J Trust / 8508

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Research Coverage Report by Shared Research Inc.

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How to read a Shared Research report: This report begins with the trends and outlook section, which discusses the company's most recent earnings. First-time readers should start at the business section later in the report.

Key financial data

Income statement (JPYmn)	FY03/10 Cons.	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.
Operating revenue	**16,541**	**16,908**	**24,508**	**55,683**	**61,926**	**63,281**	**75,478**	**85,031**
YoY	234.4%	2.2%	44.9%	127.2%	11.2%	2.2%	19.3%	12.7%
Operating profit (loss)	**4,165**	**4,324**	**5,539**	**12,005**	**13,745**	**-5,217**	**-4,114**	**-5,769**
YoY	-	3.8%	28.1%	116.7%	14.5%	-	-	-
OPM	25.2%	25.6%	22.6%	21.6%	22.2%	-	-	-
Recurring profit (loss)	**4,303**	**4,323**	**5,486**	**13,704**	**13,351**	**-2,385**	**-4,678**	**-6,747**
YoY	-	0.5%	26.9%	149.8%	-2.6%	-	-	-
RPM	26.0%	25.6%	22.4%	24.6%	21.6%	-	-	-
Net income (loss)	**4,108**	**3,233**	**34,500**	**13,309**	**11,145**	**10,143**	**-5,712**	**-9,876**
YoY	-	-21.3%	-	-61.4%	-16.3%	-9.0%	-	-
Net margin	24.8%	19.1%	140.8%	23.9%	18.0%	16.0%	-	-
Per share data (split-adjusted; JPY)								
Shares issued (year-end; '000)	29,752	30,009	30,225	63,162	118,386	118,589	112,447	112,537
EPS	69.6	54.3	576.0	214.4	109.7	85.9	-49.7	-92.8
EPS (fully diluted)	69.1	53.9	567.7	208.3	108.1	85.6	-	-
Dividend per share	10.0	10.0	12.0	7.0	10.0	10.0	12.0	12.0
Book value per share	185.0	232.4	798.2	1,013.9	1,502.5	1,591.1	1,455.9	1,415.9
Balance sheet (JPYmn)								
Cash and deposits	7,163	14,846	10,362	62,140	132,235	141,742	108,682	101,172
Operating loans	18,039	11,725	27,713	18,227	49,242	65,315	49,505	49,098
Loans in the banking business	-	-	-	48,210	46,701	224,401	230,532	326,996
Installment credit receivables	3,825	1,443	65,024	48,133	39,776	1,395	2,449	2,726
Purchased receivables	5,407	4,008	2,310	2,529	2,527	8,647	9,940	12,146
Total current assets	**35,714**	**34,293**	**106,963**	**189,262**	**298,790**	**468,260**	**448,131**	**553,331**
Tangible fixed assets	1,079	1,166	5,095	10,836	12,309	9,352	7,510	6,474
Investments and other assets	644	1,947	4,366	11,842	15,001	16,002	13,660	14,465
Total assets	**37,999**	**37,862**	**117,546**	**218,706**	**334,736**	**540,718**	**508,659**	**608,650**
Notes discounted	783	1,291	1,776	1,500	2,173	2,226	1,381	916
Short-term loans payable	4,520	3,980	5,576	8,071	25,258	13,979	27,768	28,642
Deposits by banking business	-	-	-	73,194	77,142	287,452	271,117	364,419
Provision for loss on interest payment	3,048	3,359	10,172	7,124	4,055	1,089	-	-
Total current liabilities	**11,305**	**10,264**	**43,995**	**99,471**	**118,904**	**322,598**	**311,642**	**426,093**
Long-term loans payable	11,368	10,814	13,670	30,487	16,329	13,250	23,957	26,725
Provision for loss on interest payment	3,840	2,382	9,711	12,052	9,382	5,219	-	-
Provision for loss on guarantees	238	203	290	4,017	441	422	424	352
Total non-current liabilities	**15,687**	**13,635**	**24,079**	**48,339**	**31,601**	**23,254**	**28,360**	**30,893**
Total liabilities	**26,993**	**23,900**	**68,074**	**147,810**	**150,505**	**345,853**	**340,002**	**456,987**
Net assets	**11,005**	**13,961**	**49,471**	**70,895**	**184,230**	**194,865**	**168,656**	**151,663**
Total interest-bearing debt	15,888	14,794	19,246	38,558	41,587	27,229	51,725	55,367
Cash flow statement (JPYmn)								
Cash flows from operating activities	-6,819	9,234	-16,489	9,378	11,434	15,452	-32,435	-14,434
Cash flows from investing activities	-34	-310	-12,424	36,764	-17,775	-15,148	-7,896	-4,774
Cash flows from financing activities	10,067	-908	24,165	-2,441	74,464	-20,593	13,026	10,935
Financial ratios								
ROA (RP-based)	11.1%	11.4%	7.1%	8.2%	4.8%	-0.5%	-0.9%	-1.2%
ROE	46.1%	26.0%	111.4%	23.8%	9.3%	5.6%	-3.3%	-6.4%
Net asset ratio	29.0%	36.9%	42.1%	32.4%	55.0%	36.0%	33.2%	24.9%

Income statement (JPYmn)	FY03/17 IFRS	FY03/18 IFRS	FY03/19 IFRS	FY12/19 Est.
Operating revenue	**66,453**	**74,321**	**74,935**	**64,397**
YoY	-	11.8%	0.8%	-
Operating profit (loss)	**606**	**4,759**	**-32,600**	**61**
YoY	-	684.7%	-	-
OPM	0.9%	6.4%	-	-
Pre-tax profit (loss)	**-433**	**2,898**	**-31,135**	
YoY	-	-	-	-
Pre-tax margin	-	3.9%	-	-
Profit (loss) attributable to owners of parent	**-1,270**	**-731**	**-36,107**	**-1,118**
YoY	-	-	-	-
Profit margin	-	-	-	-
Per share data (split-adjusted; JPY)				
Shares issued (year-end; '000)	112,537	112,597	115,470	
EPS	-11.9	-7.1	-349.7	-10.6
EPS (fully diluted)	-11.9	-7.1	-349.7	
Dividend per share	12.0	12.0	7.0	1.0
Book value per share	1,459.9	1,401.6	984.0	
Balance sheet (JPYmn)				
Cash and cash equivalents	80,666	84,723	87,150	
Trade and other receivables	78,416	92,723	106,735	
Marketable securities in banking business	30,459	37,159	46,599	
Loans in banking business	311,480	343,400	326,234	
Operational investment securities	21,494	3,242	2,855	
Other financial assets	38,066	46,300	33,416	
Inventories	6,848	6,937	6,742	
Tangible fixed assets	5,622	3,028	5,119	
Goodwill	32,140	29,578	33,508	
Total Assets	**619,865**	**656,961**	**668,377**	
Trade and other payables	8,110	9,811	14,613	
Deposits by banking business	364,462	403,509	437,010	
Bonds and borrowings	72,139	78,727	86,002	
Other financial liabilities	8,182	5,272	7,511	
Total liabilities	**463,952**	**506,184**	**557,650**	
Total equity attributable to owners of parent	150,284	144,366	104,173	
Non-controlling interests	5,628	6,409	6,554	
Total equity	**155,913**	**150,776**	**110,727**	
Total interest-bearing debt	72,139	78,727	86,002	
Cash flow statement (JPYmn)				
Cash flows from operating activities	-12,413	4,581	18,831	
Cash flows from investing activities	-4,468	-7,603	-15,190	
Cash flows from financing activities	10,612	7,798	-525	
Financial ratios				
ROA (pre-tax profit based)	-0.1%	0.5%	-4.7%	
ROE	-0.8%	-0.5%	-29.1%	
Equity ratio	24.2%	22.0%	15.6%	

Source: Shared Research based on company data
Note: The company is applying the International Financial Reporting Standards (IFRS) from FY03/18, and IFRS have been retroactively applied to the figures for FY03/17. IFRS-based figures for FY03/17 are unaudited.
Note: In FY03/17 IFRS results, figures down to pre-tax profit/loss exclude results for discontinued operations (Adores, Inc).
Note: Year-on-year rises of over 1,000% are shown by "-".
Note: The company announced a change in the fiscal year-end along with its FY03/19 results. The current fiscal year FY12/19 covers the nine-month period from April 1 through December 31, 2019.

Executive summary

Financial business in Japan, South Korea and Mongolia main earnings source; restructuring financial business in Southeast Asia as future growth driver

- J Trust's core business is financial, although the company has a diverse business portfolio including financial and non-financial businesses such as real estate and entertainment. The company earns stable profits from the Financial Business in Japan and Financial Business in South Korea and Mongolia, and is restructuring the Financial Business in Southeast Asia to nurture it into a future growth driver.
- Since 2009, the company has expanded its business through mergers and acquisitions of domestic consumer finance companies and credit card companies, and in 2012 it launched a South Korean savings bank business. In FY03/14–03/15 it used approximately JPY97.6bn raised in a rights offering to acquire a finance company and a savings bank in South Korea, and a commercial bank in Indonesia.
- In the Financial Business in Japan (FY03/19: 14.1% of operating revenue; segment profit of JPY4.3bn), the company concentrated on growth of the consumer finance, credit card, credit guarantee, and servicer (receivables purchase and collection) businesses through FY03/15. From FY03/16 onward, after effectively exiting the unsecured consumer finance loans business, which had limited medium-term growth potential, the company has been expanding the real estate related credit guarantee business and the servicer business, and logging stable profit.
- The Financial Business in South Korea and Mongolia (FY03/19: 52.7% of operating revenue; segment profit of JPY4.9bn) comprises three types of businesses: the savings bank business (primarily involved in retail banking followed by corporate banking), the capital business (primarily involved in providing lease and installment payment), and the servicer business. J Trust launched its finance business in South Korea in 2009. In 2012 it launched the Chinae Savings Bank (now JT Chinae Savings Bank) and from FY03/13 to FY03/15 it grew loans balances in the savings bank business primarily through M&A. Having established the infrastructure for comprehensive financial services, the company now looks to develop businesses organically to maximize their synergies going forward.
- The Financial Business in Southeast Asia (FY03/19: 17.4% of operating revenue; segment loss of JPY17.7bn) purchased Indonesia's Bank Mutiara (currently PT Bank J Trust Indonesia Tbk.) in November 2014. It increased its reserves in FY03/19 for the purpose of writing off all NPLs (non-performing loans) at once. It is also in the process of reforming its lending and screening processes, in addition to switching to a more sound portfolio, with the aim of increasing the loan balance in 2020. Further, it plans to leverage the group's network in Japan, South Korea, and Southeast Asia and expand its businesses accordingly.

Trends and outlook

- For FY03/19, the company reported full-year consolidated operating revenue of JPY74.9bn (+0.8% YoY), an operating loss of JPY32.6bn (versus profit of JPY4.8bn in FY03/18), a pre-tax loss of JPY31.1bn (versus profit of JPY2.9bn in FY03/18), and a loss attributable to owners of parent of JPY36.1bn (versus a loss of JPY731mn in FY03/18). The losses reported at all profit levels were due to the posting of allowance for doubtful accounts at the group's Financial Business in Southeast Asia and Investment business.
- Along with its release of FY03/19 results, the company announced that it was changing its fiscal year-end from March 31 to December 31, and that as a result of this change, FY12/19 will be a nine-month transition period running from April 1 through December 31, 2019. For FY12/19, the company forecasts consolidated operating revenue of JPY64.4bn, an operating profit of JPY61mn, and a loss attributable to owners of parent of JPY1.1bn. The company projects that it will finish in the black at the operating profit level based on its expectation of smaller losses at the Financial Business in Southeast Asia and Investment Business.

Strengths and weaknesses

Shared Research views J Trust's strengths as its ability to proactively develop finance businesses in Asia based on its expertise accumulated in Japan, its purchasing ability, and the management's business execution skills. Its weaknesses are that it is easily affected by regulation, and that its rapid growth entails the risk of personnel shortages. (See Strengths and weaknesses section for further details.)

Recent updates

Highlights

On **August 9, 2019,** J Trust Co., Ltd. announced earnings results for Q1 FY12/19; see the results section for details.

On **July 2, 2019**, Shared Research updated the report following interviews with the company.

On **May 17, 2019,** the company announced a change in the closing schedule for the acquisition of shares in ANZ Royal Bank (Cambodia) Ltd.

The company had first aimed to close the subject transaction in May 2019, when it announced the decision a year ago (May 2018) to acquire shares in ANZ Royal Bank (Cambodia) Ltd. (Kingdom of Cambodia; operating revenue of JPY5.2bn, pre-tax profit of JPY3.3bn in FY12/17). However, the schedule has been postponed to a closing in Q2 FY12/19 (July–September 2019).

On **May 13, 2019,** the company announced earnings results for full-year FY03/19; see the results section for details.

On the same day, the company announced a change in its fiscal year-end.

The company decided to change its fiscal year-end from March 31 to December 31, and as a result of this change, the current fiscal year (FY12/19) will be a nine-month period running from April 1 through December 31, 2019. The company added that consolidated subsidiaries will also be making the change to the new fiscal year.

For previous releases and developments, please refer to the News and topics section.

Trends and outlook

Quarterly trends and results

Cumulative	FY03/19				FY12/19			FY12/19	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	% of FY	FY Est.
Operating revenue	17,388	36,575	55,173	74,935	18,279			28.4%	64,397
YoY	1.3%	5.6%	-3.1%	0.8%	5.1%				-
SG&A expenses	6,359	13,135	20,717	28,488	7,211				
YoY	8.3%	10.6%	17.4%	18.1%	13.4%				
SG&A, % of operating revenue	36.6%	35.9%	37.5%	38.0%	39.4%				
Operating profit	807	25	-29,770	-32,600	481			788.5%	61
YoY	-70.9%	-99.5%	-	-	-40.4%				-
OPM	4.6%	0.1%	-	-	2.6%				0.1%
Pre-tax profit	1,944	1,160	-28,681	-31,135	152				
YoY	-21.5%	-71.4%	-	-	-92.2%				
Pre-tax profit margin	11.2%	3.2%	-	-	0.8%				
Profit attributable to owners of parent	1,493	-2,182	-32,770	-36,107	-160			-	-1,118
YoY	-16.1%	-	-	-	-				-
Profit margin	8.6%	-	-	-	-				-

Quarterly	FY03/19				FY12/19		
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Operating revenue	17,388	19,187	18,598	19,762	18,279		
YoY	1.3%	9.8%	-16.7%	13.8%	5.1%		
SG&A expenses	6,359	6,776	7,582	7,771	7,211		
YoY	8.3%	12.9%	31.2%	19.9%	13.4%		
SG&A, % of operating revenue	36.6%	35.3%	40.8%	39.3%	39.4%		
Operating profit	807	-782	-29,795	-2,830	481		
YoY	-70.9%	-	-	-	-40.4%		
OPM	4.6%	-	-	-	2.6%		
Pre-tax profit	1,944	-784	-29,841	-2,454	152		
YoY	-21.5%	-	-	-	-92.2%		
Pre-tax profit margin	11.2%	-	-	-	0.8%		
Profit attributable to owners of parent	1,493	-3,675	-30,588	-3,337	-160		
YoY	-16.1%	-	-	-	-		
Profit margin	8.6%	-	-	-	-		

Source: Shared Research based on company data
Note: In Q4 FY03/18, the company sold all of its shares in Adores, Inc. Further, in Q2 FY03/19, the company resolved to sell all of its shares in Highlights Entertainment Co., Ltd. along with the outstanding loans receivable. These businesses have hence forth been classified as discontinued operations. The operating revenue, operating profit, and pre-tax profit indicated for the fiscal years in comparison have been adjusted to reflect the results of the continuing operations (after deducting those of the discontinued operation).
Note: In June 2019, the company changed its fiscal year from April through the following March to January through December. FY12/19 is a nine-month transition period covering April–December 2019.

Results by segment (cumulative)

Cumulative (JPYmn)	FY03/19 Q1	FY03/19 Q2	FY03/19 Q3	FY03/19 Q4	FY12/19 Q1	FY12/19 Q2	FY12/19 Q3
Operating revenue	17,388	36,575	55,173	74,935	18,279		
YoY	1.3%	5.6%	-3.1%	0.8%	5.1%		
Financial Business in Japan	2,370	4,854	7,316	10,554	2,345		
YoY	3.4%	-1.7%	3.9%	16.9%	-1.1%		
Financial Business in South Korea and Mongolia	10,172	20,234	30,160	39,515	9,777		
YoY	15.4%	16.0%	12.6%	10.2%	-3.9%		
Financial Business in Southeast Asia	3,139	6,261	9,436	13,025	2,726		
YoY	-12.6%	-14.1%	-10.8%	-4.1%	-13.2%		
General Entertainment Business	5	547	949	1,520	1,712		
YoY	-	-	-	-	-		
Real Estate Business	1,199	2,566	4,119	6,440	1,334		
YoY	-21.4%	-8.0%	0.8%	-6.8%	11.3%		
Investment Business	322	550	788	1,036	272		
YoY	-44.5%	-50.6%	-88.8%	-85.8%	-15.5%		
Operating profit	808	25	-29,770	-32,600	481		
YoY	-70.9%	-99.5%	-	-	-40.5%		
OPM	4.6%	0.1%	-	-	2.6%		
Financial Business in Japan	970	2,151	3,298	4,251	1,078		
YoY	-13.5%	-13.5%	-5.6%	2.0%	11.1%		
Segment profit margin	40.9%	44.3%	45.1%	40.3%	46.0%		
Financial Business in South Korea and Mongolia	1,458	2,400	4,002	4,880	2,548		
YoY	-11.5%	-2.0%	29.2%	37.3%	74.8%		
Segment profit margin	14.3%	11.9%	13.3%	12.3%	26.1%		
Financial Business in Southeast Asia	-783	-2,418	-14,308	-17,712	-1,889		
YoY	-	-	-	-	-		
Segment profit margin	-	-	-	-	-		
General Entertainment Business	-13	3	-2	-15	39		
YoY	-	-	-	-	-		
Segment profit margin	-	0.5%	-	-	2.3%		
Real Estate Business	11	41	22	91	-21		
YoY	-88.2%	-72.5%	-89.9%	-86.2%	-		
Segment profit margin	0.9%	1.6%	0.5%	1.4%	-		
Investment Business	186	-291	-20,082	-20,568	-510		
YoY	-36.9%	-	-	-	-		
Segment profit margin	57.8%	-	-	-	-		

Source: Shared Research based on company data
Note: In Q2 FY03/19, it classified the General Entertainment Business of Highlights Entertainment Co., Ltd. (develops, produces, and sells computer systems for amusement machines and peripheral equipment) as discontinued. The operating revenue and operating profit indicated for the fiscal years in comparison have been adjusted to reflect the results of the continuing operations (after deducting those of the discontinued operation).
Note: In June 2019, the company changed its fiscal year from April through the following March to January through December. FY12/19 is a nine-month transition period covering April–December 2019.

