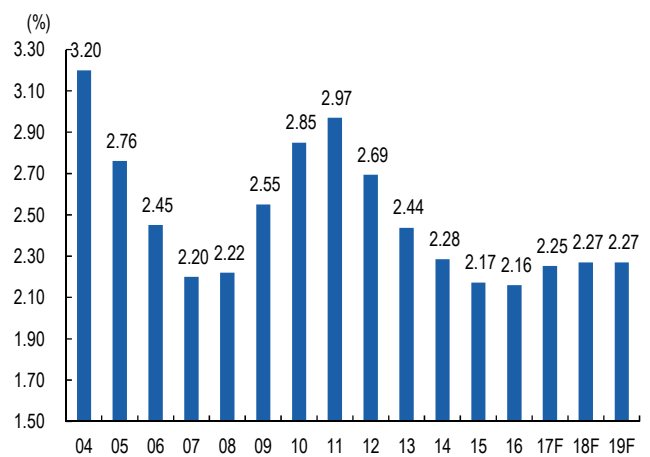
Source: Company data, Mirae Asset Daewoo Research

Figure 24. Jeonbuk Bank's NIM



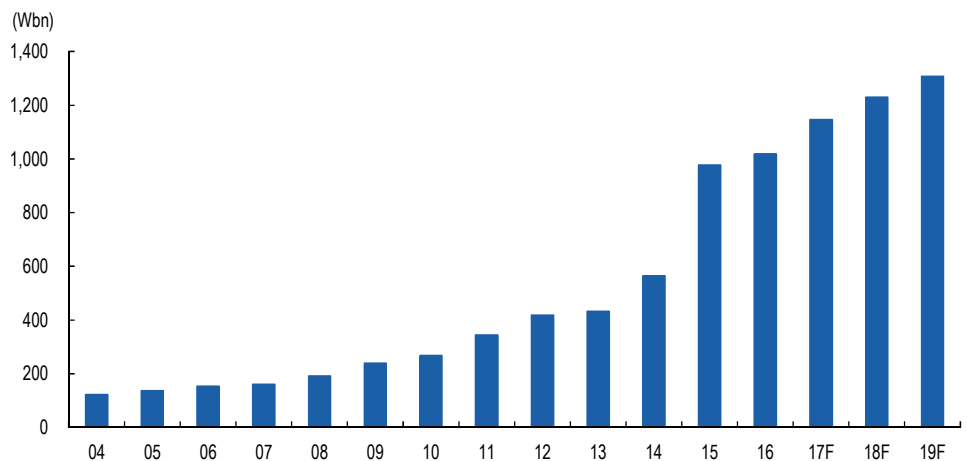
Source: Company data, Mirae Asset Daewoo Research

Figure 25. Kwangju Bank's NIM



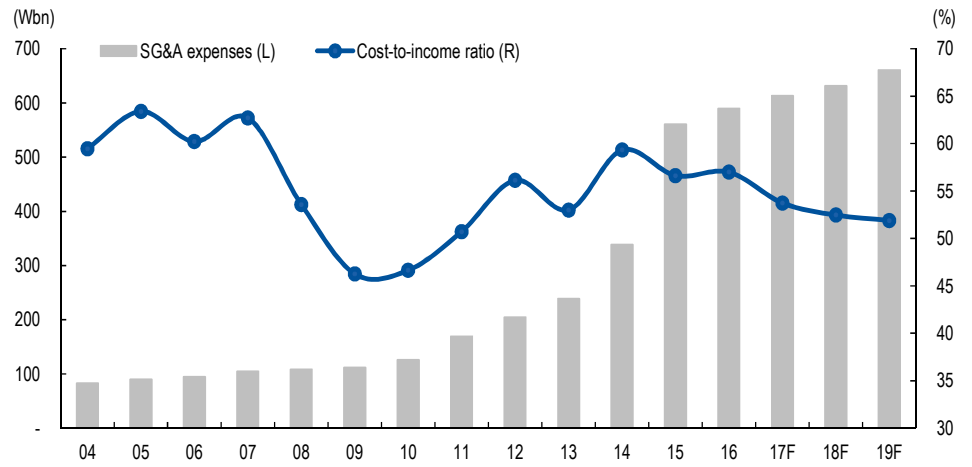
Source: Company data, Mirae Asset Daewoo Research

Figure 26. JBFG's net interest income



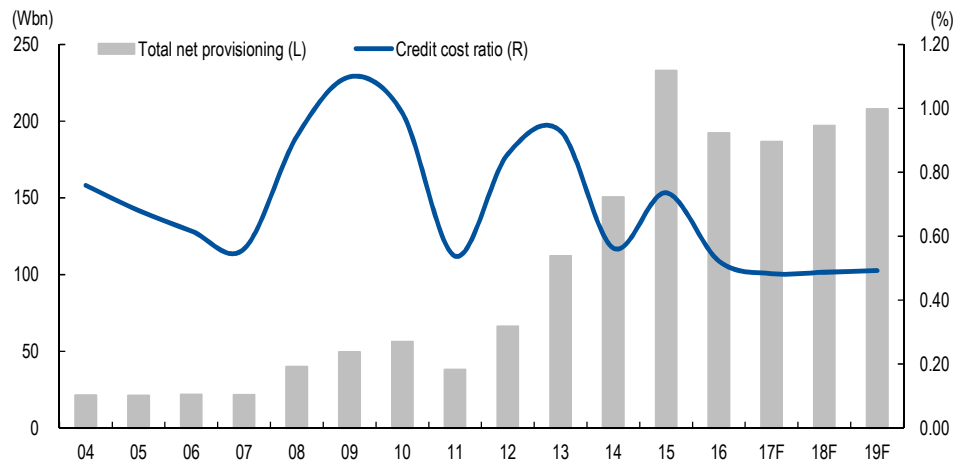
Source: Company data, Mirae Asset Daewoo Research