Results by segment (quarterly)

Quarterly	FY03/19				FY12/19		
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Operating revenue	17,388	19,187	18,598	19,762	18,279		
YoY	1.3%	9.8%	-16.7%	13.8%	5.1%		
Financial Business in Japan	2,370	2,484	2,462	3,238	2,345		
YoY	3.4%	-6.0%	16.9%	63.1%	-1.1%		
Financial Business in South Korea	10,172	10,062	9,926	9,355	9,777		
YoY	15.4%	16.7%	6.1%	3.2%	-3.9%		
Financial Business in Southeast Asia	3,139	3,122	3,175	3,589	2,726		
YoY	-12.6%	-15.6%	-3.6%	19.8%	-13.2%		
General Entertainment Business	5	542	402	571	1,712		
YoY	-	-	-	-	-		
Real Estate Business	1,199	1,367	1,553	2,321	1,334		
YoY	-21.4%	8.2%	19.8%	-17.8%	11.3%		
Investment Business	322	228	238	248	272		
YoY	-44.5%	-57.3%	-96.0%	-4.6%	-15.5%		
Operating profit	808	-783	-29,795	-2,830	481		
YoY	-70.9%	-	-	-	-40.5%		
OPM	4.6%	-	-	-	2.6%		
Financial Business in Japan	970	1,181	1,147	953	1,078		
YoY	-13.5%	-13.6%	13.9%	41.8%	11.1%		
Segment profit margin	40.9%	47.5%	46.6%	29.4%	46.0%		
Financial Business in South Korea	1,458	942	1,602	878	2,548		
YoY	-11.5%	17.5%	147.2%	91.7%	74.8%		
Segment profit margin	14.3%	9.4%	16.1%	9.4%	26.1%		
Financial Business in Southeast Asia	-783	-1,635	-11,890	-3,404	-1,889		
YoY	-	-	-	-	-		
Segment profit margin	-	-	-	-	-		
General Entertainment Business	-13	16	-5	-13	39		
YoY	-	-	-	-	-		
Segment profit margin	-	-	-	-	-		
Real Estate Business	11	30	-19	69	-21		
YoY	-88.2%	-46.4%	-	-84.4%	-290.9%		
Segment profit margin	0.9%	2.2%	-	3.0%	-		
Investment Business	186	-477	-19,791	-486	-510		
YoY	-36.9%	-	-	-	-374.2%		
Segment profit margin	57.8%	-	-	-	-		

Source: Shared Research based on company data
Note: In Q2 FY03/19, it classified the General Entertainment Business of Highlights Entertainment Co., Ltd. (develops, produces, and sells computer systems for amusement machines and peripheral equipment) as discontinued.
Note: In June 2019, the company changed its fiscal year from April through the following March to January through December. FY12/19 is a nine-month transition period covering April–December 2019.

Q1 FY12/19 results

For Q1 FY12/19, the company reported consolidated operating revenue of JPY18.3bn (+5.1% YoY). Factors in growth included higher interest income due to the consolidation of J Trust Olympindo (JTO) and higher service revenue in the General Entertainment business due to the consolidation of KeyProduction, allfuz, and FOOLENLARGE. Factors dragging on growth included a decline in interest income at the South Korean savings bank business due to a lower average lending rate during the quarter on an increase in (mainly medium interest-rate) personal loans. Interest income also declined due to a lower outstanding loan balance at Bank J Trust Indonesia.

Operating profit was JPY481mn (-40.4% YoY) due to rises in operating expenses and SG&A expenses. Pre-tax profit was JPY152mn (-92.2% YoY), and the loss attributable to owners of parent was JPY160mn (profit of JPY1.5bn in Q1 FY03/19). Items below pre-tax profit were affected by lower operating profit and foreign exchange losses of JPY191mn, versus foreign exchange gains of JPY1.1bn in Q1 FY03/19.

In June 2019, J Trust changed its fiscal year from April through the following March to January through December. FY12/19 is a nine-month transition period covering April–December 2019.

In Q2 FY03/19, the company classified the General Entertainment Business of Highlights Entertainment Co., Ltd. (develops, produces, and sells computer systems for amusement machines and peripheral equipment) as discontinued.

Financial Business in Japan

Segment operating revenue was steady at JPY2.3bn (-1.1% YoY), and segment profit was JPY1.1bn (+11.1% YoY). Fee income from condominium loan guarantees fell due to fewer loans being written, and gains on book value adjustments declined due to a review of future cash flows from purchased receivables. However, an increase in the balance of outstanding loan guarantees saw the company book steady guarantee fee revenue and solid interest income from the collection of receivables. Segment profit increased due to lower provisions for doubtful accounts accompanying the review of future cash flows from purchased receivables.

Credit guarantee services

Credit guarantee services are provided by Nihon Hoshou. The balance of credit guarantees, the base of revenues in the business, finished at JPY208.9bn (+30.8% YoY). Of this amount, the balance of credit guarantees on unsecured loans totaled JPY18.1bn (+4.6% YoY), and the balance of credit guarantees on secured loans totaled JPY190.9bn (+34.0% YoY).

Collection of receivables

Receivables collection in Japan is mainly handled by Nihon Hoshou and Partir Servicer. The balance of purchased receivables was JPY14.7bn (+10.7% YoY).

Financial Business in South Korea and Mongolia

Segment operating revenue of JPY9.8bn was down 3.9% YoY and segment profit of JPY2.5bn was up 74.8% YoY. Loans outstanding in the savings bank business languished amid tightened regulations, and a lower average lending rate during the quarter due to an increase in (mainly medium interest-rate) personal loans drove a decline in interest income. Segment profit grew due to a decline in provisions for doubtful accounts following a review of historical collection rates on receivables at the savings bank.

Loan servicing business

TA Asset Management handles the purchase and collection of non-performing loans (NPLs). At the end of Q1 FY12/19, the balance of purchased receivables was JPY3.1bn (+27.4% YoY).

Financial Business in Southeast Asia

Segment operating revenue of JPY2.7bn was down 13.2% YoY, and the segment loss was JPY1.9bn (versus a loss of JPY783mn in Q1 FY03/19). Operating revenue fell at Bank J Trust Indonesia due to lower interest income on a decline in loans at the banking business following the one-time write-off of doubtful accounts. The segment booked a loss due to the booking of foreclosed asset valuation losses and losses at newly consolidated JTO.

Banking business

PT Bank J Trust Indonesia Tbk (Bank J Trust Indonesia) conducts the company’s banking operations in Indonesia. At the end of Q1 FY12/19, the banking business had total loans outstanding of JPY53.8bn (-42.3% YoY).

Loan servicing business

In Indonesia, PT JTrust Investments Indonesia conducts receivables collection services. At the end of Q1 FY12/19, the balance of purchased receivables was JPY22.1bn (versus JPY849mn in Q1 FY03/19).

General Entertainment

allfuz Inc. provides ad planning and development services, KeyStudio, Inc. operates a live entertainment business, KeyProduction, Inc. and FOOLENLARGE Inc. create television programs, FA Project Inc. provides planning, development and policy services for entertainment content, and SKE Inc. operates a performing arts production businesses. The segment generated operating revenue of JPY1.7bn (JPY5mn in Q1 FY03/19) and a segment profit of JPY39mn (versus a segment loss of JPY13mn in Q1 FY03/19).

Real Estate

Segment operating revenue was JPY1.3bn (+11.3% YoY) and the segment loss was JPY21mn (versus segment profit of JPY11mn in Q1 FY03/19). Keynote Co., Ltd. operates the real estate business, and KeyHolder, Inc. runs the real estate asset business. Operating revenue posted solid YoY growth. The segment posted a loss as the company constrained procurement of real estate for sale.

Investment

Segment operating revenue came to JPY272mn (-15.5% YoY) and the segment loss to JPY510mn (versus segment profit of JPY186mn in Q1 FY03/19). J Trust Asia operates the investment business and provides management support to the investee companies. The segment posted a loss as an increase in legal expenses for J Trust Asia's claims against GL drove SG&A expenses up.

For details on previous results, see the Historical performance section.

Full-year FY12/19 company forecasts

Change in accounting period

J Trust has resolved to change its accounting period (last day of the business year) from ending March 31 to ending December 31 on the condition that the Articles of Incorporation are approved at the 43rd General Meeting of Shareholders scheduled for June 2019. The period when the change is due to take effect, FY12/19, will be a period of nine months spanning April 1, 2019 to December 31, 2019. J Trust decided to make this change in order to align its accounting period with that adopted by most of its overseas subsidiaries (accounting period ending December 31), because more than half of operating revenue is generated by overseas subsidiaries and the company plans to continue expanding its business with a focus on overseas markets.

For FY12/19 (nine-months), the company forecasts consolidated operating revenue of JPY64.4bn, an operating profit of JPY61mn, and a loss attributable to owners of parent of JPY1.1bn. Because FY12/19 will be an irregular accounting period, the company is not making comparisons with prior year results.

FY12/19 earnings forecasts

(JPYmn)	FY03/19 Act. IFRS	FY12/19 Est. IFRS	YoY
Operating revenue	**74,935**	**64,397**	-
SG&A expenses	28,488		
SG&A, % of operating revenue	38.0%		
Operating profit (loss)	**-32,600**	**61**	-
OPM	-	0.1%	
Pre-tax profit (loss)	**-31,135**		
Pre-tax profit margin	-		
Profit (loss) attributable to owners of parent	**-36,107**	**-1,118**	-
Profit margin	-	-	

Source: Shared Research based on company data
Note: Along with its release of FY03/19 results, the company announced it was changing its fiscal year-end from March 31 to December 31, and that as a result of this change, FY12/19 will be a nine-month transition period.

Earnings forecasts by segment (IFRS basis)

(JPYmn)	FY03/19 Act.	FY12/19 Est.	YoY
Operating revenue	74,935	64,397	-
Financial Business in Japan	10,554	6,981	-
Financial Business in South Korea and Mongolia	39,515	28,959	-
Financial Business in Southeast Asia	13,025	12,982	-
Investment Business	1,036	1,041	-
Operating profit (loss)	-32,600	61	-
Financial Business in Japan	4,251	2,979	-
Financial Business in South Korea and Mongolia	4,880	3,304	-
Financial Business in Southeast Asia	-17,712	-1,772	-
Investment Business	-20,568	-645	-

Source: Shared Research, based on company data
Note: Along with its release of FY03/19 results, the company announced it was changing its fiscal year-end from March 31 to December 31, and that as a result of this change, FY12/19 will be a nine-month transition period.

In FY12/19, operating profit is projected to plateau in the Financial Business in Japan and the Financial Business in South Korea and Mongolia on an annualized-basis. For the Financial Business in Southeast Asia, the company is conservative in its forecasts. As the reduction of the loan balance at Bank J Trust Indonesia is set to continue over FY12/19, Shared Research will be monitoring developments in conjunction with the impact to profit.

Financial Business in Japan

The company forecasts operating revenue of JPY7.0bn (JPY10.7bn in FY03/19) and operating profit of JPY3.0bn (JPY4.3bn in FY03/19).

J Trust will continue to focus on the credit guarantee and receivables collection businesses. In the credit guarantee business, growth in the balance of condominium loan guarantees could slow as a result of a change in the lending stance of banks. As a countermeasure to this, the company is promoting the diversification of credit guarantee products and expanding its business with a focus on the credit guarantee business for overseas real estate-backed loans and the credit guarantee business for reverse mortgage loans and other products.

Financial Business in South Korea and Mongolia

The company forecasts operating revenue of JPY29.0bn (JPY39.7bn in FY03/19) and operating profit of JPY3.3bn (JPY4.9bn in FY03/19).

J Trust is aiming to manage the business with an emphasis on the quality of assets, while maintaining the size of assets. The focus of initiatives is as follows.

- ▷ To strengthen methods for maintaining stable relationships with consumer credit loan customers, with a focus on medium interest rate loans, through customer background analysis.
- ▷ To introduce a screening system leveraging financial technologies (FinTech) and cut the time and cost of consumer credit loan screening.
- ▷ To strengthen loan recovery systems.

Financial Business in Southeast Asia

The company forecasts operating revenue of JPY13.0bn (JPY13.0bn in FY03/19) and operating loss of JPY1.8bn (JPY17.7bn loss in FY03/19).

The company finished increasing its provisions for doubtful accounts in FY03/19 to write off all NPLs at once. In order to minimize the occurrence of NPLs in the future and reduce funding costs, the company is focusing on 1) speeding up the lending and screening processes, 2) diversifying products, 3) strengthening business structures to detect early signs of deterioration in assets, and 4) looking into an early write-off scheme for NPLs.

In addition to carefully managing liquidity to ensure smooth funding from the market, the company has launched a project to reduce administrative expenses, under which it appears to be promoting cuts to personnel, the closure of unprofitable branches, and cuts to advertising spending. According to the company, it expects to clear regulatory requirements for capital adequacy ratio and NPL ratio having written off all NPLs at once in FY03/19.

The company forecasts operating revenue in FY12/19 to be level with that of FY03/19 because it factors in a contribution from ANZ Royal Bank (Cambodia) Ltd. in Cambodia, which it aims to acquire in Q2 (Jul–Sep) FY12/19. In FY12/17, operating revenue at ANZ Royal Bank (Cambodia) Ltd. was JPY5.2bn and pre-tax profit was JPY3.3bn. J Trust plans for new loans to mainly be jointly financed with JTO (J Trust Olympindo Multi Finance).

Investment

The company forecasts operating revenue of JPY1.0bn (vs JPY1.2bn in FY03/19) and operating loss of JPY645mn (vs operating loss of JPY20.6bn in FY03/19).

A considerable operating loss was recorded in FY03/19 due to the provision for doubtful accounts for all of the claims against GL held by J Trust Asia. Such losses are not expected in FY12/19.

Business Description

J Trust adopted the following new segment classifications, which serve as the basis for information disclosure: Financial Business in Japan, Financial Business in South Korea and Mongolia, Financial Business in Southeast Asia, General Entertainment, Real Estate, Investment, and Other.

The company's primary businesses are the Financial Business in Japan, the Financial Business in South Korea and Mongolia, and the Financial Business in Southeast Asia.

New segments	Business description
Financial Business in Japan	Credit guarantee, receivables collection, credit card and consumer credit, and other financing services in Japan
Financial Business in South Korea and Mongolia	Savings bank services, receivables collection services, and capital business in South Korea
Financial Business in Southeast Asia	Banking services, finance services, receivables collection services in Southeast Asia (mainly in Indonesia)
General Entertainment	Mainly studio management, TV program production and entertainment production management services
Real Estate	Sales and purchase, brokerage, and leasing services of real estate
Investment	Investment business in Japan and overseas

Source: Shared Research based on company data

Performance by segment

(JPYmn)	FY03/15 JGAAP	FY03/16 JGAAP	FY03/17 JGAAP	FY03/17 IFRS	FY03/18 IFRS	FY03/19 IFRS
Operating revenue	63,281	75,478	85,031	66,453	74,321	74,935
YoY	2.2%	19.3%	12.7%	-	11.8%	0.8%
Financial Business in Japan	18,731	10,842	10,994	9,761	9,027	10,554
YoY	-	-42.1%	1.4%	-	-7.5%	16.9%
Financial Business in South Korea and Mongolia	18,799	25,480	29,140	29,182	35,855	39,515
YoY	-	35.5%	14.4%	-	22.9%	10.2%
Financial Business in Southeast Asia	-	12,292	17,791	14,325	13,578	13,025
YoY	-	-	44.7%	-	-5.2%	-4.1%
Real Estate Business	5,821	6,217	6,763	6,278	6,907	6,440
YoY	-	6.8%	8.8%	-	10.0%	-6.8%
Investment Business	1,058	2,634	2,514	2,853	7,290	1,036
YoY	-	149.0%	-4.6%	-	155.5%	-85.8%
Other	2,908	1,453	2,430	2,771	1,662	2,843
YoY	-	-50.0%	67.2%	-	-40.0%	71.1%
Segment profit (loss)	-3,142	-1,444	-2,304	606	4,759	-32,600
YoY	-	-	-	-	685.3%	-
Financial Business in Japan	1,852	3,799	4,636	5,582	4,167	4,251
YoY	-	105.1%	22.0%	-	-25.3%	2.0%
Financial Business in South Korea and Mongolia	-6,296	260	1,633	3,197	3,555	4,880
YoY	-	-	528.1%	-	11.2%	37.3%
Financial Business in Southeast Asia	-157	-7,898	-8,642	-3,980	1,545	-17,712
YoY	-	-	-	-	-	-
Real Estate Business	402	500	536	480	659	91
YoY	-	24.4%	7.2%	-	37.3%	-86.2%
Investment Business	625	2,562	-175	-198	-2,852	-20,568
YoY	-	309.9%	-	-	-	-
Other	45	-193	-73	-82	57	39
YoY	-	-	-	-	-	-31.6%

Source: Shared Research based on company data
Note: Under IFRS, values are presented after deducting discontinued operations. Consolidated subsidiary KeyHolder, Inc. transferred its General Entertainment operations to its wholly owned subsidiary Adores in October 2017, and subsequently sold all shares in Adores.

Financial Business in Japan

(FY03/19: 13.9% of operating revenue; segment profit of JPY4.3bn)

Financial Business in Japan performance

(JPYmn)	FY03/15 JGAAP	FY03/16 JGAAP	FY03/17 JGAAP	FY03/17 IFRS	FY03/18 IFRS	FY03/19 IFRS
Operating revenue	18,731	10,842	10,994	9,761	9,027	10,554
YoY	-25.6%	-42.1%	1.4%	-	-7.5%	16.9%
Segment profit	1,852	3,799	4,636	5,582	4,167	4,251
YoY	-83.8%	105.1%	22.0%	-	-25.3%	2.0%

Source: Shared Research based on company data

The Financial Business in Japan is comprised mainly of the credit guarantee and servicer businesses, and its key subsidiaries are Nihon Hoshou and Partir Servicer. The former provides credit guarantee services, while the latter engages in receivables collection. The company transferred the KC Card brand in FY03/15, so the contribution of credit card and consumer credit operations to operating revenue has been in decline since FY03/16. Further, the company effectively left the unsecured loan business in FY03/16.

Credit guarantee

In the credit guarantee business, when a borrower is unable to or has difficulties repaying a loan, the guarantee company pays the bank in lieu of the borrower. Financial institutions such as banks lend money through unsecured loans at a rate of around 15%, while secured loan rates are around 8%. Interest is shared between the provider and the company as follows: for unsecured loans, one third goes to the loan provider and two thirds to J Trust, and secured loan interest is split equally. When a borrower is unable to pay off a loan, J Trust pays off the loan to the loan provider, and that loan amount becomes a cost to J Trust.

The company carries on this business through its consolidated subsidiary Nihon Hoshou. As of March 2019, Nihon Hoshou had tie-ups with six banks (Saikyo Bank, Tokyo Star Bank, Ehime Bank, Kagawa Bank, Kinki Sangyo Credit Union, and Shonan Shinkin Bank).

A financial guarantee contract is initially recognized at fair value and booked under trade and other liabilities in the consolidated statement of financial position.

Credit guarantee balance and guarantee commission received

(JPYmn)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19
Total credit guarantee balance	36,712	53,354	85,975	141,881	202,810
YoY	-10.1%	45.3%	61.1%	65.0%	42.9%
Unsecured	13,890	15,376	14,829	16,168	18,019
YoY	-33.9%	10.7%	-3.6%	9.0%	11.4%
Secured	22,821	37,978	71,146	125,712	184,791
YoY	15.1%	66.4%	87.3%	76.7%	47.0%
Guarantee commission received	2,443	1,853	1,935	1,738	2,166
YoY	2.8%	-24.2%	4.4%	-10.2%	24.6%
Guarantee fee ratio	6.3%	4.1%	2.8%	1.5%	1.3%

Source: Shared Research based on company data
Note: The guarantee fee ratio = guarantee commission received / credit guarantee balance (average of the start and end of the fiscal year).

Through FY03/14 the company's guarantees outstanding rose as the number of alliance banks increased and guarantee commissions received also grew. In FY03/15, the credit guarantee balance fell temporarily, because the transfer of the KC Card brand (in January 2015) included the credit guarantee business, which reduced the number of local financial institutions that were partners in the credit guarantee business by six. However, as is detailed below, the balance has trended upward, especially for secured real-estate loans, from FY03/16.

Background to loan guarantee business

In June 2010 the Money Lending Business Act was revised. The revised law caps consumer loans at one third of the annual income of borrowers, paring opportunities for consumer loan businesses to lend to consumer loan customers. So Japan is unlikely to see many more people taking out consumer loans or going for higher balances. Further, based on the Supreme Court ruling (in January 2006) that denied differences in maximum interests between the Act Regulating the Receipt of Contributions, Receipt

of Deposits and Interest Rates and the Interest Restriction Act, consumer loan providers had to apply lower interest rates, which forced them to adopt more strict standards for screening.
Banks though are exempt from the lending ceiling restrictions, leading to increased bank activity in the market. Yet banks lacked screening and loan recovery expertise when it comes to higher-risk unsecured consumer loans, so many turn to consumer financial firms to guarantee loans.

J Trust intends to partner with more banks and build up its credit guarantee balance. The company is currently focused on offering condominium loan guarantees. The interest rate on condominium loans tends to be lower than on consumer loans, and J Trust's income is only around 1% of loan amounts. But this business has potential for medium term growth because contracts are large at around JPY95–JPY100mn per contract—compared with JPY500,000 for consumer loans—meaning the loan balance is easy to grow. Furthermore, they are secured and write-off risks are limited. In addition, despite newspaper reports pointing to vacancy rate problems, Nihon Hoshou has managed to maintain its occupancy rate above 98% due to careful selection of property areas (98% occupancy in Tokyo, Nagoya, Osaka, and Fukuoka), choosing buildings that are only a 10-min walk from the nearest station, and strict selection of housing manufacturers that provide adequate property management and repair services. The company plans to expand its credit guarantee services, focusing on reverse mortgages and overseas real estate-backed loans.

New initiatives in the credit guarantee business

In March 2019, J Trust, and its consolidated subsidiary, Nihon Hoshou, announced the formation of a business alliance with SAMURAI&J PARTNERS Co., Ltd. (JASDAQ 4764). The purpose of the alliance is to jointly conduct product structuring, promotions and credit guarantee services in the crowdfunding market. In addition to the development of new credit guarantee products, it seems the companies will look to increase partnerships with peer-to-peer lending companies in the growing crowdfunding market.

Servicer business

The servicer business came into being in 1999 to deal with bad debts held by financial institutions under the Act on Special Measures Concerning Claim Management and Collection Businesses. Within Financial Business in Japan, Partir Servicer is the main company involved in receivables collection.

The servicer (receivables collection) business involves managing and recovering "specific monetary debts" either on behalf of a financial institution or transferred from one. Specified monetary debts are those based on guarantee contracts or loan receivables, leasing and credit card receivables owed to a financial institution and those belonging to an entity in the midst of legal bankruptcy proceedings.

Servicers buy non-performing loans (NPLs) from financial institutions at a discount to fully claimable amounts. The purchased debts are accounted for at book value as purchased receivables under current assets. As of end-March 2019, the balance of purchased receivables stood at JPY14.6bn (+12.0% YoY), and the claimable loan balance (the principal for the purchased receivables) was JPY782.8bn.

Money recovered from debtors is the company's revenue and accounted for as collection of purchased receivables, loan interest income, and gains on the book value adjustments of purchased receivables in the income statement. Operating expenses in this business are recorded as receivable purchase costs, because they refer to the price required to acquire the receivables (the amortized cost method is used for receivables with which it is possible to estimate future cash flows).

J Trust's strengths lie in its ability to collect debts owed by individuals. Further, the company says that its ability to analyze collection gives it a competitive advantage when bidding. J Trust said that it has been able to blend the expertise gained by its past acquisitions of a variety of companies which enables it to have a high collection rate.

Gains from recovering written-off NPLs

In Japanese accounting standards, gains from recovering written-off NPLs reflect revenue from collection of NPLs—purchased receivables assumed by Nihon Hoshou from defunct Takefuji—that have already been written off the balance sheet. Written-off

NPLs have no book value, so recovery implies zero-cost profits. Through use of its proprietary expertise, the company is making progress in recoveries. Under current IFRS standards, the book value is calculated based on estimated cash flows and recorded as purchased receivables in the statement of financial position, and revenue is recorded as interest income.

As of March 31, 2019, the loan balance succeeded from the former Takefuji Corp amounted to approximately JPY150.0bn. The average amount recovered on a monthly basis appears to exceed JPY200mn.

Financial Business in South Korea and Mongolia

(FY03/19: 52.7% of operating revenue; segment profit of JPY4.9bn)

This segment is made up of three businesses: the savings bank business (JT Chinae Savings Bank and JT Savings Bank), the capital business which is part of the specialty finance industry (JT Capital), and the receivables collection business (TA Asset Management).

Performance for Financial Business in South Korea and Mongolia and its main subsidiaries

(JPYmn)	FY03/15 JGAAP	FY03/16 JGAAP	FY03/17 JGAAP	FY03/17 IFRS	FY03/18 IFRS	FY03/19 IFRS
Operating revenue	18,799	25,480	29,140	29,182	35,855	39,515
Savings bank	14,203	21,830	23,663	24,043	28,840	31,851
JT Chinae Savings Bank	13,614	17,985	18,228	18,928	21,064	21,695
JT Savings Bank	589	3,845	5,435	5,115	7,776	10,156
JT Capital	-	10,372	5,114	4,982	5,934	5,938
TA Asset Management	2,858	1,586	1,925	1,879	1,519	1,993
Segment profit	-6,296	260	1,633	3,197	3,555	4,880
Savings bank	-5,718	3,340	2,220	3,468	3,158	4,112
JT Chinae Savings Bank	-6,070	2,607	1,894	2,846	1,592	2,459
JT Savings Bank	352	733	326	622	1,566	1,653
JT Capital	-	3,770	168	-148	449	47
TA Asset Management	292	1,719	951	1,349	482	887

Source: Shared Research based on company materials

South Korean savings bank industry

Three groups provide consumer loans in South Korea. The first tier comprises banks; the second tier is non-bank financial institutions (mutual savings banks, credit unions, insurance companies, credit card providers, and specialist credit companies); the third tier is money lenders outside the financial regulatory system. The banks target creditworthy customers; the non-banks target both creditworthy customers and those needing finance in an emergency; the money lenders target those with poor credit ratings. In South Korea, customers are graded according to their creditworthiness; the mutual savings banks' customers cluster in the grade 5 to grade 9 range (from normal to questionable receivables; discussed below).

Starts consumer finance business in South Korea in 2009, founds Chinae Savings Bank in 2012

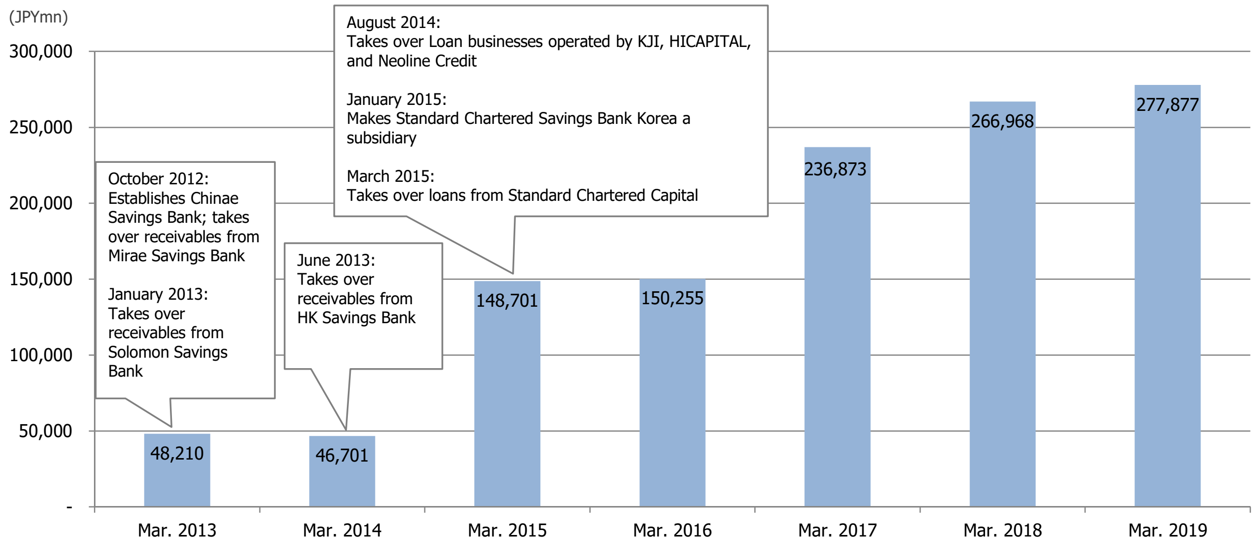
In October 2012, J Trust set up Chinae Savings Bank in South Korea, and began its savings bank operations with a focus on consumer loan services, integrating the expertise in credit screening and receivables management it gained in the Financial Business in Japan. Neoline Credit joined J Trust group in 2011 having previously launched a South Korean consumer financial business in 2009. Neoline Credit had been tracking steady growth. As such, J Trust already had knowledge of South Korea's consumer loan market when it established Chinae Savings Bank.

As shown below, the company has grown its loans outstanding in the South Korean banking business, which is the revenue base for savings banks, through buying receivables and M&A. In FY03/19, loans outstanding in the banking businesses under Financial Business in South Korea and Mongolia reached JPY277.9bn.

- FY03/13: In October 2012 takes over approximately JPY20bn in consumer loan receivables from Mirae Savings Bank. In January 2013 buys JPY29.9bn of consumer loan receivables from Solomon Savings Bank.
- FY03/14: In June 2013 J Trust buys JPY22.0bn of consumer loan receivables from HK Savings Bank. Loans outstanding in banking business reach JPY46.7bn.

- FY03/15: In August 2014, J Trust transfers loan businesses operated by KJI (currently TA Asset Management), HICAPITAL, and Neoline Credit to JT Chinae Savings Bank. (KJI Consumer Finance LLC and HICAPITAL Co., Ltd., made consolidated subsidiaries in FY03/14). In January 2015, makes Standard Chartered Savings Bank Korea Co., Ltd. (currently JT Savings Bank) a subsidiary. In March 2015, takes over loans from subsidiary Standard Chartered Capital (Korea) Co., Ltd. (currently JT Capital).
- FY03/16 onward: Loans outstanding rose driven by an increase in the number and balance of new loans as a result of an effective sale and marketing strategy.

Bank business loan balance (JT Chinae Saving Bank, JT Saving Bank)



Source: Shared Research based on company data

The group's combined savings bank business (JT Chinae Savings Bank and JT Savings Bank) ranks No. 3 in terms of total assets and deposits (as of March 2019).

79 savings banks ranked by assets (KRWbn)

Rank	Head office location	Bank name	Total assets
1	Seoul	SBI	7,510.1
2	Seoul	OK	5,362.2
3	Seoul + Gyeonggi-do	JT Chinae + JT Savings	3,503.9
4	Gyeonggi-do	KIC	2,888.7
5	Seoul	Eugene Savings Bank (formerly, Hyundai Savings Bank)	2,438.0

Source: Shared Research based on company materials

79 savings banks ranked by loan value (KRWbn)

Rank	Head office location	Bank name	Total loan value
1	Seoul	SBI	6,045.6
2	Seoul	OK	5,284.2
3	Seoul + Gyeonggi-do	JT Chinae + JT Savings	2,778.7
4	Gyeonggi-do	KIC	2,163.0
5	Gyeonggi-do	Pepper Savings Bank	2,163.0

Source: Shared Research based on company materials

South Korea's savings bank business highly profitable

South Korea's consumer financial arena can be more profitable than Japan's. South Korea allows loan rates up to 24.0% (lowered from 34.9% to 27.9% in March 2016, and further to 24.0% in February 2018), has no stipulations demanding refunds of overcharged interest, and levies a lower corporate tax rate. Contrary to Japan, South Korea does not have the issue of demands for refunds of overcharged interest.

In FY03/19, the company's average lending rate was 10.6% (12.8% in FY03/18), which is the weighted average for JT Chinae Savings Bank and JT Savings Bank. Its average deposit rate was 2.6% (2.4% in FY03/18), which is the weighted average for JT Chinae Savings Bank and JT Savings Bank, and the net margin between the lending and deposit rates was 8.0% (10.4% in FY03/18). The company has employed its screening expertise gained in the Japanese consumer loan business to minimize credit loss rates. The share of new loan customers with low credit loss rates at JT Chinae Savings Bank rose, so the share of delinquent loans (30 days) declined from a peak of around 50% (April 2013) to 5.18% (March 2018). The share of delinquent loans was estimated at 5.8% in FY03/19. In FY03/19, JT Chinae Savings Bank's NPL ratio (balance of delinquent loans of 90 days or more to total loan balance) was 5.8% (6.0% in FY03/18), and its NPL ratio after deducting allowance for doubtful accounts was 0.3% (1.3% in FY03/18).

Savings bank business performance

Revenue from the savings bank business (operating revenue in the banking business) primarily comes from interest income from loans and is obtained by multiplying the average lending rate by the loan balance. At end-FY03/19, loans in the banking business (simple sum for JT Chinae Savings Bank and JT Savings Bank) came to JPY277.9bn (JPY267.0bn at end-FY03/18), and the average loan interest rate (the weighted average for JT Chinae Savings Bank and JT Savings Bank) was 10.6% (12.8% at end-FY03/18). The operating revenue in the banking business (simple sum for JT Chinae Savings Bank and JT Savings Bank) was JPY31.9bn (JPY28.8bn at end-FY03/17).

The main expenses in the savings bank business are interest on deposits, credit costs (provision of allowance for doubtful accounts and NPL write-offs), and SG&A expenses. In FY03/19, the average deposit interest rate (weighted average for JT Chinae Savings Bank and JT Savings Bank) was 2.6% (2.4% in FY03/18), and credit costs (the simple sum for JT Chinae Savings Bank and JT Savings Bank) amounted to JPY8.8bn (3.2% of the total loans in the banking business from JT Chinae Savings Bank and JT Savings Bank).