Figure 27. JBFG's SG&A and cost-to-income ratio



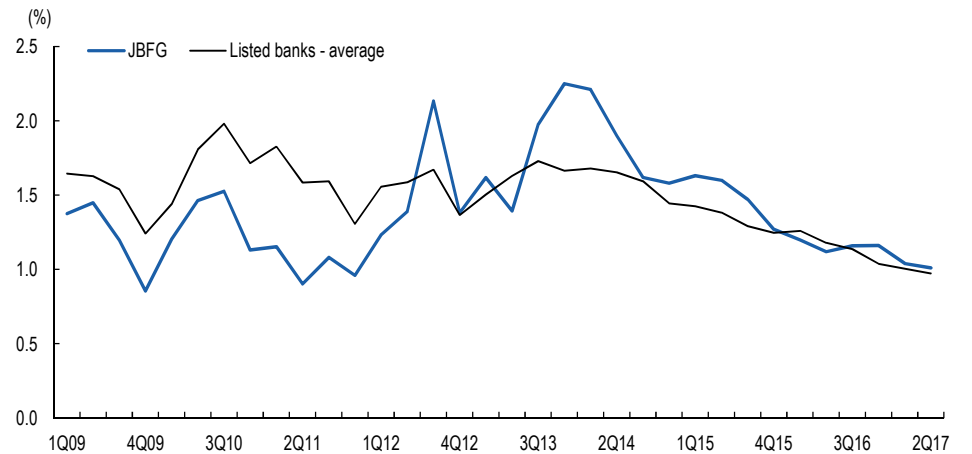
Source: Company data, Mirae Asset Daewoo Research

Figure 28. JBFG's credit cost and credit cost ratio



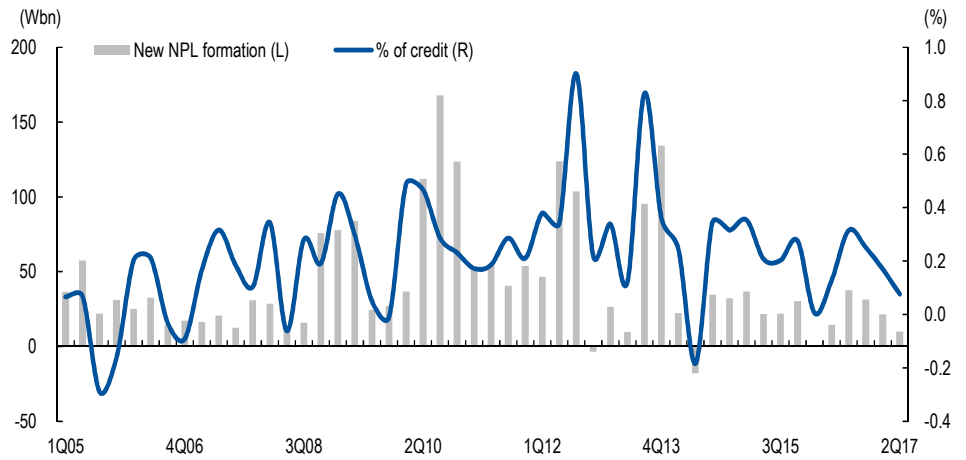
Source: Company data, Mirae Asset Daewoo Research

Figure 29. JBFG's NPL ratio



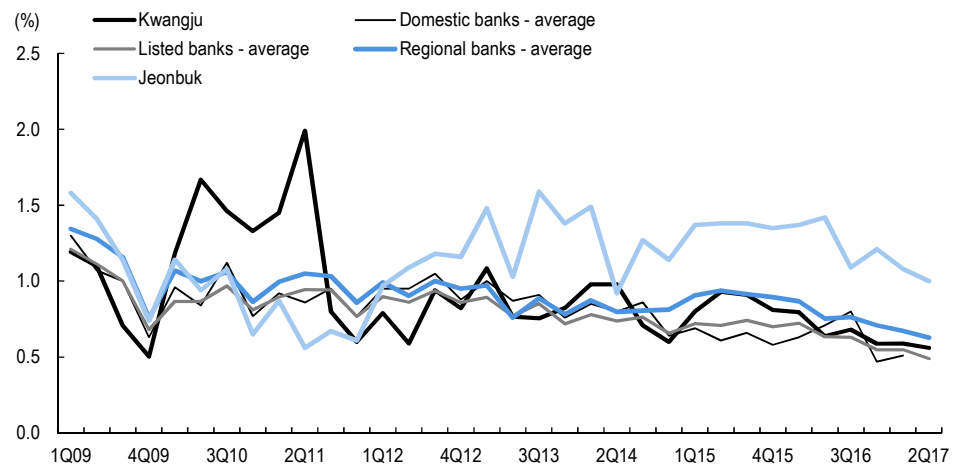
Source: Company data, Mirae Asset Daewoo Research

Figure 30. Jeonbuk Bank's new NPL formation



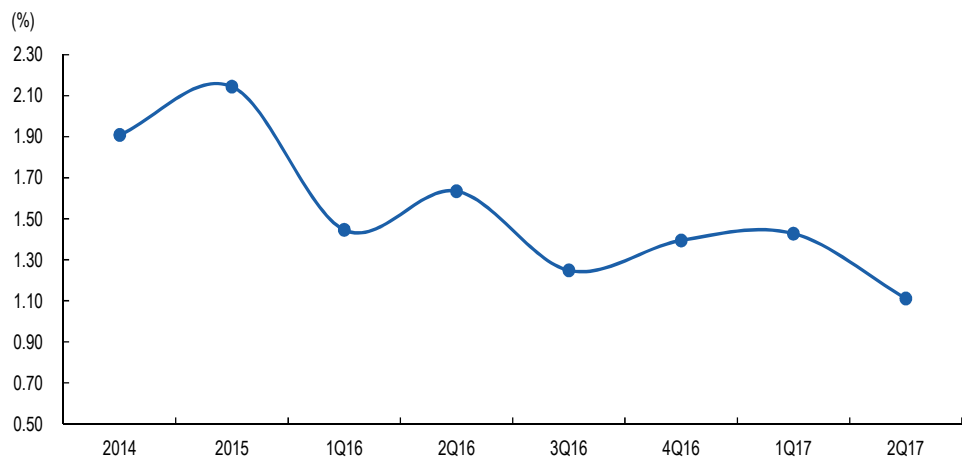
Source: Company data, Mirae Asset Daewoo Research

Figure 31. Delinquency ratios of Jeonbuk Bank and Kwangju Bank



Source: Company data, Mirae Asset Daewoo Research

Figure 32. Jeonbuk Bank's delinquency ratio (before NPL sales and write-offs)