Key indicators for South Korean savings bank business

(JPYmn)	FY03/15 JGAAP	FY03/16 JGAAP	FY03/17 JGAAP	FY03/17 IFRS	FY03/18 IFRS	FY03/19 IFRS
Loans in banking business	148,701	150,255	236,873	242,185	266,968	277,877
YoY	218.4%	1.0%	57.6%	-	10.2%	4.1%
Average lending interest rate	18.1%	15.6%	13.7%	13.7%	12.8%	10.6%
Average deposit interest rate	2.7%	2.5%	2.3%	2.3%	2.4%	2.6%
Operating revenue from banking business	14,376	19,716	23,383	24,043	28,840	31,851
YoY	16.0%	37.1%	18.6%	-	20.0%	10.4%
Op. revenue from banking business / Loan balance	9.7%	13.1%	9.9%	-	11.3%	11.7%

Source: Shared Research based on company data

Savings bank earnings (sum of JT Chinae Savings Bank and JT Savings Bank)

(JPYmn)	FY03/15 JGAAP	FY03/16 JGAAP	FY03/17 JGAAP	FY03/17 IFRS	FY03/18 IFRS	FY03/19 IFRS
Loans in banking business	146,034	149,931	236,837	242,185	266,968	277,877
YoY	212.7%	2.7%	58.0%	-	10.2%	4.1%
Deposits in banking business	180,081	172,470	250,625	250,669	284,151	314,049
YoY	133.4%	-4.2%	45.3%	-	13.4%	10.5%
Operating revenue	14,203	21,830	23,663	24,043	28,840	31,851
YoY	14.6%	53.7%	8.4%	-	20.0%	10.4%
Operating revenue / Loan balance	14.7%	14.8%	12.2%	9.9%	11.3%	11.7%
Operating expenses	5,877	5,694	5,740	12,429	17,246	19,278
Deposit interest rate	3,316	4,495	4,754	4,754	6,035	7,851
Deposit interests / Deposits	2.6%	2.5%	2.2%	1.9%	2.3%	2.6%
Credit costs	-	-	-	6,470	8,140	8,805
Reserve ratio	-	-	-	-	3.2%	3.2%
Other	2,561	1,199	986	1,205	3,071	2,622
SG&A expenses	14,044	12,795	15,702	8,168	8,451	8,496
YoY	191.6%	-8.9%	22.7%	-	3.5%	0.5%
SG&A ratio	98.9%	58.6%	66.4%	34.0%	29.3%	26.7%
Credit costs	6,748	3,919	7,364	-	-	-
Reserve ratio	7.0%	2.6%	3.8%	-	-	-
Personnel expenses	2,658	3,767	3,759	3,312	4,213	4,715
Other	4,636	5,107	4,575	4,856	4,238	3,781
Operating profit (loss)	-5,718	3,340	2,220	3,468	3,158	4,112
YoY	-	-	-33.5%	-	-8.9%	30.2%
Operating GPM	-	15.3%	9.4%	14.4%	11.0%	12.9%

Source: Shared Research based on company data

South Korea's consumer loan market

Personal credit ratings

In South Korea, personal credit ratings are used for deciding whether to grant a loan during the screening process as well as to set the loan interest rate. Further, they are used when issuing credit cards and as registration screening criteria for insurance and other products. They are assigned by credit bureaus after gathering and evaluating information about an individual's credit history. The bureau calculates points that reflect a number of evaluation criteria based on information provided by banks, savings banks and credit card companies: repayment history, debt levels, length type and format of dealings with the institution. Personal credit ratings range from 1 to 10 depending on the failure rate (likelihood of bankruptcy).

Personal credit rating levels and risks

1 - 4	5 - 6	7 - 8	9 - 10
Good	Ordinary	Watch	At risk
Superior/low risk			Inferior/high risk

* Above ratings classification is arbitrary standard and each financial company has own standard in interpretation of credit ratings.

Source: Company data

There are two private sector credit rating companies: Korea Credit Bureau (KCB) and National Information and Credit Evaluation Inc. (NICE). Many financial institutions use the credit information supplied by the credit rating companies.

Providers of consumer loans in South Korea

Three groups provide consumer loans in South Korea. The first tier comprises banks; the second tier is non-bank deposit taking institutions, specialist credit companies and others); the third tier is money lending organizations.

Classification of consumer loan providers in South Korea

	Tier	Broad classification	Detailed classification
Regulated sector	Tier 1	Banks	General banks (city banks, regional banks, foreign banks) Specialist banks (farm co-ops, fisheries co-ops Korea Development Bank etc.)
	Tier 2	Non-bank deposit taking institutions	Savings banks Credit co-ops (co-ops, Saemaul finance firms) General finance companies
		Specialist credit companies	Capital companies

			Credit card companies
		Others	Insurance companies Securities companies
Unregulated sector	Tier 3	Money lending organizations	Money lending companies

Source: Shared Research based on company data
Note: Regulated financial institutions are those under the direct control and supervision of, and licensed by, South Korean regulators.
Note: The above are not legal classifications criteria but are conventions used in the South Korean society.

The banks target creditworthy customers; the non-banks target both creditworthy customers and those needing finance in an emergency; the money lending companies target those with poor credit ratings. As detailed above, customers are given a personal credit rating according to their creditworthiness. Capital companies' customers mainly range from grade 1 to grade 4, savings banks' customers from grade 5 to grade 9, and the money lenders' customers from grade 7 to grade 9.

Interest rates are regulated under the Lending Business Law and apply to all credit providers. The interest rate ceiling was lowered from 49.0% to 44.0% in July 2010, to 39.0% in June 2011, and to 34.9% in April 2014. It was lowered again to 27.9% in March 2016, and further to 24.0% in February 2018.

Mutual savings banks
Mutual savings banks are small financial institutions serving SMEs and providing home loans in various regions.

Mutual savings banks' business operations

Key business areas	Main products and services
Deposits	Ordinary deposits, savings deposits, free deposits Periodic deposits (time deposits, accommodation drafts) Installment deposits: trust deposits (free installment deposits, periodic installment deposits)
Lending	Personal loans, loans secured by real estate and chattels, low-interest government guaranteed financial products aimed at people on low incomes Development of products suited to regions' and customers' characteristics, stimulating relationship banking
Ancillary businesses	Domestic exchange (settlement of payables and receivables for domestic financial institutions and funds transfers) Sale of insurance products Installment finance (mutual savings banks that meet certain conditions (period of at least two years, maintaining BIS capital ratio of at least 10%) may operate installment finance businesses) (JT Savings Bank meets the criteria) Mutual savings banks may operate a number of businesses in addition to the above, and the scope is expanding

Source: Shared Research based on company data

Japanese companies first entered the South Korean mutual savings bank market in 2010. That year Orix group (TSE1: 8591) bought Pureun 2 Mutual Savings Bank, and launched Orix Mutual Savings Bank. In 2012, J Trust took over part of the assets and liabilities from Mirae Bank, which had ceased operations. Also in 2012, through a take-up of new shares, SBI Holdings (TSE1: 8473) bought Hyundai Swiss Savings Bank, South Korea's largest mutual savings bank, and made it a consolidated subsidiary.

There are major differences in how money lenders and mutual savings banks raise funds. Shared Research thinks that the mutual savings banks have a competitive edge in this respect. Money lenders in South Korea are restricted in raising funds from banks and other regulated financial institutions. They are allowed to make private placements of bonds, but public bond issuances need approval from the Financial Supervisory Service. According to J Trust, mutual savings banks can accumulate low-cost deposits, while making loans at similar interest rates to the money lenders.

Capital companies
Capital companies are one type of specialist finance company established under the specialist finance industry law and are classified as tier 2 specialist finance companies. Capital companies are those in the specialist finance industry excluding credit card companies and are involved in installment finance, leasing, and venture capital financing.

State of South-Korean regulations governing consumer lending
According to the company, South Korea first introduced restrictions on total lending volume for savings banks in 2017. Specifically, increases in consumer loan assets from end-2016 were capped at 5%. Under KGAAP, savings bank reserve ratios for loans with interest rates of 20% and above were raised by 1.5x in 2017. This has depressed profit levels.

In terms of regulatory developments from 2018, the company looks for the introduction of IFRS 9, changes in the debtor rehabilitation receivables framework, a lowering of the maximum interest rate, and an increase in the doubtful account reserve ratio for delinquent loans (impact under KGAAP).

- ▷ IFRS 9: Consumer loan providers such as savings banks and capital companies have thus far calculated their reserves based on historical credit loss rates. After the introduction of IFRS 9, such companies will need to accumulate reserves that also factor in projections for future credit loss. This is expected to increase reserves.
- ▷ Changes in debtor rehabilitation receivables framework: The repayment period for receivables that have gone through debtor rehabilitation proceedings may be shortened from the original five years to three years, and the average reduction rate may be raised from the past level of around 30% to a maximum of 60%.

- Maximum interest rate: In February 2018, the maximum interest rate was lowered from 27.9% to 24.0%.
- Increase in the doubtful account reserve ratio for delinquent loans: The company says the ratio will gradually increase over three years based on the classification of delinquent loan. Under KGAAP, for normal receivables, the ratio will go up from the current 0.5% to a maximum of 1.5%; for questionable loans, the ratio will rise from the current 2% to a maximum of 15%.

J Trust's consumer finance operations in Japan have faced an environment of tightening regulations such as lower maximum interest rates and the introduction of caps on total lending volume from the late 2000s, and the company has thus accumulated experience in this area. It therefore believes it can implement flexible policies to adapt to the tightening regulatory framework for consumer lending in South Korea. Specific measures accompanying changes to the company's loan portfolio in FY03/18 included the lowering of the weighting of loans with interest rates of 20% and above, and a reduction in loan interest rates. Consequently, loan balance increased due to a shift in the company's loan portfolio from consumer to corporate loans amid a tightening of restrictions on consumer loan balances by regulatory authorities.

Loan servicing business in South Korea

Establishment of loan servicing business

J Trust purchased South Korean consumer finance company Neoline Credit in 2011, and in March 2014 it bought South Korean loan companies KJI Consumer Finance LLC (currently TA Asset Management LLC) and HICAPITAL Co., Ltd. In August 2014, J Trust transferred its loan businesses operated by KJI, HICAPITAL, and Neoline Credit to Chinae Savings Bank. After the business transfer, KJI, HICAPITAL, and Neoline Credit began operating as KJI Consumer Finance, with the organization specializing in purchasing and recovering NPLs.

Focusing on unsecured loan servicing business

Subsidiary TA Asset Management focuses on the business of recovering unsecured NPLs in South Korea. According to the company, the market in South Korea is estimated at KRW3.3tn, and is growing at an annual rate of 10%. Characteristics of the unsecured NPL market are: it is bothersome to operate the business; internal controls are necessary; and recovery expertise is necessary. As a result, there are few companies in the market, with many small operators, so only a limited number of companies are able to participate in bidding for NPLs above a certain amount.

TA Asset Management's strengths in recovering NPLs are derived from the combination of J Trust's expertise in the servicer business in Japan and its business development know-hows in South Korea. TA Asset Management also has branches nationwide in South Korea, and can collect receivables by physically visiting the debtors. This leads to high recovery rates, which allows it to offer competitive prices when making bids to purchase NPLs, and have a high success rate in winning the bids. Also, it places a strong emphasis on legal compliance, enabling it to bid in large NPL auctions such as those conducted by megabanks.

TA Asset Management earnings

TA Asset Management's operating revenue comes from interest on loans, gains on the book value adjustments of purchased receivables, gains on recovering written-off NPLs, and other operating revenue. In FY03/18, TA Asset Management's main revenue source was interest on loans, which is generated when the company recovers purchased NPLs, and gains on the book value adjustments.

TA Asset Management earnings

(JPYmn)	FY03/15 JGAAP	FY03/16 JGAAP	FY03/17 JGAAP	FY03/17 IFRS	FY03/18 IFRS	FY03/19 IFRS
Receivables outstanding (KRWbn)	260.0	206.8	185.2	185.2	256.1	249.8
Receivables outstanding (JPYbn)	28.3	20.4	18.6	18.6	25.6	24.5
Operating revenue	2,858	1,586	1,925	1,879	1,519	1,993
YoY	-	-44.5%	21.4%	-	-19.2%	31.2%
Interest on loans	2,448	320	186	461	885	938
Book value adjustment loss (purchased receivables)	-	-	-	717	406	906
Collection on purchased receivables	159	768	670	-	-	-
Gain on doubtful accounts recovered	149	129	84	84	47	33
Other financial revenue	100	367	984	414	134	114
Operating expenses	354	107	-	-117	333	264
Credit costs	-	-	-	-117	304	254
Other operating expenses	-	-	-	-	-	9
SG&A expenses	2,211	-240	973	669	718	849
YoY	-	-	-	-	7.3%	18.2%
SG&A ratio	77.4%	-15.1%	50.5%	35.6%	47.3%	42.6%
Credit costs	1,099	-1,079	297	-	-	-
Personnel expenses	616	486	417	390	425	461
Other	495	352	258	278	292	387
Operating profit (loss)	292	1,719	951	1,349	482	887
YoY	-	488.7%	-44.7%	-	-64.3%	84.0%
OPM	10.2%	108.4%	49.4%	71.8%	31.7%	44.5%

Source: Shared research based on company data

In FY03/19, TA Asset Management's receivables outstanding were JPY24.5bn (based on an exchange rate of KRW/JPY0.098), operating revenue was JPY2.0bn, and operating profit JPY887mn.

Financial Business in Southeast Asia

(FY03/19: 17.4% of operating revenue; segment loss of JPY17.7bn)

In Indonesia, J Trust operates PT Bank J Trust Indonesia Tbk. (the former PT Bank Mutiara Tbk.), a commercial bank; PT JTrust Investments Indonesia, which is involved in collections of NPLs; and J Trust Olympindo Multi Finance (PT J Trust Olympindo Multi Finance), which conducts financing services.

Bank J Trust Indonesia

Bank Mutiara (currently Bank J Trust Indonesia) became a subsidiary on November 2014.

In November 2014, the company acquired 99.0% of shares in Bank Mutiara Tbk. (currently PT Bank J Trust Indonesia Tbk.), an Indonesian commercial bank, and consolidated it as a subsidiary. Indonesian law dictates that foreign entities may only hold up to 40% of ownership in a commercial bank, but in certain special circumstances, the maximum amount J Trust may hold in Bank J Trust Indonesia may be lifted to 100%.

Bank J Trust Indonesia is an Indonesian commercial bank with a branch network of 62 branches spread across Indonesia and with total assets of about IDR13tn as of the end of March 2014 (JPY120bn; based on an exchange rate of IDR/JPY0.009 as of November 19, 2014). In November 2008, Bank Mutiara came under the control of the Indonesia Deposit Insurance Corporation (Lembaga Penjamin Simpanan [LPS]). Bank Mutiara restructured its operations under LPS' supervision, and LPS began the public bidding process for the sale of all shares in Bank Mutiara in March 2014.

According to the company, deposit insurance is provided for up to IDR2.0bn (between JPY18mn and JPY19mn) for foreign currency denominated deposits and deposits made by foreign residents. This creates a financial structure that can accept and send funds worldwide.

Bank J Trust Indonesia's performance

Key indicators for Bank J Trust Indonesia

(JPYmn)	FY03/15 JGAAP	FY03/16 JGAAP	FY03/17 JGAAP	FY03/17 IFRS	FY03/18 IFRS	FY03/19 IFRS
Loans in banking business	76,089	81,826	90,173	89,630	90,791	93,244
YoY	-	7.5%	10.2%	-	1.3%	2.7%
Average lending interest rate	-	11.4%	10.4%	10.4%	12.0%	9.8%
Average deposit interest rate	-	7.8%	7.6%	7.6%	6.6%	6.6%
Operating revenue from banking business	-	11,871	16,870	13,573	13,818	11,779
YoY	-	-	42.1%	-	1.8%	-14.8%
Op. revenue from banking business / Loan balance	-	15.0%	19.6%	-	15.3%	12.8%

Source: Shared Research based on company data

Bank J Trust Indonesia's earnings (Japanese accounting standards)

(JPYmn)	FY03/15 JGAAP	FY03/16 JGAAP	FY03/17 JGAAP	FY03/17 IFRS	FY03/18 IFRS	FY03/19 IFRS
Loans in banking business	76,089	81,826	90,173	89,630	90,791	93,244
YoY	-	7.5%	10.2%	-	1.3%	2.7%
Deposits in banking business	107,432	100,313	114,081	114,081	119,588	119,257
YoY	-	-6.6%	13.7%	-	4.8%	-0.3%
Operating revenue	-	11,871	16,870	13,573	13,818	11,779
YoY	-	-	42.1%	-	1.8%	-14.8%
Operating revenue / Loan balance	-	14.5%	18.7%	15.1%	15.2%	12.6%
Operating revenue from banking	-	11,871	16,870	13,573	13,818	11,779
Operating expenses	-	10,555	12,155	11,871	8,685	11,472
Deposit interests	-	8,391	10,094	8,080	8,053	7,893
Deposit interests / Deposit balance	-	8.1%	9.4%	-	6.9%	6.6%
Credit costs	-	-	-	2,286	-686	-1,530
Reserve ratio	-	-	-	2.6%	-	-
Other	-	2,163	2,060	1,505	-	-
SG&A expenses	-	7,626	11,077	4,244	4,905	5,332
YoY	-	-	45.3%	-	15.6%	8.7%
SG&A ratio	-	64.2%	65.7%	31.3%	35.5%	45.3%
Credit costs	-	2,395	5,756	-	-	-
Reserve ratio	-	3.0%	6.7%	-	-	-
Personnel expenses	-	3,006	2,707	1,906	2,158	2,288
Other expenses	-	2,224	2,613	2,338	2,747	3,044
Operating profit (loss)	-	-6,310	-6,362	-4,149	1,106	-5,901
YoY	-	-	-	-	-	-
OPM	-	-	-	-	-	-

Source: Shared Research based on company data

Bank J Trust Indonesia's primary revenue source comes from interest on loans (operating revenue in the banking business). In FY03/19, loans by the banking business were JPY93.2bn (JPY90.8bn in FY03/18), and the average lending rate was 9.8% (12.0% in FY03/18). Bank J Trust Indonesia worked to reform its management structure from FY03/16. Under a new management team, it aimed to increase the loan balance in a stable way by reducing low-interest and large-lot corporate loans of about JPY1.0bn, focusing on loans for consumers and loans acquired from collaborating with fintech companies such as P2P lenders, and expanding business alliances with multi-finance companies. However, in FY03/19, the company reshuffled the management and changed its management policy following an increase in NPLs.

The main line items under operating expenses were the deposit interest rate, credit costs, and SG&A expenses. In FY03/19, the average deposit interest rate was 6.6% (6.6% in FY03/18). Bank J Trust Indonesia's deposits were held mostly by large time deposit accounts holders, making the cost of funds relatively high. However, the company is working to decrease the average deposit interest rate by increasing the CASA ratio (ratio of current account and savings account deposits as a percentage of overall deposits). In FY03/18, the CASA ratio was 14.7% (10.0% in FY03/17).

Indonesian business environment

Indonesia is an attractive market with a population of 260mn, GDP growth rate averaging over 6% since 2010, with half of the population under 28 years old and prospects for an expanding middle class. At the same time, the country consists of a group of islands that stretch over a wide area, and 120 million Indonesians (or 46% of the total population) live in non-urban areas. Such individuals only rarely deal with financial institutions.

Also, only around 40% of the population (roughly 100mn people) hold a bank account in Indonesia. Of the population over 15—approximately 180mn people—there will be some 80mn potential customers as incomes grow, according to the company.