Source: Company data, Mirae Asset Daewoo Research

Table 4. Annual earnings

(Wbn)	2011	2012	2013	2014	2015	2016	2017F	2018F	2019F
Net interest income	345	419	433	565	977	1,019	1,147	1,230	1,308
Net commission income	3	7	16	2	19	17	32	27	30
Net other income	-14	-61	1	3	-7	-1	-38	-53	-65
Total net operating income	334	365	451	571	990	1,035	1,141	1,204	1,273
SG&A expenses	169	205	239	338	560	590	613	632	661
PPOP	165	160	212	232	429	445	528	572	613
Provisions	38	66	112	151	233	192	187	197	208
Operating profit	126	94	100	82	196	253	341	375	405
Non-operating income	0	-3	-7	498	3	9	-6	-7	-7
Pretax profit	126	91	93	580	199	262	335	368	398
Net profit	110	65	60	549	115	143	173	195	213
Total assets	10,757	13,662	16,186	35,507	39,811	45,799	46,229	48,149	50,209
Total loans & receivables	7,256	10,007	12,015	26,885	31,097	36,309	38,924	40,890	42,831
Won-denominated loans (bank-level)	6,813	7,512	8,454	9,867	25,036	29,558	32,237	34,217	35,970
Total credit	7,087	7,738	12,079	26,753	31,670	36,848	38,664	40,453	42,238
Total liabilities	8,168	8,783	9,892	23,341	26,882	31,798	33,782	35,186	36,520
Total deposits	651	893	941	2,279	2,685	2,970	3,263	3,634	4,046
(%)									
NIM (Jeonbuk Bank)	3.00	2.81	2.51	2.47	2.40	2.30	2.23	2.26	2.26
NIS (Jeonbuk Bank)	3.83	3.46	2.89	2.87	2.77	2.64	2.52	2.56	2.56
Cost-to-income ratio	50.7	56.1	53.0	59.3	56.6	57.0	53.7	52.5	51.9
NPL ratio (Jeonbuk Bank)	0.96	1.38	2.29	1.61	1.27	1.16	1.00	0.99	0.97
NPL coverage ratio (Jeonbuk Bank)	173.1	129.6	99.5	121.5	131.4	144.3	156.4	159.7	162.2
RoAA	1.11	0.53	0.40	2.12	0.30	0.33	0.37	0.41	0.43
RoAE	18.96	8.78	7.43	41.34	5.71	6.44	7.20	7.35	7.20
Credit costs (to total credit)	0.54	0.86	0.93	0.56	0.74	0.52	0.48	0.49	0.49
Total CAR	12.87	12.60	12.98	15.04	12.51	12.05	12.60	13.07	13.50
Tier 1 ratio	8.10	7.89	7.32	10.93	8.59	9.20	10.14	10.73	11.46

Source: Company data, Mirae Asset Daewoo Research estimates

Table 5. Quarterly earnings

(Wbn)	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17F	4Q17F	1Q18F	2Q18F
Net interest income	249.2	250.1	240.7	249.6	260.8	268.0	279.3	283.4	289.7	294.4	297.5	305.5
Net fee income	6.0	-2.5	3.7	4.2	1.6	7.3	5.6	12.1	8.3	6.2	6.4	6.5
Net other income	-7.9	-1.4	-5.3	7.6	-1.9	-1.5	-13.1	-4.1	-7.6	-12.7	-11.9	-13.0
Total net operating income	247.2	246.2	239.0	261.4	260.5	273.8	271.8	291.4	290.3	287.8	291.9	298.9
SG&A expenses	157.3	150.0	128.0	128.8	143.0	189.9	137.2	139.8	154.5	181.8	143.3	142.2
PPOP	89.9	96.1	111.0	132.7	117.6	83.9	134.7	151.7	135.8	106.0	148.6	156.8
Provisions	38.3	49.3	36.4	40.1	42.0	74.0	42.9	37.7	44.4	61.7	46.7	40.5
Operating profit	51.6	46.9	74.6	92.5	75.6	9.9	91.7	114.0	91.4	44.3	101.9	116.2
Non-operating income	1.5	0.6	1.1	2.2	2.3	3.7	0.3	1.3	0.3	-7.9	0.2	0.7
Pretax profit	53.1	47.5	75.7	94.8	77.9	13.7	92.0	115.3	91.7	36.3	102.2	117.0
Net profit	31.4	22.7	38.6	57.0	40.3	6.7	47.2	64.1	47.7	13.6	53.4	64.4

Source: Company data, Mirae Asset Daewoo Research estimates

For Jeonbuk Bank, net profit attributable to controlling interests increased to W51.4bn (+44.2% YoY) in 2015 and W55.5bn (+8.1% YoY) in 2016. We forecast further expansion in net profit to W72.1bn (+29.9% YoY) in 2017, W96.6bn (+34% YoY) in 2018, and W105.8bn (+9.5% YoY) in 2019.

We expect the bank's won-denominated loans to increase 9.5% YoY in 2017, 6.2% in 2018, and 5.6% in 2019. Since 2016, the bank has pursued a growth strategy of focusing on household loans with lower risk weights (such as group loans for interim payment in apartment purchases). We expect this strategy to persist at least through 1H18. In 2H18 and beyond, the bank will likely strengthen marketing campaigns to convert group loans for interim payment in apartment purchases into loans for final payment in apartment purchases and stock-secured loans, and focus on jeonse loans, medium-interest rate loans, and auto loans.

NIM is likely to decline less sharply YoY, to 2.23% (-6bps YoY), and is expected to pick up 3bps YoY, to 2.26%, in 2018, backed by efforts to: 1) increase low-cost, core deposits; 2) expand medium-interest rate loans; and 3) make lending pricing more sophisticated.

Net interest income will likely expand to W412.3bn (+12.9% YoY) in 2017, W457.8bn (+11.0% YoY) in 2018, and W486.6bn (+6.3% YoY) in 2019.

SG&A expenses are likely to be contained properly, at W216.5bn (+15.6% YoY) in 2017, W221.1bn (+2.2% YoY) in 2018, and W232.2bn (+5.0% YoY) in 2019, given early retirement programs and a plan to boost cost efficiency. The cost-to-income ratio, which stood at 57% in 2015 and 57.2% in 2016, is expected to fall to 56.9% (-0.3%p YoY) in 2017, 52.4% (-4.5%p YoY) in 2018, and 51.8% (-0.6%p YoY) in 2019.

Credit costs will also likely be stable. Volatility in quarterly credit costs increased on massive provisions for DICC acquisition loans and livestock-backed loans. However, we expect credit costs to start to decline in 2017 and beyond, thanks to: 1) the completion of NPL write-offs; and 2) asset portfolio restructuring (focusing on household loans and secured loans) over the past three years. The credit cost ratio is likely to fall to 46bps in 2017 and 44bps in 2018-19 (versus 64bps in 2015 and 67bps in 2016).

Kwangju Bank reported net profit of W103.4bn (+78.7% YoY) in 2016. We believe the bank's net profit will continue to grow on the back of: 1) robust growth of net interest income, aided by solid loan growth and healthy NIM; 2) effective control of SG&A expenses via various efforts, including cost structure streamlining; and 3) stable credit costs. We estimate Kwangju Bank's net profit at W139.8bn (+35.2% YoY) for 2017, W143.4bn (+2.6% YoY) for 2018, and W153.8bn (+7.2% YoY) for 2019. We estimate ROE at 9.1% for 2017, 8.6% for 2018 and 8.5% for 2019.

JB Woori Capital's financial assets stood at W6.1tr as of end-2Q17, with auto-related assets accounting for 77.8%, and non-auto-related assets, including corporate loans, unsecured retail loans, durable goods finance, and loans to private loan companies, making up 22.2%. The company is reshuffling its asset portfolio to improve profitability, reducing the weight of new car loans, but increasing the proportion of used car loans, auto lease, and car rental. JB Woori Capital recorded net profit of W61.2bn (+100.4% YoY) in 2015 and W701.bn (+14.5% YoY) in 2016. We project the company's net profit at W64bn for 2017, W67.9bn for 2018, and W71.5bn for 2019.

Table 6. Local banks' 2016 financial highlights (1)

(Wbn, %)	Busan	Daegu	Kyongnam	Kwangju	Jeonbuk
Total assets	51,649	45,945	35,560	22,619	16,293
Total loans & receivables	40,571	35,241	29,616	19,256	13,010
Total credit	38,984	34,065	28,544	17,990	12,510
Won-denominated loans	36,622	32,411	27,420	17,392	12,166
Household	10,205	8,820	8,925	7,787	4,821
Corporate & others	26,417	23,590	18,495	9,605	7,345
Total shareholders' equity	4,213	3,620	2,848	1,479	1,232
Capital	977	681	432	257	449
Total equity excluding non-controlling interest	4,213	3,620	2,848	1,479	1,182
NPL	0.90	1.19	0.90	0.66	1.32
NPL coverage ratio	170.5	127.8	169.5	226.9	130.5
Delinquency ratio	0.48	0.68	0.59	0.59	1.21
Total CAR	15.2	14.3	15.4	14.6	13.6
Tier1 ratio	11.6	12.1	11.8	11.0	9.8
CET1 ratio	11.4	11.1	10.9	10.3	9.3
Net interest income	1,152	1,015	785	471	365
Net non-interest income	39	54	-9	-14	-38
SG&A expenses	579	551	399	288	187
PPOP	612	518	376	169	140
Provisions	186	178	108	36	84
Operating profit	427	340	268	133	56
Pretax profit	421	339	269	141	64
Net profit	327	265	208	103	57

Source: FSS, Company data, Mirae Asset Daewoo Research

Table 7. Local banks' 2016 financial highlights (2)

(%, Numbers)	Busan	Daegu	Kyongnam	Kwangju	Jeonbuk
NIM	2.27	2.15	2.15	2.16	2.29
NIS	2.61	2.47	2.42	2.44	2.60
ROA	0.64	0.59	0.59	0.49	0.37
ROE	8.16	8.13	7.85	7.22	5.12
PPOP margin	1.20	1.15	1.07	0.80	0.92
Core PPOP margin	1.27	1.19	1.23	0.90	1.09
Cost/income ratio	48.6	51.5	51.5	63.1	57.2
Cost/asset ratio	1.12	1.20	1.12	1.27	1.15
Total employees	3,220	3,028	2,462	1,495	1,039
Executives	16	22	22	17	14
Staff	3,098	2,846	2,339	1,379	983
Total branches	270	261	167	140	102
Domestic	265	259	167	140	101
Overseas	5	2	0	0	1
Per employee productivity					
Total assets/employee	18	18	17	15	15
Total deposits/employee	13	12	12	11	12
Total loans/employee	12	11	11	10	11
Per branch productivity					
Total assets/branch	244	244	235	187	152
Total deposits/branch	178	172	173	139	125
Total loans/branch	155	147	159	125	116
Market share of deposits and credits					
Total credits	2.3	2.0	1.7	1.0	0.7
Total loans	2.3	2.0	1.7	1.1	0.7
Deposits	2.7	2.5	2.0	1.3	0.9

Source: FSS, Company data, Mirae Asset Daewoo Research

Table 8. Local banks' 1H17 financial highlights

(Wbn, %, Numbers)	Busan	Daegu	Kyongnam	Kwangju	Jeonbuk
Total assets	53,237	48,664	36,696	23,079	17,516
Total loans & receivables	42,326	37,758	29,971	19,998	14,130
Total credit	40,363	35,215	29,317	18,828	13,140
Won-denominated loans	37,895	33,710	28,288	18,218	12,800
Household	10,646	9,009	9,694	8,988	5,531
Corporate & others	27,249	24,701	18,595	9,230	7,269
Total shareholders' equity	4,404	3,798	2,947	1,547	1,278
Capital	977	681	432	257	449
Total equity excluding non-controlling interest	4,404	3,798	2,947	1,547	1,229
NPL ratio	1.24	1.05	0.90	0.57	1.04
NPL coverage ratio	149.6	142.8	177.1	239.3	152.7
Delinquency ratio	0.51	0.52	0.55	0.56	1.00
BIS CAR	15.6	14.7	16.0	15.5	13.9
Tier1 capital ratio	12.7	12.7	12.3	11.9	10.4
CET1 ratio	12.4	11.7	11.6	11.2	9.9
1H17					
Net interest income	604	536	417	267	197
Net non-interest income	32	21	6	-15	-16
SG&A expenses	255	249	189	122	98
PPOP	381	307	234	130	83
Provisions	134	82	47	19	28
Operating profit	247	226	188	111	55
Pretax profit	244	229	187	112	55
Net profit (controlling-interest)	189	176	146	85	41
2Q17					
NIM	2.36	2.20	2.20	2.26	2.26
NIS	2.67	2.56	2.47	2.51	2.56
ROA	0.66	0.69	0.86	0.73	0.71
ROE	8.01	8.85	10.75	10.94	10.00
PPOP margin	1.48	1.20	1.25	1.19	1.15
Core PPOP margin	1.52	1.35	1.39	1.34	1.33
Cost/income ratio	40.3	46.5	45.5	47.3	50.2
Cost/assets ratio	0.99	1.03	1.03	1.06	1.13

Source: FSS, Company data, Mirae Asset Daewoo Research

IV. Risks

Strengthening household loan regulations could depress asset growth and quality

The tightening of regulations over household loans is raising concerns about a possible decline in Jeonbuk Bank's and Kwangju Bank's loan growth and risks of asset quality deterioration. However, Kwangju Bank has firm control over the pace of its loan growth and has already begun to slow its loan growth. We assume that Kwangju Bank's won-denominated loans will increase 7.3% YoY for 2017, 5% YoY for 2018, and 4.8% YoY for 2019 (versus 22.7% YoY for 2015 and 20.7% YoY for 2016). We expect Kwangju Bank to drive loan growth with already-approved group loans through 1H18 and thereafter expand household loans by strengthening marketing activities to attract borrowers who want to switch interim payment loans to mortgage loans and by expanding *jeonse* deposit loans. We expect Kwangju Bank to focus on secured loans in the corporate loan segment.