Strengths and weaknesses

Strengths

- **Ability to proactively develop business in Asia by leveraging expertise gained in Japan:** J Trust has accumulated expertise in various aspects of the consumer finance business in Japan, including acquisitions, operations, and dealing with regulations. The ability to leverage such expertise in Asia is one of the company's strengths. J Trust believes that the changes observed in the business environment for consumer lending in Japan in the 2000s will also play out in South Korea. It believes that South Korea will lower maximum interest rates, that interest rates on consumer loans will fall, and that banks will account for an increasing share of loans to consumers. In response to such changes in business conditions, the company notes that it has been able to employ a proactive business strategy offering low-interest products to quality customers ahead of its competitors based on its experience in consumer lending in Japan. In FY03/19, the company raised its share of receivables with medium- to low-interest rates and reduced its share of receivables with high rates in anticipation of revisions to regulations such as restrictions on lending volume.
- **Purchasing ability:** The company excels in buying undervalued businesses and receivables. The company uses its proprietary knowledge and business models to collect efficiently. These qualities bear fruit in how the company recovers written-off receivables of Takefuji Corp (defunct) and credit guarantee services where the company strategically partners with banks, introducing customers and dispatching specialists. In addition, the company voluntarily adopted IFRS from Q1 FY03/18. This means it will no longer have to apply straight-line amortization of goodwill required under Japanese accounting standards for future large-scale M&A deals, although under IFRS goodwill will require review by an audit firm based on an impairment test. With the move to IFRS, the company believes there is little chance for existing goodwill particularly in the Indonesian business to negatively impact consolidated earnings for the group, provided the present management stance is maintained.
- **Management can execute:** Shared Research believes J Trust excels at developing businesses in new areas ahead of its rivals. Senior management led by President Fujisawa has been instrumental in this respect, exerting its market analysis and execution capabilities. Senior management led all the activities to date: launch of South Korean savings bank services (2012), rights offering (2013), and the acquisition of Indonesian commercial bank PT Bank Mutiara Tbk in 2014.

Weaknesses

- **Susceptible to regulation:** The company's main businesses, its Financial Business in Japan, its Financial Business in South Korea and Mongolia, and its Financial Business in Southeast Asia, are all regulated businesses. Specifically, its Financial Business in Japan is regulated under the Moneylending Business Act and the Servicer Act, its Financial Business in South Korea and Mongolia is regulated under the Mutual Savings Bank Act, and its Southeast Asia business is regulated by capital adequacy requirements as well as other various regulations. As a result, changes in the regulatory environment can lead to fluctuations in the company's earnings. Until FY03/14, the domestic unsecured loan business was impacted by an amendment to the Moneylending Business Act, etc., and as of September 2016 the company said it was difficult to expect growth in this business, and had effectively exited it.

Rapid growth entails risk of personnel shortages: The company may face problems arising from personnel shortages when undertaking due diligence related to acquisitions or conducting post-acquisition operations. The company employed a large number of accounting officers in preparation of the IFRS adoption, and it is also bringing on M&A personnel and reinforcing its human resources through new hires in fields such as internal control and auditing. Despite these efforts, however, personnel shortages remain a weakness for the company.

Key group companies

J Trust has set up a holdings structure where each group company operates under J Trust. Among the group companies, JT Chinae Savings Bank and Nihon Hoshou in particular provide significant earnings contributions.

Financial Business in Japan

Business area	Key group companies
Credit guarantee	Nihon Hoshou
Credit card and consumer credit	J Trust Card
Servicing (receivables collection)	Nihon Hoshou Partir Servicer

- Nihon Hoshou (100%): Focuses on credit guarantee services, as well as receivables collection. It was formed in March 2012 following the merger of Lopro Corporation (taking over the consumer financial business of Takefuji, defunct) and Nihon Hoshou (credit guarantor). As of June 2018, Nihon Hoshou suspended any new lending operations targeting consumers.
- J Trust Card (99.9%): Operates credit card and consumer credit services.
- Partir Servicer (100%): Loan servicing (receivables collection etc.) company in the financial industry.

Financial Business in South Korea and Mongolia

Business area	Key group companies
Savings bank	JT Chinae Savings Bank JT Savings Bank
Capital business	JT Capital
Servicing (receivables collection)	TA Asset Management
Finance business (Mongolia)	J Trust Credit NBFI

- JT Chinae Savings Bank (100%): Made a subsidiary and began operating mainly in the Seoul area, South Korea, in October 2012. Running 11 branches, the bank operates internet banking, smartphone banking, automatic teller machine services, and others. It aims to raise profitability by integrating J Trust's expertise in credit screening and receivables management, along with consumer loan operations in South Korea, and by buying well-performing consumer loan receivables.
- JT Savings Bank (100%): Made a subsidiary in January 2015. Four branches in South Korea; mainly provides consumer loans.
- JT Capital (100%): Made a subsidiary in March 2015. Provides financial services in South Korea such as home loans, real estate secured loans, car loans, and car leasing.
- TA Asset Management (100%). Changed name from KJI Consumer Finance in April 2015. Operates receivables purchase and collection business in South Korea
- J Trust Credit NBFI (100%): Made a subsidiary in May 2018. Operates finance business in Ulaanbaatar.

Financial Business in Southeast Asia

Business area	Key group companies
Banking	Bank J Trust Indonesia
Servicing (receivables collection)	JTrust Investments Indonesia
Finance business	J Trust Olympindo Multi Finance

- Bank J Trust Indonesia (97.2%): Made a subsidiary in November 2014. Offers comprehensive financial services in Indonesia including loans to SMEs and foreign-exchange business.
- JTrust Investments Indonesia (99.2%): Established in June 2015. Purchases loan receivables from financial institutions and non-banks and recovers them from debtors.
- J Trust Olympindo Multi Finance (60.0%): Subsidiary since October 2018. Engaged in financing business in Indonesia covering used car loans, agricultural equipment, and new cars.

General Entertainment

KeyHolder (42.9%): Made a subsidiary in June 2012. Engages in General Entertainment business.

Real Estate

Keynote (100% owned by KeyHolder, Inc.): Made a subsidiary in March 2013. Real estate. Real estate brokerage/agent. Also develops detached houses and condominiums and buys and restores houses for resale.

J Trust System (100%): Established in May 2009. Carries out system development, infrastructure-related support, and web-related services.

Investment

J Trust Asia (100%): Established in October 2013. Center for Investment business operations overseas and in the ASEAN region.

Historical performance

Full-year FY03/19 results

- Operating revenue: JPY79.4bn (+0.8% YoY)
- Operating loss: JPY32.6bn (JPY4.8bn profit in FY03/18)
- Loss*: JPY36.1bn (JPY731mn loss in FY03/18)

*Loss attributable to owners of parent

Full-year FY03/19 results included the early write-off of NPLs (non-performing loans) in anticipation of earnings recovery from the following year (FY12/19). The company reported consolidated operating revenue of JPY74.9bn, a 0.8% increase over FY03/18. The top-line growth reflects steady growth in interest income at the Financial Business in South Korea, which was enough to offset the decline in interest income at its banking business, where lending was down as a result of changes in the loan portfolio of Bank J Trust Indonesia.

The operating loss of JPY32.6bn compares with operating profit of JPY4.8bn in FY03/18. The operating loss was due to the write-off of all non-performing loans extended by consolidated subsidiary Bank J Trust Indonesia prior to its acquisition (covered with JPY13.0bn in provision for doubtful accounts), and the additional provisioning of JPY20.1bn for doubtful accounts for all of the claims against GL (currently under dispute) held by J Trust Asia.

The loss attributable to owners of parent of JPY36.1bn compares with a loss of JPY731mn in FY03/18. Among the losses booked during the year were losses on the sale of its shareholdings in Highlights Entertainment Co., Ltd. and the accompanying transfer of related receivables.

In Q4 FY03/18, the company classified the General Entertainment Business (general entertainment facilities operation) of Adores, Inc. as discontinued operations. In Q2 FY03/19, it classified the General Entertainment Business of Highlights Entertainment Co., Ltd. (develops, produces, and sells computer systems for amusement machines and peripheral equipment) as discontinued.

In Q1 FY03/19, the company changed the names of some of its segments. Domestic Financial Business was changed to Financial Business in Japan. Financial Business in South Korea was changed to Financial Business in South Korea and Mongolia, reflecting the addition of the business of Mongolia-based Capital Continent Investment NBFI (now, J Trust Credit NBFI), which was made a consolidated subsidiary in Q1.

Financial Business in Japan

- Operating revenue: JPY10.6bn (+16.9% YoY)
- Segment profit: JPY4.3bn (+2.0% YoY)

Factors contributing to top-line growth included increases in guarantee fee income accompanying the rise in the balance of outstanding condominium loan guarantees and, at its receivables collection business, gains on the book value adjustments of purchased receivables(included in interest income) resulting from changes in the revenue recognition method. The rise in segment profit was due to operating revenue offsetting an increase in operating expenses resulting from increases in provisioning for doubtful accounts following revisions in the company's estimates for future cash flows from purchased receivables.

Earnings of main consolidated subsidiaries in this segment Nihon Hoshou and Partir Servicer were as follows.

- Nihon Hoshou posted operating revenue of JPY9.3bn (+16.0% YoY) and operating profit of JPY4.2bn (-2.6% YoY). On top of an increase in guarantee fee revenue, operating revenue grew on increased gains on the book value adjustments of purchased receivables (included in interest income) resulting from changes in the revenue recognition method. Operating profit fell due to an increase in credit costs.

- Partir Servicer posted operating revenue of JPY1.9bn (+47.4% YoY) and operating profit of JPY160mn (versus JPY50mn operating loss in FY03/18). Operating revenue grew on an increase in interest income, gains on the book value adjustments of purchased receivables, and other factors. Despite an increase in credit costs, operating profit increased on higher operating revenue.

Credit guarantee services

Credit guarantee services are provided by Nihon Hoshou. The balance of credit guarantees, the base of revenues in the business, finished the year at JPY202.8bn, a 42.9% increase over the end of FY03/18. Of this amount, the balance of credit guarantees on unsecured loans totaled JPY18.0bn (+11.4% YoY); the balance of credit guarantees on secured loans totaled JPY184.8bn (+47.0% YoY), reflecting increases in credit guarantees on loans secured by real estate, including rental condominiums and overseas real estate. In condominium loans, the partner housing developers mainly select properties close to stations (70% of properties are located within 10-minute walking distance from the nearest station) in the Tokyo, Nagoya, Osaka, and Fukuoka areas (properties in Kanto, Chubu, Kinki, and Kyushu regions account for 97% of all handled properties). (The company carefully selects the housing developers it partners with.) As a result, the occupancy ratio for rental properties under the company's credit guarantees remains above 98%, and as of December 2018, the company has not recorded any default on condominium loans for over 1,900 properties (approval basis) it has provided credit guarantees for. The guarantee fee revenue in the credit guarantee services business is accrued based on the guarantee balance. However, the company said that from FY12/19 onward the growth in the balance of condominium loan guarantees could start to slow due to changes in banks' lending stance. Among guarantees for secured loans other than condominium loans, the balance of overseas real estate-backed loans to high net worth individuals increased.

In March 2019, J Trust, and its consolidated subsidiary, Nihon Hoshou, announced the formation of a business alliance with SAMURAI&J PARTNERS Co., Ltd. (JASDAQ 4764). The purpose of the alliance is to jointly conduct product structuring, promotions and credit guarantee services in the crowdfunding market. In addition to developing new credit guarantee products, the companies will look to increase partnerships with peer-to-peer lending companies in the crowdfunding market (market size of JPY204.4bn in 2018 according to Yano Research Institute Ltd.).

Collection of receivables

Receivables collection in Japan is mainly handled by Nihon Hoshou and Partir Servicer. The balance of purchased receivables for the two companies at the end of FY03/19 was JPY14.6bn (+12.0% YoY).

Financial Business in South Korea and Mongolia

- Operating revenue: JPY39.5bn (+10.2% YoY)
- Segment profit: JPY4.9bn (+37.3% YoY)

Amid continued restrictions on total lending volume in the banking industry through FY03/19, interest income grew due to an increase in the loan balance, particularly of loans with medium interest rates (less than 20.0%). Operating profit increased as a result of higher operating revenue.

In this segment, the company singled out its savings bank and capital business and the receivables collection business as the main businesses in which it expects to realize profit growth. The following is a summary of conditions of the savings bank and capital business and the receivables collection business.

Savings bank business and capital business

JT Chinae Savings Bank and JT Savings Bank offer savings bank services, while JT Capital offers installment payment and leasing services. In Mongolia, J Trust Credit NBFI (J Trust Credit; name changed from Capital Continent Investment NFI in February 2019) operates a finance business.

- ▷ Loans extended by the banking business rose 4.1% YoY to JPY277.9bn. Overall lending by its banking business was still subject to regulatory limits during the year, but it was able to increase the proportion of receivables with medium-to-low interest rates in those areas where conditions had been eased.
- ▷ The balance of operating loans receivable declined 1.6% YoY to JPY60.0bn. The decline reflected decreases in receivables collections and sales of non-performing loans that effectively offset increases elsewhere, including increases in secured loans (backed by real estate, government guarantee, etc.), loans to large corporations, and increases in loans stemming from the addition of J Trust Credit to consolidated accounts.

Simple totals of earnings results for the three companies, JT Chinae Savings Bank, JT Savings Bank, and JT Capital, give operating revenue of JPY37.8bn (+8.7% YoY) and operating profit of JPY4.2bn (+15.3% YoY). Operating revenue was up on an increase in loans. Despite credit costs rising 10.0% YoY to JPY10.5bn, operating profit increased on higher operating revenue.

The loan balance on a local currency basis increased to KRW3.5tn (+7.5% YoY) even though the company reshuffled its portfolio to comply with regulatory requirements (discussed below). The breakdown of the loan balance was KRW1.4tn in unsecured consumer loans (+9.6% YoY), KRW988.2bn in secured consumer loans (-1.8% YoY), and KRW1.0tn in secured loans to corporations (+20.1% YoY).

According to the company, a revision of the Mutual Savings Banking Supervisory Provisions in 2017 raised the ratio of provisions for doubtful accounts for receivables with loan interest rates of 20% and above (1.5x versus previous reserve ratio) and placed restrictions on amounts of lending to individuals (limits YoY growth of new consumer loans to 5.4% or less). In 2018, changes were made in the debtor rehabilitation receivables framework, a lowering of maximum interest rate, and an increase in the reserve rate (under KGAAP). The company indicated that its experience with a decline in maximum consumer loan rates and limits on total volume in Japan allowed it to adapt to the tighter regulations in advance by raising its share of receivables with medium- to low-interest rates (of around 16%). The company commented that moves to relax limits on the volume of loans with medium- to low-interest rates started in 2H 2018.

The ratio of delinquent loan balance (amount of loans at least 90 days delinquent) to total loan balance as of March 31, 2019 was 4.0% as a result of increases in the new loan balance under stringent credit management, continuing to trend at around the 4% mark.

・Changes in debtor rehabilitation receivables framework: The repayment period for receivables that have gone through debtor rehabilitation proceedings may be shortened from the original five years to three years, and the average debt reduction rate may be raised from the past level of around 30% to a maximum of 60%.
・Maximum interest rate: In February 2018, the maximum interest rate was lowered from 27.9% to 24.0%.
・Increase in the reserve ratio on KGAAP: The company says the ratio will gradually increase over three years based on the classification of delinquent loans. For normal receivables, the ratio will go up from the current 0.5% to a maximum of 1.5%; for questionable loans, the ratio will rise from the current 2% to a maximum of 15%.

The average lending interest rate and average deposit interest rate—key factors that influence earnings in this business—show a drop in the former and rise in the latter. The decline in the average lending interest rate reflected a reduction in the maximum interest rate from 27.9% to 24.0% in February 2018, as well as the company's strategy of offering low-interest products to customers with good credit ahead of its competitors and increasing loans with medium-interest rates.

Loan servicing business

TA Asset Management handles the purchase and collection of non-performing loans (NPLs). At the end of FY03/19 the balance of purchased receivables was JPY3.2bn, a 23.7% increase over the end of FY03/18.

Financial Business in Southeast Asia

- ▷ Operating revenue: JPY13.0bn (-4.1% YoY)

- Segment loss: JPY17.7bn (JPY1.5bn profit in FY03/18)

Operating revenue fell at Bank J Trust Indonesia due to lower interest income on a decline in loans at the banking business. The segment booked a loss as bad debt write-offs increased as a result of the company's decision to take a one-time write-off of all non-performing loans at Bank J Trust Indonesia.

Banking business

In Indonesia, Bank J Trust Indonesia conducts the company's banking operations, and J Trust Olympindo Multi Finance (hereafter, JTO) conducts the company's financing operations for vehicles, agricultural machinery and others. At the end of FY03/19 the banking business had total loans outstanding of JPY67.0bn, down 26.2% versus the end of FY03/18. The decline reflected the company's decision to write off all the non-performing loans at Bank J Trust Indonesia at once, including the pre-acquisition legacy loans.

The loan balance (combined total for own loans and acquired loans) decreased 28% YoY to IDR8.4tn of end-March 2019 as a result of writing off NPLs. The ratio of delinquent loan balance (amount of loans at least 90 days delinquent) to total loan balance was 5.6%. The seemingly high ratio was, however, due to the rapid decline in loan balance, and the company explained it did not indicate an environment where delinquent loans were rapidly increasing. According to the company, it will focus on reducing the loan balance over 2019 with the expectation that the loan balance will turn around from 2020 following the writing off of NPLs.

Bank J Trust Indonesia is in the process of making improvements in cost, employee training, and compliance with laws and regulations. The bank has essentially stopped providing new loans other than joint finance with JTO. As of May 2019, the company had taken the following steps to turn a segment profit.

- Bank J Trust Indonesia: Commitment to preventing NPL, targeting a return to profitability in FY12/21
- PT JTrust Investments Indonesia: Accelerate recovery of NPL
- JTO: Accelerate accumulation of secured loans (assets that have cash conversion value such as car loans) provided jointly by Bank J Trust Indonesia and JTO. The loan book for joint finance between the two companies was IDR1.4tn as of May 2019
- Other: Reduce/retrain work force, close inefficient branches, review advertising and promotional spending

JTO is a multi-finance company that has a network of outlets (40 combining the headquarter and branches) throughout Indonesia and strong partnerships with financial institutions including major banks. In October 2018, J Trust Asia acquired 60% of all issued common shares of JTO and made it a consolidated subsidiary. The company looks to generate synergies with JTO as its newly made subsidiary. JTO has already started agricultural equipment financing for Kubota, Yanmar, Iseki, and Kioti brand equipment and new car financing with TATA. JTO believes that by coming under the umbrella of the company, it can improve its ability to raise funds, increase loan balance, and improve profitability. In FY12/17, OMF posted operating revenue of JPY3.4bn and pre-tax profit of JPY186mn.