JB Bank's won-denominated loans are anticipated to expand by 9.5% YoY in 2017, 6.2% YoY in 2018, and 5.6% YoY in 2019. Since 2016, the bank's won-denominated loans have largely been driven by household loans with lower risk weights (such as group loans for interim payment in apartment purchases). In our view, such a trend will likely continue through 1H18, as, despite the sharp contraction of new loan approvals, a significant amount of already-approved group loans have not yet registered. From 2H18 onwards, the bank is expected to expand household loans by strengthening marketing activities to attract borrowers who want to switch interim payment loans to mortgage loans and by expanding *jeonse* deposit loans, and to gradually shift its focus to medium-rate and auto loans.

We believe that concerns over asset quality are overblown, given that: 1) asset quality indicators have continued to improve; 2) the rapid loan growth has been driven by low-risk household loans (group loans for interim payments and mortgage loans); and 3) Kwangju Bank and Jeonbuk Bank have reduced their exposure to large corporations. In addition, the bank has largely cleaned up its non-performing legacy assets, which it had accumulated in the pursuit of high growth, and which were unearthed in the process of searching for new growth engines. Barring a sharp rise in interest rates over a short period of time, JBFG is unlikely to incur losses on mortgage loans.

As the largest shareholder, JBFG, needs to push up CET1 ratio, Jeonbuk Bank and Kwangju Bank have engineered loan asset growth strategies based on the return on risk-weighted assets (RoRWA) ratio. As a result, the group's CET1 ratio has already surpassed its initial target. Going forward, the bank is expected to adjust its loan growth strategies in line with the market environment and regulatory changes.

According to media reports, financial authorities are considering giving higher weight to household loans in calculating loan-deposit ratios (currently, banks are required to keep their ratios at 100% or below) to prevent excessive concentration on household loans, including mortgages. On August 31st, in an effort to secure more productive financing, the Financial Services Commission (FSC) decided to form a taskforce to revise regulations, with the aim of completing the revision by the end of this year. The FSC is reportedly weighing on whether to increase the weight of household loans or the weight of higher-risk loans, including high-risk mortgages and real estate project financing. In either case, the regulatory change should negatively affect investment sentiment on the bank sector.

If the FSC makes any changes to loan-deposit ratio regulations, JBFG should be able to adjust its strategies in an appropriate direction. Jeonbuk Bank's and Kwangju Bank's loan-deposit ratios based on average balance were 98.1% and 97.8%, respectively, as of 2Q17.

V. Appendix

1. Company overview

JBFG was established on July 1st, 2013, primarily based on Jeonbuk Bank. Subsidiaries include Jeonbuk Bank, Kwangju Bank, JB Woori Capital, and JB Asset Management. Jeonbuk Bank, since its establishment in 1969, has provided comprehensive financial services, including deposit and lending, to individual and corporate customers in North Jeolla Province. According to FSS's statistics, Jeonbuk Bank accounts for 0.7% of both the domestic deposit and lending markets at end-2016, respectively, and 25.8% and 33.9% of the regional deposit and lending markets based on North Jeolla Province.

Established in 1968, Kwangju Bank operates primarily in Gwangju and South Jeolla Province. During Woori Financial Group's privatization, Kwangju Bank became a subsidiary of JBFG, which acquired a 56.97% stake in the bank from the KDIC in October 2014.

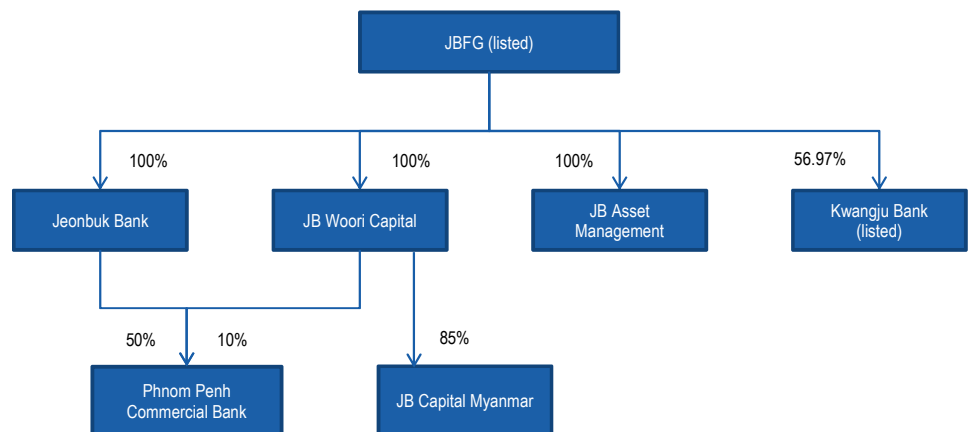
Established in 1995, JB Woori Capital is an auto-finance company. In September 2011, Jeonbuk Bank incorporated the company as a subsidiary after acquiring a 69.7% stake in Woori Capital. After the establishment of JBFG, JB Woori Capital became a subsidiary of JBFG. The group had steadily raised ownership via rights issues via third-party allocation, and finally incorporated the company as a wholly-owned subsidiary via share swaps in July 2014.

In March 2014, JBFG acquired KERR Asset Management, specializing in the management of NPL and real assets (real estate, etc.) as a subsidiary, and changed name to JB Asset Management.

In July 2016, a consortium comprising Jeonbuk Bank (50%), JB Woori Capital (10%), and Apro Service Group (40%), which has subsidiaries like Apro Financial (brand name: Rush & Cash) and OK Savings Bank under its umbrella, acquired a Cambodia-based Phnom Penh Commercial Bank (PPCB).

In March 2017, JB Woori Capital received approval for its Myanmar subsidiary JB Capital Myanmar.

Figure 33. JBFG's organization and ownership structure



Source: Company data, Mirae Asset Daewoo Research

Table 9. History of Jeonbuk Bank and JBFG

1969	Jeonbuk Bank established
1999	Completed KRW50bn rights offering (paid-in capital KRW165.3bn) and relocated head office
2000	Initiated internet banking service
2001	Hong Seong-ju became 9th president
2003	Rated Baa3 by Moody's
2004	Obtained domestic credit rating of AA
2005	Reached KRW5tn in assets, KRW3tn in loans, and KRW4tn in deposits
2007	Rating raised to A3 by Moody's
2010	Kim Han became 10th president; opened offices in Gangnam and Yeoido in Seoul
2011	Purchased 69.37% stake and acquired Woori Capital as subsidiary Opened offices in Seocho, Seoul and Yuseong, Daejeon
2013	JBFG established and listed; selected as preferred bidder for Kwangju Bank
2014	JBFG completed KRW141.6bn rights offering; Acquired JB Asset Management as subsidiary Acquired JB Woori Capital as a wholly-owned subsidiary, through share swap Acquired Kwangju Bank as subsidiary (through rights offering)
2014.11	Im Yong-taek became 11th president
2015.11	Conducted rights issue (W182.3bn)
2016.08	Acquired PPCB as third-tier subsidiary (Jeonbuk Bank: 50%, JB Woori Capital: 10%)

Source: Company data, Mirae Asset Daewoo Research

Table 10. History of JB Woori Capital

1995	Established 'Daegu Housing Installment Financing'
1996	Changed company name to 'Woori Housing Installment Financing'
2002	Changed company name to 'Woori Capital'
2005	Daewoo Motor Sales acquired 63.88% stake in Woori Capital from Q Capital Holdings.
2006	Daewoo Motor Sales increased its stake in Woori Capital to 80.88%.
2011	Jeonbuk bank acquired 69.67% stake in Woori Capital from Daewoo Motor Sales.
2013	After acquiring 69.67% stake in Woori Capital from Jeonbuk Bank, JBFG increased its stake to 76.41% through third-party allocated rights issue.
2014.01	Additional purchase of 5.44% stake from Woori Finance Holdings drove up JBFG's total stake in JB Woori Capital to 81.86%.
2014.04	Tender offer for 1.6m shares raised JBFG's stake to 85%.
2014.07	JBFG issued new shares to swap with remaining JB Woori Capital shares, making the company a 100%-owned subsidiary. Issued W20bn-worth of redeemable convertible preference shares (RCPS)
2016.01	Approved for establishment of JB Woori Capital Hanoi Representative Office in Vietnam.
2016.07	Conversion of RCPS (first round) raised JBFG's stake in JB Woori Capital to 91.56%.
2016.07	Purchased a 10% stake in Phnom Penh Commercial Bank in Cambodia
2016.07	Conversion of RCPS (second round) increased JBFG's stake in JB Woori Capital to 96.45%.

Source: Company data, Mirae Asset Daewoo Research

2. Major shareholders and ownership structure

As of June 30th, JBFG's major shareholders include Samyang Biopharmaceuticals and affiliates (9.01%); Jubilee Asia (8.4%); and Singwand Holding (6.7%). As of August 31st, foreign investors held a 40.9% stake in the company, up from 9.5% at end-2014, 29.4% at end-2015, and 37.8% at end-2016.

The largest shareholder, Samyang Biopharmaceuticals, was created from the split off of Samyang Holdings' medical business in 2011 and is currently 100% held by Samyang Holdings. Established in 1924, Samyang Holdings focuses on the production of sugar, animal feed and engineering plastics, and holds subsidiaries, such as Samyang Corp and Samyang Genex.

JB Financial Group's CEO Kim Han also sits as the head of Jeonbuk Bank. After entering Samil PricewaterhouseCoopers in 1979, Kim Han received an MBA from Yale University, moved on to serve as an executive director of Daishin Securities, a member of the corporate restructuring committee of the Financial Supervisory Commission, and the vice-chairman of Meritz Securities before becoming the president of Jeonbuk Bank in 2010 and the CEO of JBFG, upon its establishment in 2013. Meanwhile, on August 28th, JBFG's board of directors agreed to separate the roles of chairman of the JBFG and president of Kwangju Bank.

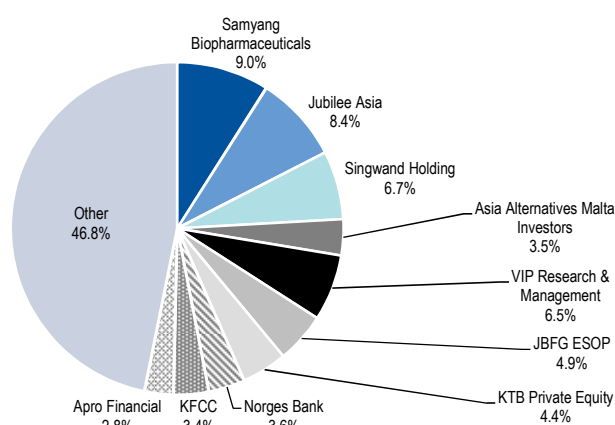
Recently, JBFG announced plans to implement a large-scale reorganization aimed at reinforcing the holding company's role in generating additional revenue streams. The firm will focus on boosting both profit and shareholder value by reinforcing the competitiveness of individual business units and expanding into new businesses. After the restructuring, the group will push forward digitalization and overseas expansion to prepare for a paradigm shift in the financial industry.

On August 28th, Jeonbuk Bank's executive candidate recommendation committee announced its decision to reappoint Im Yong-Taek as the president of Jeonbuk Bank. After serving as the CEO of Taurus Venture Capital, Taurus Investment Partners, Meritz Investment Partners and Pegasus Private Equity, he was appointed as the CEO of JB Woori Capital in 2011, and the CEO of Jeonbuk Bank in November 2014. Through an extraordinary shareholders' meeting and BOD resolution on September 27th, he is set to be officially appointed Jeonbuk Bank's 12th president. His term is due to end in March 2019.

Kwangju Bank's executive candidate recommendation committee nominated chief deputy president Song Jong-uk to serve as the president of Kwangju Bank. Song Jong-uk was born in 1962 in South Jeolla Province and graduated from Chonnam National University. Since joining Kwangju Bank in 1991, he has held key management positions, including the head of the public relations team, manager of major branches, deputy president of the Sales Division in Seoul, and deputy president of the Risk Management Division. Currently, he serves as the deputy president of the Sales Strategy Division and Future Finance Division. Through an extraordinary shareholders' meeting and BOD resolution on September 27th, Song Jong-uk is scheduled to be appointed Kwangju Bank's 13th president.