Loan servicing business

In Indonesia, PT JTrust Investments Indonesia conducts receivables collection services. At the end of FY03/19, the balance of purchased receivables was JPY14.4bn versus JPY773mn at the end of FY03/18. PT JTrust Investments Indonesia posted operating revenue of JPY388mn (-JPY266mn in FY03/18) and an operating loss of JPY11.4bn (JPY648mn loss in FY03/18). The operating loss increased due to booking credit costs totaling JPY11.4bn.

General Entertainment

- Operating revenue: JPY1.5bn (JPY0mn in FY03/18)
- Segment loss: JPY15mn (JPY0mn in FY03/18)

KeyStudio, Inc. operates a live entertainment business, KeyProduction, Inc. creates television programs, and SKE operates a performing arts production businesses. All three business went into operation in FY03/19.

Note that in September 2018, the company decided to transfer its shareholdings in and outstanding receivables owed to Highlights Entertainment Co., Ltd. (develops, produces, and sells computer systems for amusement machines and peripheral equipment). It completed the transfer in October 2018, and classified the business as a discontinued operation.

Real Estate

- ▷ Operating revenue: JPY6.4bn (-6.8% YoY)
- ▷ Segment profit: JPY91mn (-86.2% YoY)

Keynote Co., Ltd. operates the real estate business, and KeyHolder, Inc. runs the real estate asset business. Deliveries of detached homes were firmly on track but operating revenue finished down as property sales led to a decline in rental income. The drop in segment profit reflected higher costs resulting from the implementation of initiatives aimed at expanding the business, with some of the added costs going into the cost of sales and others going under SG&A expenses.

Investment

- ▷ Operating revenue: JPY1.0bn (-85.8% YoY)
- ▷ Segment loss: JPY20.6bn (JPY2.9bn loss in FY03/18)

J Trust Asia operates the investment business and provides management support to the investee companies. The decline in operating revenue reflects the dropout of "other revenues" booked in connection with the change in debt categorization arising from the cancellation of GL convertible bonds in FY03/18. The larger segment loss resulted from the company's decision to post an additional JPY18.4bn in provisions for doubtful accounts over FY03/18 for losses on all of J Trust Asia’s claims against GL, which are currently under dispute.

Cumulative Q3 FY03/19 results

- ▷ Operating revenue: JPY55.2bn (-3.1% YoY)
- ▷ Operating loss: JPY29.8bn (operating profit of JPY3.5bn in Q3 FY03/18)
- ▷ Loss*: JPY32.8bn (JPY20mn loss in Q3 FY03/18)

*Loss attributable to owners of parent

Operating revenue fell despite solid growth in interest income in the Financial Business in South Korea due to lower interest income at Bank J Trust Indonesia on a lower loan balance following reshuffling of its loan portfolio.

The company booked a loss as it decided to deal with all of the non-performing loans (NPLs) that consolidated subsidiary PT Bank J Trust Indonesia held prior to acquisition at once as well as conservatively book provisions for doubtful accounts (and at-risk loans) arising after the acquisition. As a result, the company booked a JPY10.8bn loss in the corresponding business segment. The company also booked provisions for doubtful accounts totaling JPY19.9bn for all of the claims against GL (currently under dispute) held by J Trust Asia.

In addition to the operating loss outlined above, the company booked a loss attributable to owners of parent of JPY2.8bn from a discontinued operation accompanying the transfer of its shareholdings in Highlights Entertainment Co., Ltd. and outstanding receivables. Having booked upfront an amount to cover all foreseeable risk in FY03/19, the company aims for fast earnings recovery by improving business performance.

In Q4 FY03/18, the company classified the General Entertainment Business (general entertainment facilities operation) of Adores, Inc. as discontinued operations. In Q2 FY03/19, it classified the General Entertainment Business of Highlights Entertainment Co., Ltd. (develops, produces, and sells computer systems for amusement machines and peripheral equipment) as discontinued. In October 2018, the company transferred its shareholdings in Highlights Entertainments Co., Ltd., and outstanding receivables.

In Q1 FY03/19, the company changed the names of some of its segments. Domestic Financial Business was changed to Financial Business in Japan. Financial Business in South Korea was changed to Financial Business in South Korea and Mongolia, reflecting the addition of the business of Mongolia-based Capital Continent Investment NBFI, which was made a consolidated subsidiary in Q1.

Financial Business in Japan

- Operating revenue: JPY7.3bn (+3.9% YoY)
- Segment profit: JPY3.3bn (-5.6% YoY)

Operating revenue rose YoY, but segment profit declined as the company reviewed its future cash flows from purchased receivables and accordingly booked a provision for doubtful accounts.

Earnings of main consolidated subsidiaries in this segment Nihon Hoshou and Partir Servicer were as follows.

- Nihon Hoshou posted operating revenue of JPY6.5bn (+5.2% YoY) and operating profit of JPY3.5bn (-2.4% YoY). Operating revenue grew on an increase in guarantee fee revenue, but operating profit fell due to an increase in credit costs.
- Partir Servicer posted operating revenue of JPY1.1bn (+12.1% YoY) and operating loss of JPY96mn (versus JPY0mn operating loss in Q3 FY03/18). Operating revenue grew on an increase in interest income and other factors, but the operating loss widened due to an increase in credit costs.

Credit guarantee services

Credit guarantee services are provided by Nihon Hoshou. The balance of credit guarantees, the base of revenues in the business, totaled JPY200.6bn (+55.6% YoY). The breakdown was JPY18.6bn (+12.3% YoY) in credit guarantees on unsecured loans and JPY181.9bn (+62.0% YoY) in credit guarantees on secured loans with an increase in guarantees for condominium loans to JPY151.3bn (+70.8% YoY). In condominium loans, the partner housing developers mainly select properties close to stations (70% of properties are located within 10-minute walking distance from the nearest station) in the Tokyo, Nagoya, Osaka, and Fukuoka areas (properties in Kanto, Chubu, Kinki, and Kyushu regions account for 97% of all handled properties). (The company carefully selects the housing developers it partners with.) As a result, the occupancy ratio for rental properties under the company's credit guarantees remains above 98%, and as of December 2018, the company has not recorded any default on condominium loans for over 1,900 properties (approval basis) it has provided credit guarantees for. The guarantee fee revenue in the credit guarantee services business is accrued based on the guarantee balance. However, the company said that from FY03/20 onward the growth in the balance of condominium loan guarantees could start to slow due to changes in banks' lending stance. Among guarantees for secured loans other than condominium loans, the balance of overseas real estate-backed loans to high net worth individuals increased.

Collection of receivables

Receivables collection in Japan is handled by Nihon Hoshou and Partir Servicer. The balance of purchased receivables was JPY16.1bn (+28.0% YoY).

Financial Business in South Korea and Mongolia

- Operating revenue: JPY30.2bn (+12.6% YoY)
- Segment profit: JPY4.0bn (+29.2% YoY)

The increase in operating revenue for the segment was due to an increase in interest income. The YoY rise in segment profit accompanied revenue growth.
In this segment, the company singled out its savings bank and capital business and the receivables collection business as the main businesses in which it expects to realize profit growth. The following is a summary of conditions of the savings bank and capital business and the receivables collection business.

Savings bank business and capital business

JT Chinae Savings Bank and JT Savings Bank conduct savings bank services, and JT Capital conducts installment payment and lease services. In Mongolia, J Trust Credit NBFI (J Trust Credit; name changed from Capital Continent Investment NFI in February 2019) operates a finance business.

Loans by the banking business stood at JPY285.2bn (+4.3% YoY) and operating loans were JPY61.6bn (-4.1% YoY). Despite rises in secured loans (mainly backed by real estate and government guarantees) and loans to large corporations as well as the consolidation of J Trust Credit from Q2, the balance of operating loans declined on collection of receivables and NPL sales.

Simple totals of earnings results of JT Chinae Savings Bank, JT Savings Bank, and JT Capital give operating revenue of JPY28.9bn (+11.3% YoY) and operating profit of JPY3.6bn (+15.5% YoY). Operating revenue was up on an increase in loans, and operating profit also went up despite a 27.7% YoY increase in credit costs to JPY8.3bn.

The loan balance on a local currency basis increased to KRW3.6tn (+13.7% YoY) even though the company reshuffled its portfolio to comply with regulatory requirements (discussed below). The breakdown of the loan balance was KRW1.4tn in unsecured consumer loans (+15.1% YoY), KRW1.1tn in secured consumer loans (+21.4% YoY), and KRW961.9bn in secured loans to corporations (+3.4% YoY).

According to the company, a revision of the Mutual Savings Banking Supervisory Provisions in 2017 raised the ratio of provisions for doubtful accounts for receivables with loan interest rates of 20% and above (1.5x versus previous reserve ratio) and placed restrictions on amounts of lending to individuals (limits YoY growth of new consumer loans to 5.4% or less). In 2018, changes were made in the debtor rehabilitation receivables framework, a lowering of maximum interest rate, and an increase in the reserve rate (under KGAAP). The company indicated that its experience with a decline in maximum consumer loan rates and limits on total volume in Japan allowed it to adapt to the tighter regulations in advance by raising its share of receivables with medium- to low-interest rates (of around 15%). The company commented that moves to relax limits on the volume of loans with medium- to low-interest rates started in 2H 2018.

The ratio of delinquent loan balance (amount of loans at least 90 days delinquent) to total loan balance for December 2018 was 4.2% as a result of increases in the new loan balance under stringent credit management, continuing to trend at around the 4% mark.

・Changes in debtor rehabilitation receivables framework: The repayment period for receivables that have gone through debtor rehabilitation proceedings may be shortened from the original five years to three years, and the average debt reduction rate may be raised from the past level of around 30% to a maximum of 60%.
・Maximum interest rate: In February 2018, the maximum interest rate was lowered from 27.9% to 24.0%.
・Increase in the reserve ratio on KGAAP: The company says the ratio will gradually increase over three years based on the classification of delinquent loans. For normal receivables, the ratio will go up from the current 0.5% to a maximum of 1.5%; for questionable loans, the ratio will rise from the current 2% to a maximum of 15%.

The average lending interest rate and average deposit interest rate—key factors that influence earnings in this business—at the two savings show a drop in the former and rise in the latter. The decline in the average lending interest rate reflected a reduction in the maximum interest rate from 27.9% to 24.0% in February 2018, as well as the company's strategy of offering low-interest products to customers with good credit ahead of its competitors and increasing loans with medium—interest rates.

Loan servicing business

TA Asset Management handles the purchase and collection of non-performing loans (NPLs). The balance of purchased receivables was JPY2.4bn (+5.0% YoY) and the claimable loan balance was KRW230.9bn (+21.1% YoY).

Financial Business in Southeast Asia

- ▷ Operating revenue: JPY9.4bn (-10.8% YoY)
- ▷ Segment loss: JPY14.3bn (JPY1.1bn profit in Q3 FY03/18)

Operating revenue fell at Bank J Trust Indonesia due to lower interest income on a decline in loans at the banking business. The business recorded a segment loss as the company decided to write off all NPLs at Bank J Trust Indonesia at once. The company transferred restructured loans and delinquent loans to a servicer subsidiary and conservatively booked a provision.

In Q3 FY03/19, when the company wrote off all NPLs, the Financial Business in Southeast Asia posted operating revenue of JPY3.2bn (-3.6% YoY) and segment loss of JPY11.9bn (versus a JPY1.4bn segment profit in Q3 FY03/18). The company plans to book further provisions for doubtful accounts in Q4 and expects a full-year segment loss of JPY18.3bn.

Banking business

PT Bank J Trust Indonesia Tbk (Bank J Trust Indonesia) conducts the company's banking operations in Indonesia. Bank J Trust Indonesia posted operating revenue of JPY8.7bn (-18.1% YoY) and operating loss of JPY3.2bn (versus a JPY1.3bn operating profit in Q3 FY03/18). The balance of loans in the banking business stood at JPY77.1bn (-19.0% YoY). The company decided to write off the NPLs at Bank J Trust Indonesia at once to clean up the NPLs, and the loan balance declined as a result. The delinquency rate (loans delinquent over 90 days) fell from 5.3% in September 2018 to 4.3% in December 2018 as a result of writing off NPLs.

Bank J Trust Indonesia is in the process of making improvements in cost, employee training, and compliance with laws and regulations. The bank has stopped providing new loans other than joint finance with PT J Trust Olympindo Multi Finance. As of February 2019, the company had taken the following steps to turn a segment profit.

- ▷ Bank J Trust Indonesia: Commitment to preventing NPL, targeting a return to profitability in FY03/20
- ▷ PT JTrust Investments Indonesia: Accelerate recovery of NPL
- ▷ PT J Trust Olympindo: Improve portfolio, accelerate accumulation of secured loans (assets that have cash conversion value such as car loans) provided jointly by Bank J Trust Indonesia and PT J Trust Olympindo (JTO), a new group company. The loan book for joint finance between the two companies was IDR1.2tn as of January 2019
- ▷ Other: Reduce/retrain work force, close inefficient branches, review advertising and promotional spending

JTO is a multi-finance company that has a network of outlets (40 combining the headquarter and branches) throughout Indonesia and strong partnerships with financial institutions including major banks. In October 2018, J Trust Asia acquired 60% of all issued common shares of JTO and made it a consolidated subsidiary. The company looks to generate synergies with JTO as its newly made subsidiary. JTO has already started financing agricultural equipment through tie-ups with Kubota, Yanmar, Iseki, and Kioti and new car financing with TATA. JTO believes that by coming under the umbrella of the company, it can improve its ability to raise funds, increase loan balance, and improve profitability. In FY12/17, OMF posted operating revenue of JPY3.4bn and pre-tax profit of JPY186mn.

Loan servicing business

In Indonesia, PT JTrust Investments Indonesia conducts receivables collection services. PT JTrust Investments Indonesia posted operating revenue of JPY3.0mn (loss of JPY66mn in Q3 FY03/18) and an operating loss of JPY7.8bn (JPY377mn loss in Q3 FY03/18). The operating loss increased due to booking provisions for doubtful accounts totaling JPY7.8bn. The balance of purchased receivables came to JPY10.4bn (+839.0% YoY) at the end of Q3 FY03/19.

General Entertainment

- ▷ Operating revenue: JPY949mn (no YoY comparison)
- ▷ Segment loss: JPY2mn (no YoY comparison)

KeyStudio, Inc. operates a live entertainment business, and KeyProduction, Inc. creates television programs. Both businesses have been effectively operating from July 2018.

Note that in September 2018, the company resolved a transfer of its shareholdings and outstanding receivables related to Highlights Entertainment Co., Ltd. (developed, produced, and sold computer systems for amusement machines and peripheral equipment). It completed the transfer in October 2018, and classified it as a discontinued business.

Real Estate

- Operating revenue: JPY4.1bn (+0.8% YoY)
- Segment profit: JPY22mn (-89.9% YoY)

Keynote Co., Ltd. handles the real estate business, and KeyHolder, Inc. runs the real estate asset business. Revenue in the detached housing business was up due to solid deliveries. Segment profit was down YoY due to rising SG&A expenses and other costs as the company took a number of measures to grow the scope of the business.

Investment

- Operating revenue: JPY788mn (-88.8% YoY)
- Segment loss: JPY20.1bn (segment loss of JPY2.8bn in Q3 FY03/18)

J Trust Asia operates the investment business and provides management support to the investee companies. Operating revenue declined YoY. In Q3 FY03/18, the company booked revenue from a change in debt category arising from the cancellation of GL convertible bonds as other revenue, which did not recur in Q3 FY03/19. The segment loss widened as the company decided to book doubtful debt provisions on all of J Trust Asia's claims against GL (under dispute).

1H FY03/19 results

Operating revenue in 1H FY03/19 was JPY36.6bn (+5.6% YoY). Operating revenue grew on solid growth in interest income in the Financial Business in South Korea.

Operating profit was JPY25mn (-99.5% YoY). The operating profit dropped YoY mainly because the company raised its provisions for doubtful accounts in line with the adoption of IFRS 9 Financial Instruments (IFRS 9) in its Financial Business in South Korea and Mongolia as well as Financial Business in Southeast Asia.

The loss attributable to owners of parent was JPY2.2bn (versus profit of JPY2.3bn in 1H FY03/18). The company booked losses accompanying the transfer of its shareholdings in Highlights Entertainment Co., Ltd. and outstanding loans receivable.

> In Q4 FY03/18, the company classified the General Entertainment Business (operates general entertainment facilities) of Adores, Inc. as discontinued operations. In Q2 FY03/19, it classified the General Entertainment Business of Highlights Entertainment Co., Ltd. (develops, produces, and sells computer systems for amusement machines and peripheral equipment) as discontinued.

> In Q1 FY03/19, the company changed the names of some of its segments. Domestic Financial Business was changed to Financial Business in Japan. Financial Business in South Korea was changed to Financial Business in South Korea and Mongolia, reflecting the addition of the business of Mongolia-based Capital Continent Investment NBFI, which was made a consolidated subsidiary in Q1.

In 1H FY03/19, operating revenue was 43.9% of the full-year forecast and operating profit just 0.4%. The Financial Business in Southeast Asia posted an operating loss due to increased provisions for doubtful accounts stemming from the adoption of IFRS 9 and a rise in non-performing loans. This is the main reason that little progress was made against the company's full-year operating profit forecast.

Financial Business in Japan

Operating revenue was JPY4.9bn (-1.7% YoY) and segment profit was JPY2.2bn (-13.5% YoY). Operating revenue declined YoY due to a drop in interest income, which absorbed the increase in guarantee fee revenue. Segment profit also declined YoY as the company reviewed its future cash flows from purchased receivables and accordingly booked a provision for doubtful accounts. Versus full-year FY03/19 company forecasts, operating revenue reached 49.4% and operating profit 47.6%.

Earnings results of the segment's key consolidated subsidiaries Nihon Hoshou and Partir Servicer were as follows.

- Nihon Hoshou reported operating revenue of JPY4.3bn (-1.8% YoY) and operating profit of JPY2.3bn (-10.5% YoY). Operating revenue saw an increase in guarantee fee revenue but a drop in interest income. Operating profit fell due to lower revenue and an increase in credit costs.
- Partir Servicer posted operating revenue of JPY722mn (+15.5% YoY) and operating loss of JPY97mn (operating loss of JPY26mn). Operating revenue rose on higher interest income while operating profit fell due to an increase in credit costs.