JB Financial Group's board of directors consists of one permanent director (CEO Kim Han), three non-permanent directors (SAMYANG Holdings vice-president Yoon Jae-yeop and Jeonbuk Bank president Im Yong-taek, Anchor Equity Partners Managing Director Ann Sang-Gyun), and five independent directors.

Figure 34. Major shareholders



Source: Company data, Bloomberg, Mirae Asset Daewoo Research

3. Current status of subsidiaries

Table 11. Jeonbuk Bank, Kwangju Bank

	Jeonbuk	Kwangju
No. of branches	98	139
Jeonbuk	69	0
Kwangju	0	71
Jeonnam	0	38
Seoul	13	19
Incheon	4	4
Daejeon/Chungcheon	10	0
Others (Gyeonggi)	2	7
No. of staffs	1,151	1,504
Executives	16	16
(Outside execs)	5	4
Staff	1,135	1,488
(Full-time)	1,039	1,399
(Contract)	92	89
Credit rating (domestic)	AA+	AA+
Credit rating (overseas)	Baa1	A3

Source: Company data, Mirae Asset Daewoo Research estimates

Note: Based on end of July, 2017 data; the number of establishments include independent business, branch office and small businesses; executives include outside executives, associate executive and chief director; overseas credit ratings are based on Moody's.

Table 12. JB Woori Capital: No. of staff, credit rating

No. of branches	19
No. of staff	792
Executives	11
(Outside execs)	3
No. of staff	781
(Full-time)	353
(Contract)	170
(Expat)	258
Credit rating (domestic)	AA-

Source: Company data, Mirae Asset Daewoo Research estimates

Note: Based on end of July, 2017 data

Table 13. PPCB: No. of branches and staff

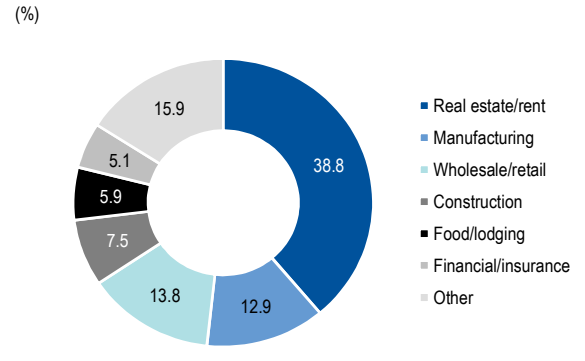
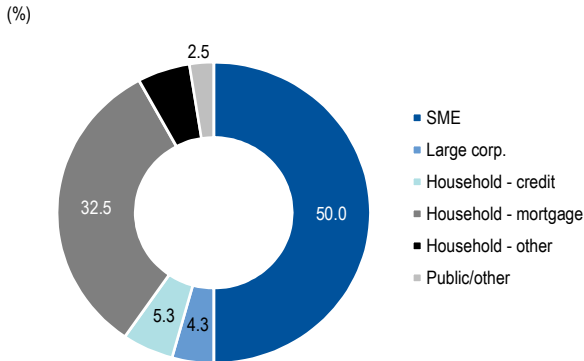
No. of branches	14
Phnom Penh	10
Other regions	4
No. of staff	289
Head office	103
Retail branches	186

Source: Company data, Mirae Asset Daewoo Research estimates

Note: Based on end-July, 2017 data

4. Jeonbuk Bank's won-denominated loans

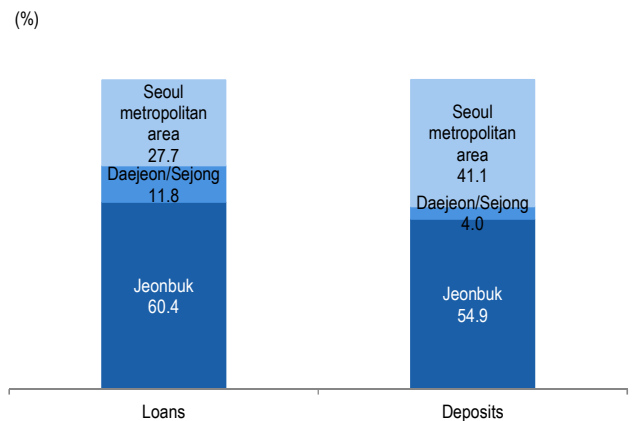
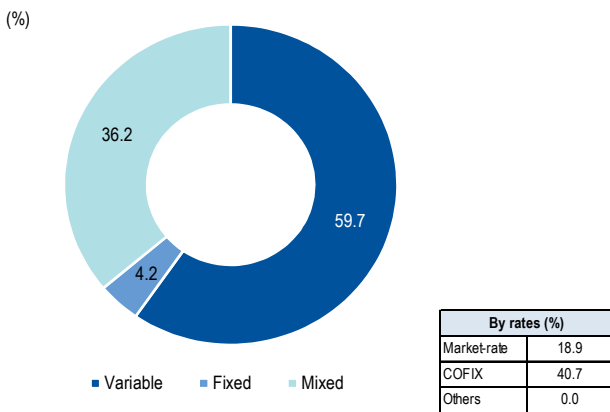
Figure 35. Jeonbuk Bank: Won-denominated loan portfolio **Figure 36. Jeonbuk Bank: Corporate loan breakdown by sector**



Source: Company data, Mirae Asset Daewoo Research

Source: Company data, Mirae Asset Daewoo Research

Figure 37. Jeonbuk Bank: Won-denominated loan breakdown by interest type **Figure 38. Jeonbuk Bank: Breakdown of credit/deposits by region**



Source: Company data, Mirae Asset Daewoo Research

Source: Company data, Mirae Asset Daewoo Research

JB Financial Group (175330 KS/Buy/TP: W7,800)

Comprehensive income statement (summarized)

Year-end 12 (Wbn)	12/16	12/17F	12/18F	12/19F
Interest income	1,626	1,744	1,828	1,912
Interest expense	607	597	598	604
Net interest income	1,019	1,147	1,230	1,308
Net fees and commissions	17	32	27	30
Net other non-interest income	-1	-38	-53	-65
Total net operating income	1,035	1,141	1,204	1,273
G&A expenses	590	613	632	661
PPOP	445	528	572	613
Total provision expenses	192	187	197	208
Operating profit	253	341	375	405
Net non-operating income	9	-6	-7	-7
Income before income taxes	262	335	368	398
Income tax expense	60	80	89	96
Net profit	202	255	279	302
Net profit (ex. minority interest)	143	173	195	213
Normalized net profit	143	173	195	213
Core income	1,036	1,179	1,257	1,338
Core PPOP	446	566	625	677

DuPont analysis (%)

Interest income	3.80	3.79	3.87	3.89
Interest expense	1.42	1.30	1.27	1.23
Net interest income	2.38	2.49	2.61	2.66
Net commissions income	0.04	0.07	0.06	0.06
Net other non-interest income	0.00	-0.08	-0.11	-0.13
Total net operating profit	2.42	2.48	2.55	2.59
G&A expenses	1.38	1.33	1.34	1.34
PPOP	1.04	1.15	1.21	1.25
Total provision expenses	0.45	0.41	0.42	0.42
Net non-operating income	0.02	-0.01	-0.02	-0.01
Income before income taxes	0.61	0.73	0.78	0.81
Income tax expense	0.14	0.17	0.19	0.20
Net profit (non-controlling)	0.14	0.18	0.18	0.18
ROA	0.33	0.38	0.41	0.43
Leverage (x)	19.3	19.2	17.8	16.6
ROE	6.44	7.20	7.35	7.20

Asset quality (%)

NPL ratio	1.16	1.00	0.99	0.97
Broad NPL ratio	2.30	2.37	2.29	2.22
NPL coverage ratio	144.3	156.4	159.7	162.2
Reserves to total credits	1.7	1.6	1.6	1.6
Credit cost (% of total loans)	0.57	0.59	0.59	0.59
Credit cost (% of total credit)	0.52	0.48	0.49	0.49

Per-share items (KRW)

EPS (reported)	951	1,110	1,254	1,370
EPS (normalized)	951	1,110	1,254	1,370
BVPS	14,703	16,139	17,992	20,087
DPS (common share)	50	100	120	130
PPOP/ share	2,966	3,397	3,681	3,941

Source: Company data, Mirae Asset Daewoo Research estimates

Statement of financial condition (summarized)

Year-end 12 (Wbn)	12/16	12/17F	12/18F	12/19F
Cash & dues	2,219	1,952	1,999	2,048
Securities	4,949	4,647	4,817	4,988
Net loans and receivables	36,309	38,924	40,890	42,831
Tangible assets	472	367	279	240
Other assets	1,850	338	165	103
Total assets	45,799	46,229	48,149	50,209
Deposits	31,798	33,782	35,186	36,520
Borrowings	2,327	1,687	1,146	677
Debentures	7,551	7,096	7,164	7,233
other liabilities	1,153	400	1,020	1,733
Total liabilities	42,829	42,966	44,515	46,164
Capital stock	777	777	777	777
Hybrid securities	200	200	200	200
Capital surplus	523	524	524	524
Retained earnings	791	1,001	1,289	1,615
Capital adjustments	0	0	0	0
Other comprehensive income	-6	7	7	7
Non-controlling interests	685	755	837	924
Total shareholders' equity	2,970	3,263	3,634	4,046

Key ratios (%)

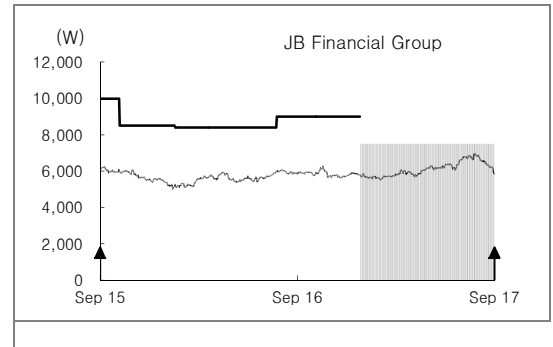
Growth (YoY)				
KRW loan growth (Bank)	18.1	9.1	6.1	5.1
Net loans & receivables growth	16.8	7.2	5.0	4.7
Deposit growth	18.3	6.2	4.2	3.8
Shareholders' equity growth	10.6	9.9	11.4	11.3
Total assets growth	0.9	0.9	0.9	0.9
Net interest income growth	4.3	12.5	7.3	6.3
Net fee income growth	-13.8	92.5	-17.3	13.0
PPOP growth	3.6	18.7	8.4	7.1
Operating profit growth	28.6	35.1	9.9	7.9
Net profit growth	24.4	21.0	12.9	9.3
Profitability				
Net interest spread (Bank)	2.64	2.52	2.56	2.56
Net interest margin (Bank)	2.34	2.21	2.26	2.26
PPOP margin	1.0	1.1	1.2	1.2
ROA	0.3	0.4	0.4	0.4
ROE	6.4	7.2	7.3	7.2
Liquidity				
KRW LDR (excl. CDs) (Bank)	98.9	96.9	96.9	96.9
Loans to assets	79.3	84.2	84.9	85.3
Capital adequacy				
Total CAR	12.0	12.6	13.1	13.5
Tier 1 CAR	9.2	10.1	10.7	11.5
Tier 2 CAR	2.8	2.5	2.3	2.0
Operating efficiency				
Cost to income	57.0	53.7	52.5	51.9
Cost to assets	1.3	1.3	1.3	1.3
Dividend				
Payout ratio	5.4	8.9	9.4	9.3

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
JB Financial Group (175330)	09/07/2017	Buy	7,800
	01/02/2017	No Coverage	
	07/31/2016	Buy	9,000
	01/25/2016	Buy	8,400
	10/14/2015	Buy	8,500
	10/21/2014	Buy	10,000



Stock Ratings

Buy	: Relative performance of 20% or greater
Trading Buy	: Relative performance of 10% or greater, but with volatility
Hold	: Relative performance of -10% and 10%
Sell	: Relative performance of -10%

Industry Ratings

Overweight	: Fundamentals are favorable or improving
Neutral	: Fundamentals are steady without any material changes
Underweight	: Fundamentals are unfavorable or worsening

Ratings and Target Price History (Share price (—), Target price (▬), Not covered (▭), Buy (▲), Trading Buy (■), Hold (●), Sell (◆))

* Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.

* Although it is not part of the official ratings at Mirae Asset Daewoo Co., Ltd., we may call a trading opportunity in case there is a technical or short-term material development.

* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.

* The achievement of the target price may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Equity Ratings Distribution & Investment Banking Services

	Buy	Trading Buy	Hold	Sell
Equity Ratings Distribution	69.67%	17.06%	13.27%	0.00%
Investment Banking Services	70.73%	17.07%	12.20%	0.00%

* Based on recommendations in the last 12-months (as of March 31, 2016)

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