Credit guarantee services

Credit guarantee services are provided by Nihon Hoshou. The balance of credit guarantees, the base of revenues in the business, totaled JPY173.3bn (+54.5% YoY). The breakdown was JPY18.7bn (+11.5% YoY) in credit guarantees on unsecured loans and JPY154.6bn (+62.0% YoY) in credit guarantees on secured loans with an increase in guarantees for condominium loans to JPY127.1bn (+78.5% YoY).

In condominium loans, the partner housing developers mainly select properties close to stations (70% of properties are located within 10-minute walking distance from the nearest station) in the Tokyo, Nagoya, Osaka, and Fukuoka areas (properties in Kanto, Chubu, Kinki, and Kyushu regions account for 97% of all handled properties). (The company carefully selects the housing developers it partners with.) As a result, the occupancy ratio for rental properties under the company's credit guarantees remains above 98%, and the company has not recorded any default on condominium loans for roughly 1,700 properties it has provided credit guarantees for in the last four years. However, the company said that from FY03/20 onward the growth in the balance of condominium loan guarantees could start to slow due to stricter bank lending standards. Among secured loans other than condominium loan guarantees, the balance of overseas real estate-backed loans increased.

Nihon Hoshou booked JPY997mn (+17.3% YoY) in guarantee fee revenue. Guarantee fee revenue increased at a slower rate than credit guarantee balances due to an increase in the share of condominium loans, which have a relatively low guarantee fee rate.

Collection of receivables

Receivables collection in Japan is mainly handled by Nihon Hoshou and Partir Servicer. The balance of purchased receivables was JPY16.3bn (+29.5% YoY).

Financial Business in South Korea and Mongolia

Operating revenue was JPY20.2bn (+16.0% YoY) and segment profit was JPY2.4bn (-2.0% YoY). The increase in operating revenue for the segment was due to an increase in interest income. Despite lower SG&A expenses, segment profit declined YoY primarily due to the booking of additional provision for doubtful accounts accompanying the adoption of IFRS 9. Progress versus FY03/19 full-year forecasts was solid: 53.3% for operating revenue and 98.9% for operating profit.

In this segment, the company singled out its savings bank and capital business and the receivables collection business as the main businesses in which it expects to realize profit growth. The following is a summary of conditions of the savings bank and capital business and the receivables collection business.

Savings bank business and capital business

JT Chinae Savings Bank and JT Savings Bank conduct savings bank services, and JT Capital conducts installment payment and lease services. In Mongolia, Capital Continent Investment NBFI (CCI) operates a finance business.
Loans by the banking business stood at JPY296.5bn (+20.0% YoY) and operating loans were JPY64.8bn (+13.6% YoY). Operating loans expanded mainly on an increase in secured loans (backed by real estate, government guarantee, and other assets) and loans to large corporations as well as the consolidation of CCI from Q2. Simple totals of earnings results of JT Chinae Savings Bank, JT Savings Bank, and JT Capital give operating revenue of JPY19.2bn (+13.5% YoY) and operating profit of JPY2.2bn (-8.0% YoY). Operating revenue was up on an increase in loans, but credit costs grew 20.2% YoY to JPY5.9bn, pushing down operating profit.

The loan balance on a local currency basis increased to KRW3.6tn (+19.3% YoY) even though the company reshuffled its portfolio to comply with regulatory requirements (discussed below). The breakdown of the loan balance was KRW1.4tn in unsecured consumer loans (+17.7% YoY), KRW1.1tn in secured consumer loans (+34.0% YoY), and KRW958.5bn in secured loans to corporations (+5.1% YoY).

According to the company, a revision of the Mutual Savings Banking Supervisory Provisions in 2017 raised the ratio of provisions for doubtful accounts for receivables with loan interest rates of 20% and above (1.5x versus previous reserve ratio) and placed restrictions on amounts of lending to individuals (limits YoY growth of new consumer loans to 5.4% or less). In 2018, the company looks for changes in debtor rehabilitation receivables framework, a lowering of maximum interest rate, and an increase in the reserve rate (under KGAAP). The company indicated that its experience with a decline in maximum consumer loan rates and limits on total volume in Japan allowed it to adapt to the tighter regulations in advance by raising its share of receivables with medium- to low-interest rates. The ratio of delinquent loan balance (amount of loans at least 90 days delinquent) to total loan balance for September 2018 was 4.0% (4.4% in September 2017) as a result of increases in the new loan balance under stringent credit management.

・Changes in debtor rehabilitation receivables framework: The repayment period for receivables that have gone through debtor rehabilitation proceedings may be shortened from the original five years to three years, and the average debt reduction rate may be raised from the past level of around 30% to a maximum of 60%.
・Maximum interest rate: In February 2018, the maximum interest rate was lowered from 27.9% to 24.0%.
・Increase in the reserve ratio on KGAAP: The company says the ratio will gradually increase over three years based on the classification of delinquent loans. For normal receivables, the ratio will go up from the current 0.5% to a maximum of 1.5%; for questionable loans, the ratio will rise from the current 2% to a maximum of 15%.

The average lending interest rate and average deposit interest rate—key factors that influence earnings in this business—at the two savings banks were 12.0% (13.3% in Q2 FY03/18) and 2.5% (2.3% in Q2 FY03/18), respectively (calculated on a weighted average basis). The decline in the average lending interest rate reflected a reduction in the maximum interest rate from 27.9% to 24.0% in February 2018, as well as the company's strategy of offering low-interest products to customers with good credit ahead of its competitors.

Loan servicing business

TA Asset Management handles the purchase and collection of non-performing loans (NPLs). The balance of purchased receivables was JPY2.4bn (+38.3% YoY).

Financial Business in Southeast Asia

Operating revenue was JPY6.3bn (-14.1% YoY). The company posted a segment loss of JPY2.4bn (JPY256mn loss in 1H FY03/18). At Bank J Trust Indonesia, interest income fell on a decline in loans by the banking business, leading to a drop in operating revenue. The YoY drop in segment profit was primarily due to the booking of additional provision for doubtful accounts accompanying the adoption of IFRS 9. Operating revenue reached 32.6% of the company's full-year FY03/19 forecasts and the segment recorded an operating loss of JPY2.4bn versus a full-year operating profit forecast of JPY2.6bn.

Banking business

PT Bank J Trust Indonesia Tbk (Bank J Trust Indonesia) conducts the company's banking operations in Indonesia. Bank J Trust Indonesia posted operating revenue of JPY6.1bn (-18.8% YoY) and operating loss of JPY2.4bn (operating profit of JPY175mn in 1H FY03/18). Loans by the banking business increased in local currency terms, but operating revenue declined YoY on sluggish interest income caused by a drop in average lending interest rate. The YoY drop in segment profit was due to an increase in provision for doubtful accounts accompanying the adoption of IFRS 9 and a rise in non-performing loans accompanying a higher NPL ratio. Credit costs were JPY1.9bn (+172.5% YoY).

The bank worked to fortify its revenue base by implementing various initiatives such as expanding its loan assets, accelerating disposal of non-performing loans, and shifting its loan assets toward small-lot and retail loans.

▷ The balance of loans in the banking business stood at JPY90.4bn (-2.3% YoY). In local currency terms, the balance amounted to IDR11.9tn (+7.4% YoY). The company reshuffled its loan portfolio, reducing large loans while increasing small-lot and retail loans. Versus end-Q1, the balance of loans in the banking business was down 1.7%. The bank took a more cautious attitude toward growing its loan book because of a rise in the NPL ratio on its own loans.

- The average lending interest rate fell to 10.93% (from 10.95% in Q2 FY03/18). The average deposit interest rate was 6.40% (7.19% in Q2 FY03/18), and the gross NPL ratio (share of overall loans that were overdue by at least 90 days) was 5.3% (3.4% in Q2 FY03/18).

As of November 2018, Bank J Trust Indonesia's priorities were the collection and reduction of nonperforming loans, accumulation of healthy assets, and improvements in profit margins. Accordingly, the bank has been stepping up its efforts through the following initiatives.

- Collection of nonperforming loans: Formed a task force and called upon expert advisors in 1H to strengthen its collection efforts.
- Reduction of bad debts: Re-evaluating all loan receivables (revisiting debtors and re-analyzing loans), calling in the task force as necessary. Also reviewing and improving its loan approval processes.
- Loan book: Making efforts to improve its portfolio. Also working to quickly build a book of loans backed by assets with resale value (such as cars) through joint financing with new group member J Trust Olympindo (JTO). As of November 2018, the balance of loans jointly financed by Bank J Trust Indonesia and JTO stood at IDR1.2tn.
- Profit margin improvements: As of November 2018, the company was planning to reduce its fundraising costs by gathering ordinary deposits by launching internet banking for individual customers as soon as possible (awaiting Financial Services Authority approval). In addition, expecting growth in retail loans by JTO to help improve lending rates.

JTO is a multi-finance company that has a network of outlets (40 combining the headquarter and branches) throughout Indonesia and strong partnerships with financial institutions including major banks. In April 2018, the company and JTO entered into a share transfer agreement and an agreement regarding subscription to JTO's capital increase via third-party allotment, bringing the company's shareholding in JTO to 60% of all issued common shares. The company looks to generate synergies with JTO as its newly made subsidiary. JTO has already started financing agricultural equipment through tie-ups with Kubota, Yanmar, and Kioti and new car financing with TATA. JTO believes that by coming under the umbrella of the company, it can improve its ability to raise funds, increase loan balance, and improve profitability. In FY12/17, OMF posted operating revenue of JPY3.4bn and pre-tax profit of JPY186mn.

Loan servicing business

In Indonesia, PT JTrust Investments Indonesia conducts receivables collection services. The balance of purchased receivables came to JPY1.3bn (-36.2% YoY) at the end of 1H FY03/19.

General Entertainment

KeyStudio, Inc. operates a live entertainment business, and KeyProduction, Inc. creates television programs. Both businesses were effectively operating from July 2018, and operating revenue was JPY547mn (nil in 1H FY03/18) and segment profit was JPY3mn (nil).

Note that in September 2018, the company decided to transfer its shareholding in Highlights Entertainment Co., Ltd. (which develops, produces, and sells computer systems for amusement machines and peripheral equipment) as well as the outstanding loans receivable. It completed the transfer in October 2018, and classified the entity as a discontinued business.

Real Estate

Operating revenue was JPY2.6bn (-8.0% YoY) and segment profit was JPY41mn (-72.5% YoY). Keynote Co., Ltd. handles the real estate business, and KeyHolder, Inc. runs the real estate asset business. Revenue in the detached housing business was down due to sluggish deliveries. Segment profit was down YoY mainly due to rising costs and SG&A expenses as the company took a number of measures to expand the business scale.

Investment

Operating revenue was JPY550mn (-50.6% YoY) and segment loss was JPY291mn (segment profit of JPY1.1bn in 1H FY03/18). J Trust Asia operates the investment business and provides management support to the investee companies. Operating revenue and segment profit were down YoY due to a drop in interest income from securities holdings.

Q1 FY03/19 results

Operating revenue in Q1 FY03/19 was up 1.0 % YoY to JPY17.8bn driven by revenue growth in the Financial Business in South Korea and Mongolia.

Operating profit was JPY593mn (-75.9% YoY). The operating profit dropped YoY mainly because the company raised its provisions for doubtful accounts in line with the adoption of IFRS 9 Financial Instrument (IFRS 9) and an increase in non-performing loans in the Financial Business in Southeast Asia.

Profit attributable to owners of parent was JPY1.5bn (-16.1% YoY). Pre-tax profit declined at a slower rate than operating profit did due to the booking of JPY1.1bn in foreign exchange gains at J Trust Asia.

In Q4 FY03/18, the company sold all of its shares in Adores, Inc., and has hence forth classified the business of Adores as a discontinued operation. The operating revenue and operating profit indicated for the fiscal years in comparison have been adjusted to reflect the results of the continuing operations (and exclude those of the discontinued operation).

In Q1 FY03/19, the company changed the names of some of its segments. Domestic Financial Business was changed to Financial Business in Japan. Financial Business in South Korea was changed to Financial Business in South Korea and Mongolia, reflecting the addition of the business of Mongolia-based Capital Continent Investment NBFI, which was made a consolidated subsidiary in Q1.

Operating revenue and operating profit posted sluggish performance versus full-year FY03/19 forecasts with progress rates of 21.4% and 8.4%, respectively. Operating profit fell short of plan largely due to a segment loss in the Financial Business in Southeast Asia stemming from additional reserve for doubtful accounts accompanying the adoption of IFRS 9 and an increase in non-performing loans. Despite Q1 results falling short of plan, the company has not revised its full-year earnings forecasts. It plans to improve earnings in the Financial Business in Southeast Asia from Q2 onward by implementing various initiatives, including consolidation of Olympindo Multi Finance and taking advantage of resulting synergies.

Financial Business in Japan

Operating revenue was JPY2.4bn (+2.5% YoY), and segment profit was JPY970mn (-13.5% YoY). Brisk inflow of interest income and credit guarantee fee revenue added to operating revenue, but segment profit declined YoY as the company reviewed its future cash flows from purchased receivables and accordingly booked a reserve for doubtful accounts. Versus full-year FY03/19 company forecasts, operating revenue reached 23.9% and operating profit 21.5%.

Earnings results of the segment's key consolidated subsidiaries Nihon Hoshou and Partir Servicer were as follows.

- ▷ Nihon Hoshou reported operating revenue of JPY2.1bn (-1.8% YoY) and operating profit of JPY1.0bn (-16.4% YoY). Operating revenue rose on the back of higher interest income and guarantee fee revenue. Operating profit fell due to an increase in credit costs.
- ▷ Partir Servicer posted operating revenue of JPY356mn (+41.9% YoY) and operating loss of JPY48mn (operating loss of JPY66mn in Q1 FY03/18). Operating revenue rose on higher interest income while operating profit fell due to an increase in credit costs.

Credit guarantee services

Credit guarantee services are provided by Nihon Hoshou. The balance of credit guarantees, the base of revenues in the business, totaled JPY159.8bn (+62.1% YoY). The breakdown was JPY17.3bn (+9.1% YoY) in credit guarantees on unsecured loans and JPY142.5bn (+72.2% YoY) in credit guarantees on secured loans with an increase in guarantees for condominium loans to JPY116.5bn (+98.1% YoY).

In condominium loans, the partner housing developers mainly select properties close to stations (70% of properties are located within 10-minute walking distance from the nearest station) in the Tokyo, Nagoya, Osaka, and Kyushu areas (properties in Kanto, Chubu, Kinki, and Kyushu regions account for 97% of all handled properties). (The company carefully selects the housing developers it partners with.) As a result, the occupancy ratio for rental properties under the company's credit guarantees remains above 98%, and the company has not recorded any default on condominium loans for over 1,500 properties it has provided credit guarantees for in the last four years.

Nihon Hoshou booked JPY468mn (+11.6% YoY) in guarantee fee revenue. The average guarantee yield was 1.84%. Guarantee fee revenue increased at a slower rate than credit guarantee balances due to an increase in the share of condominium loans which have a relatively low guarantee fee rate.

In credit guarantee services, the company is working to partner with more financial institutions and diversify its product offerings. The company is expanding its product lineup to include credit guarantees on reverse mortgage loans and overseas real estate-backed loans in addition to condominium loan guarantees that have shown remarkable growth.

Loan servicing business

Receivables collection in Japan is mainly handled by Nihon Hoshou and Partir Servicer. The balance of purchased receivables was JPY13.3bn (+17.5% YoY). Amid declining volume of receivables handled by servicers in Japan, the company is working to increase its balance of purchased receivables by purchasing non-performing loans from independent credit card companies.

Financial Business in South Korea and Mongolia

Operating revenue was JPY10.2bn (+15.3% YoY) and segment profit was JPY1.5bn (-11.5% YoY). The increase in operating revenue for the segment was due to an increase in interest income. The YoY decline in segment profit was primarily due to the booking of additional reserve for doubtful accounts accompanying the adoption of IFRS 9. Operating revenue and operating profit showed strong progress against full-year FY03/19 company forecasts, reaching 26.8% and 60.1% of targets, respectively.

In this segment, the company singled out its savings bank and capital business and the receivables collection business as the main businesses in which it expects to realize profit growth. The following is a summary of conditions of the savings bank and capital business and the receivables collection business.

Savings bank business and capital business

JT Chinae Savings Bank and JT Savings Bank conduct savings bank services, and JT Capital conducts installment payment and lease services.

Loans by the banking business stood at JPY275.6bn (+18.6% YoY) and operating loans were JPY59.8bn (+21.3% YoY). Operating loans expanded mainly on an increase in secured loans (backed by real estate, government guarantee, etc.) and loans to large corporations. Simple totals of earnings results of JT Chinae Savings Bank, JT Savings Bank, and JT Capital give operating revenue of JPY9.6bn (+12.3% YoY) and operating profit of JPY1.4bn (-13.4% YoY). Operating revenue was up on an increase in loans, but credit costs grew 21.0% YoY to JPY2.4bn, pushing down operating profit.

The loan balance increased to KRW3.5tn (+22.4% YoY) on a local currency basis even though the company reshuffled its portfolio to comply with regulatory requirements (discussed below). The breakdown of the loan balance was KRW1.3tn in unsecured consumer loans (+13.7% YoY), KRW1.1tn in secured consumer loans (+51.1% YoY), and KRW934.7bn in secured loans to corporations (+7.5% YoY).

According to the company, a revision of the Mutual Savings Banking Supervisory Provisions in 2017 raised the doubtful account reserve ratio for receivables with loan interest rates of 20% and above (1.5x versus previous reserve ratio) and placed restrictions on amounts of lending to individuals (limits YoY growth of new consumer loans to 5.4% or less). In 2018, the company looks for changes in debtor rehabilitation receivables framework, a lowering of maximum interest rate, and an increase in the reserve rate (under KGAAP). The company indicated that its experience with a decline in maximum consumer loan rates and limits on total volume in Japan allowed it to adapt to the tighter regulations in advance by raising its share of receivables with medium- to low-interest rates. The ratio of delinquent loan balance (amount of loans at least 30 days delinquent) to total loan balance for June 2018 was 4.77% (5.36% in June 2017) as a result of increases in the new loan balance under stringent credit management.

・Changes in debtor rehabilitation receivables framework: The repayment period for receivables that have gone through debtor rehabilitation proceedings may be shortened from the original five years to three years, and the average reduction rate may be raised from the past level of around 30% to a maximum of 60%.
・Maximum interest rate: In February 2018, the maximum interest rate was lowered from 27.9% to 24.0%.
・Increase in the reserve ratio on KGAAP: The company says the ratio will gradually increase over three years based on the classification of delinquent loans. For normal receivables, the ratio will go up from the current 0.5% to a maximum of 1.5%; for questionable loans, the ratio will rise from the current 2% to a maximum of 15%.

The average lending interest rate and average deposit interest rate —key factors that influence earnings in this business—at the two savings banks were 12.3% (13.5% in Q1 FY03/18) and 2.5% (2.3% in Q1 FY03/18), respectively (calculated on a weighted average basis). The decline in the average lending interest rate reflected a reduction in the maximum interest rate from 27.9% to 24.0% in February 2018, as well as the company's strategy of offering low-interest products to customers with good credit ahead of its competitors.

Loan servicing business

TA Asset Management handles the purchase and collection of non-performing loans (NPLs). The balance of purchased receivables was JPY2.5bn (+36.8% YoY).

Financial Business in Southeast Asia

Operating revenue was JPY3.1bn (-12.6% YoY), reaching 16.3% of the full-year target for FY03/19. The company posted a segment loss of JPY783mn (segment profit of JPY154mn in Q1 FY03/18) against a full-year segment profit target of JPY2.6bn.

The segment's key consolidated subsidiary Bank J Trust Indonesia saw YoY declines in operating revenue and operating profit.

Banking business

PT Bank J Trust Indonesia Tbk (Bank J Trust Indonesia) conducts the company's banking operations in Indonesia. Bank J Trust Indonesia posted operating revenue of JPY3.0bn (-12.1% YoY) and operating loss of JPY796mn (operating profit of JPY112mn in Q1 FY03/18). At Bank J Trust Indonesia, loans by the banking business increased, but operating revenue declined YoY on sluggish interest income caused by a drop in average lending interest rate. The YoY drop in segment profit was due to an increase in reserve for doubtful accounts accompanying the adoption of IFRS 9 and a rise in non-performing loans. Credit costs were JPY603mn (+486.2% YoY).

The bank worked to fortify its revenue base by implementing various initiatives such as expanding its loan assets, accelerating disposal of non-performing loans, and shifting its loan assets toward small-lot and retail loans.

▷ The balance of loans in the banking business stood at IDR12.2tn at end-June 2018 (+19.6% YoY; JPY93.2bn [+9.4% YoY]). The company reshuffled its loan portfolio, reducing large loans while increasing small-lot and retail loans.
▷ The average lending interest rate fell to 10.08% (from 11.6% in Q1 FY03/18) due to measures implemented to prevent loans from becoming non-performing.
▷ The average deposit interest rate was 6.28% (versus 7.4% in Q1 FY03/18).

In Q1 FY03/19, Bank J Trust Indonesia faced several challenges including a delay in accumulating loan receivables, a drop in revenue accompanying the adoption of IFRS 9 (changes in the classification of receivables and part of loans becoming non-performing), and an increase in reserve for doubtful accounts. In an effort to address the issues, Bank J Trust Indonesia plans to increase loans through its alliance with Olympindo Multi Finance (OMF), strengthen employee recruitment for the credit screening division, and establish a team dedicated to monitoring borrowers after lending.

OMF is a multi-finance company that has a network of 40 branches throughout Indonesia and strong partnerships with financial institutions including major banks. In April 2018, the company and OMF entered into a share transfer agreement and an agreement regarding subscription to OMF's capital increase via third-party allotment, bringing the company's shareholding in OMF to 60% of all issued common shares. The company looks to generate synergies with OMF as its newly made subsidiary. In specific, the company plans to encourage OMF to handle agricultural equipment financing and microfinancing (group loans), and Bank J Trust Indonesia plans to make loans to OMF. OMF believes that by coming under the umbrella of the company, it can improve its ability to raise funds, increase loan balance, and improve profitability. In FY12/17, OMF posted operating revenue of JPY3.4bn and pre-tax profit of JPY186mn.

Loan servicing business

In Indonesia, PT JTrust Investments Indonesia conducts receivables collection services. The balance of purchased receivables came to JPY849mn (-68.0% YoY) at the end of Q1 FY03/19.

General Entertainment

Operating revenue was JPY451mn (-6.8% YoY) and segment loss was JPY228mn (JPY318mn loss in Q1 FY03/18).

Consolidated subsidiary Highlights Entertainment Co., Ltd. develops, produces, and sells computer systems for amusement machines and their peripheral equipment. Operating revenue was firm thanks to the effects of sales campaigns. Segment loss narrowed despite the booking of valuation losses on some amusement machine inventories.

Real Estate

Operating revenue was JPY1.2bn (-21.4% YoY) and segment profit was JPY11mn (-88.2% YoY). Keynote Co., Ltd. handles the real estate business, and KeyHolder the real estate asset business. Operating revenue and segment profit were down YoY mainly because deliveries of some detached housing were postponed to July or later.

Investment

Operating revenue was JPY266mn (-54.1% YoY) and segment profit was JPY186mn (-36.9% YoY). J Trust Asia operates the investment business and provides management support to the investee companies. Operating revenue and segment profit were down YoY due to a drop in interest income.

Income statement

Income statement (JPYmn)	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.
Operating revenue	**16,908**	**24,508**	**55,683**	**61,926**	**63,281**	**75,478**	**85,031**
YoY	2.2%	44.9%	127.2%	11.2%	2.2%	19.3%	12.7%
Operating expenses	5,132	4,539	20,786	26,339	29,285	38,957	43,963
Operating gross profit	**11,776**	**19,969**	**34,897**	**35,586**	**33,996**	**36,521**	**41,068**
Operating GPM	69.6%	81.5%	62.7%	57.5%	53.7%	48.4%	48.3%
SG&A expenses	7,451	14,429	22,892	21,841	39,214	40,635	46,837
SG&A, % of operating revenue	44.1%	58.9%	41.1%	35.3%	62.0%	53.8%	55.1%
Operating profit (loss)	**4,324**	**5,539**	**12,005**	**13,745**	**-5,217**	**-4,114**	**-5,769**
YoY	3.8%	28.1%	116.7%	14.5%	-	-	-
OPM	25.6%	22.6%	21.6%	22.2%	-	-	-
Non-operating income	44	234	1,979	1,010	3,166	652	334
Non-operating expenses	45	287	279	1,404	333	1,216	1,312
Recurring profit (loss)	**4,323**	**5,486**	**13,704**	**13,351**	**-2,385**	**-4,678**	**-6,747**
YoY	0.5%	26.9%	149.8%	-2.6%	-	-	-
RPM	25.6%	22.4%	24.6%	21.6%	-	-	-
Extraordinary gains	385	29,919	645	1,902	15,482	1,753	1,335
Extraordinary losses	94	86	528	3,564	2,080	2,676	2,948
Tax charges	1,372	703	581	-85	679	1,206	1,321
Implied tax rate	29.7%	2.0%	4.2%	-	-	-	-
Non-controlling interest	8	114	-69	629	194	-1,095	195
Net income (loss)	**3,233**	**34,500**	**13,309**	**11,145**	**10,143**	**-5,712**	**-9,876**
YoY	-21.3%	-	-61.4%	-16.3%	-9.0%	-	-
Net margin	19.1%	140.8%	23.9%	18.0%	16.0%	-	-

Income statement (JPYmn)	FY03/17 IFRS	FY03/18 IFRS	FY03/19 IFRS
Operating revenue	**66,453**	**74,321**	**74,935**
YoY	-	11.8%	0.8%
Operating expenses	38,116	47,451	78,253
SG&A expenses	26,431	26,870	28,488
SG&A ratio	39.8%	36.2%	38.0%
Other revenues	1,254	2,239	366
Other expenses	2,552	222	1,159
Operating profit	**606**	**4,759**	**-32,600**
YoY	-	685.3%	-785.0%
OPM	0.9%	6.4%	-
Financial revenue	282	47	1,612
Financial expense	1,320	1,895	110
Equity in earnings of affiliates	-2	-12	-36
Pre-tax profit (loss)	**-433**	**2,898**	**-31,135**
YoY	-	-	-
Pre-tax margin	-	3.9%	-
Income tax expenses	1,136	1,012	2,753
Loss on continuing operations	-1,570	1,885	-33,888
Profit from discontinued operations	504		
Profit (loss)	**-1,065**	**-731**	**-36,107**
YoY	-	-	-
Profit attributable to owners of parent	**-1,270**	**-731**	**-36,107**
YoY	-	-	-
Profit margin	-	-	-

Source: Shared Research based on company data
Note: Figures that exceed 1,000% YoY, are denoted by "-."
Note: In FY03/17 IFRS results, figures down to pre-tax profit exclude results for discontinued operations (Adores, Inc).

Operating revenue and profit had maintained an uptrend until FY03/14, but over FY03/15–19, the company suffered repeated losses.

FY03/11–FY03/14

Operating revenue increased from JPY4.9bn in FY03/09 to JPY61.9bn in FY03/14 and operating profit grew from JPY240mn to JPY13.7bn over the same period.

Up until FY03/13, business expansion was achieved through M&A centering on the Financial Business in Japan, with growth in operating revenue and profit driving consolidated earnings. While many peer companies were struggling financially due to the January 2006 ruling by the Supreme Court allowing borrowers to request the refund of interest payments, the December 2006 enactment of the amended Money Lending Business Act, the June 2010 lowering of the maximum interest rate under the Capital Subscription Law, and the introduction of limits on total volume, J Trust was aggressively pursuing M&A. Specifically, it acquired Station Finance (March 2009), Lopro Corporation (September 2010), KC Card (August 2011), and the consumer financial business of Takefuji Corp. (March 2012), which was undergoing corporate reorganization proceedings, and made these subsidiaries.

In October 2012, J Trust launched a savings bank business in South Korea and established JT Chinae Savings Bank. Owing to initial investment costs, the Financial Business in South Korea registered an operating loss in FY03/13. However, when the Financial Business in Japan saw operating revenue and profit fall in FY03/14, the Financial Business in Korea logged growth in both operating revenue and profit. As a result, consolidated operating profit reached JPY13.7bn in the same year.

FY03/11–FY03/19

In July 2013, J Trust procured funds of JPY97.6bn through a rights offering, which it used to expand its business overseas. While continuing to expand its business in South Korea through the acquisition of savings banks, it entered the Indonesian banking business in November 2014 with the acquisition of Bank J Trust Indonesia.

After this time, J Trust suffered repeated losses due to provisioning for doubtful accounts in South Korea and Indonesia. An operating loss was recorded in FY03/15 due to the provisioning for doubtful accounts and the write-off of NPLs in South Korea. In FY03/16, despite a swing to profit in South Korea, the operating loss continued owing to the amortization of goodwill from the acquisition of Bank J Trust Indonesia and increasing the provision for doubtful accounts. An operating loss was again recorded in FY03/17 (Japanese accounting standards basis) mainly due to provisioning for doubtful accounts at Bank J Trust Indonesia.
In FY03/18, the Investment Business posted an operating loss as a result of valuation losses, but on a consolidated basis (IFRS), the company turned an operating profit thanks to increased operating revenue at Bank J Trust Indonesia and a reduction in the provision for doubtful accounts. Then, in FY03/19, another operating loss of JPY32.6bn was recorded as a result of the write-off of NPLs at Bank J Trust Indonesia and the provisioning for doubtful accounts in the Investment Business.

Balance sheet

Balance sheet (JPYmn)	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.
Assets							
Cash and deposits	14,846	10,362	62,140	132,235	141,742	108,682	101,172
Commercial notes	1,900	2,119	1,656	2,369	2,355	1,428	928
Operating loans	11,725	27,713	18,227	49,242	65,315	49,505	49,098
Loans in banking business	-	-	48,210	46,701	224,401	230,532	326,996
Advances paid–installment	1,443	65,024	48,133	39,776	1,395	2,449	2,726
Purchased receivables	4,008	2,310	2,529	2,527	8,647	9,940	12,146
Subrogation receivable	518	506	656	798	1,124	1,462	1,223
Marketable securities	-	-	788	10,787	17,874	25,287	30,459
Inventories	565	1,314	1,691	2,570	3,203	4,049	6,236
Deferred tax assets	139	154	184	3,013	2,273	1,106	1,287
Others	985	4,274	16,622	20,429	20,456	30,500	-2,741
Allowance for doubtful accounts	-1,836	-6,813	-11,574	-11,657	-20,525	-16,809	23,801
Total current assets	**34,293**	**106,963**	**189,262**	**298,790**	**468,260**	**448,131**	**553,331**
Total tangible assets	**1,166**	**5,095**	**10,836**	**12,309**	**9,352**	**7,510**	**6,474**
Goodwill	344	805	5,761	5,694	41,438	34,536	29,727
Others	111	315	1,003	2,939	5,664	4,820	4,650
Total intangible assets	**455**	**1,120**	**6,764**	**8,633**	**47,102**	**39,356**	**34,378**
Long-term operating receivables	2,286	8,487	4,686	3,951	2,405	2,083	1,578
Others	1,043	3,602	11,625	15,548	23,689	14,461	15,085
Allowance for doubtful accounts	-1,382	-7,723	-4,469	-4,498	-10,092	-2,884	-2,198
Investments and other assets	**1,947**	**4,366**	**11,842**	**15,001**	**16,002**	**13,660**	**14,465**
Total noncurrent assets	**3,569**	**10,582**	**29,443**	**35,945**	**72,458**	**60,527**	**55,319**
Total assets	**37,862**	**117,546**	**218,706**	**334,736**	**540,718**	**508,659**	**608,650**
Liabilities							
Notes discounted	1,291	1,776	1,500	2,173	2,226	1,381	916
Current portion of bonds	-	-	-	2,610	130	60	111
Short-term loans payable	2,465	3,039	3,062	6,225	7,862	14,317	9,798
Current portion of long-term loans payable	1,515	2,537	5,009	16,423	5,987	13,391	18,733
Income taxes payable	1,062	254	829	1,034	1,157	769	1,213
Deposits by banking business	-	-	73,194	77,142	287,452	271,117	364,419
Reserve for loss on interest repayment	3,359	10,172	7,124	4,055	1,089	-	-
Other	572	26,217	8,753	9,242	16,695	10,607	30,903
Total current liabilities	**10,264**	**43,995**	**99,471**	**118,904**	**322,598**	**311,642**	**426,093**
Corporate bonds	**-**	**-**	**-**	**1,875**	**2,241**	**2,169**	**2,372**
Long-term loans payable	10,814	13,670	30,487	14,454	11,009	21,788	24,353
Provision for loss on interest repayment	2,382	9,711	12,052	9,382	5,219	-	-
Provision for loss on guarantees	203	290	4,017	441	422	424	352
Other	236	408	1,783	5,449	4,363	3,979	3,816
Total noncurrent liabilities	**13,635**	**24,079**	**48,339**	**31,601**	**23,254**	**28,360**	**30,893**
Total liabilities	**23,900**	**68,074**	**147,810**	**150,505**	**345,853**	**340,002**	**456,987**
Net assets							
Capital stock	4,496	4,530	4,625	53,578	53,604	53,616	53,630
Capital surplus	2,230	2,265	3,966	52,920	52,945	52,572	53,716
Retained earnings	7,235	41,377	54,320	64,626	73,709	60,777	49,499
Treasury stock	-73	-72	-194	-197	-197	-406	-7,685
Accumulated other comprehensive income	5	-32	908	6,335	7,972	-3,445	-3,409
Share subscription rights	52	103	140	117	167	167	168
Non-controlling interests	14	1,300	7,130	6,848	6,663	5,373	5,742
Total net assets	**13,961**	**49,471**	**70,895**	**184,230**	**194,865**	**168,656**	**151,663**
Total interest-bearing debt	14,794	19,246	38,558	41,587	27,229	51,725	55,367
Net debt	-52	8,884	-23,582	-90,648	-114,513	-56,957	-45,805

Balance sheet (JPYmn)	FY03/17 IFRS	FY03/18 IFRS	FY03/19 IFRS
Assets			
Cash and cash equivalents	80,666	84,723	87,150
Trade and other receivables	78,416	92,723	106,735
Marketable securities in banking business	30,459	37,159	46,599
Loans in banking business	311,480	343,400	326,234
Operational investment securities	21,494	3,242	2,855
Marketable securities	144	208	1,179
Other financial assets	38,066	46,300	33,416
Investments accounted for by equity method	168	144	126
Inventories	6,848	6,937	6,742
Assets held for sales	4,199	1,807	2,310
Total tangible assets	5,622	3,028	5,119
Investment property	2,249	610	916
Goodwill	**32,140**	**29,578**	**33,508**
Intangible assets	**3,459**	**3,087**	**3,790**
Deferred tax assets	1,476	1,502	2,373
Other assets	2,971	2,505	9,317
Total assets	**619,865**	**656,961**	**668,377**
Liabilities			
Trade and other payables	8,110	9,811	14,613
Deposits by banking business	364,462	403,509	437,010
Bonds and borrowings	72,139	78,727	86,002
Other financial liabilities	8,182	5,272	13,383
Income taxes payable	1,205	629	1,215
Provision	2,128	353	1,114
Deferred tax liabilities	759	850	1,076
Other liabilities	6,963	7,029	3,233
Total liabilities	**463,952**	**506,184**	**557,650**
Capital stock	53,630	53,638	54,760
Capital surplus	52,743	52,713	53,844
Treasury stock	-7,685	-7,685	-7,685
Other components of equity	2,091	-1,854	-3,170
Retained earnings	49,504	47,555	6,424
Total equity attributable to owners of parent	150,284	144,366	104,173
Non-controlling interests	5,628	6,409	6,554
Total capital	**155,913**	**150,776**	**110,727**
Total interest-bearing debt	72,139	78,727	86,002
Net debt	-8,527	-5,996	-1,148

Source: Shared Research based on company data
Note: FY03/17 IFRS results exclude results for discontinued operations (Adores, Inc).

Assets

J Trust's assets grew due to acquisitions from FY03/09. In FY03/19, the primary categories were cash and deposits, operating and other receivables, and loans by the banking business.

Operating and other receivables

Operating and other receivables include operating loans and purchased receivables. Operating loans mainly consist of loans at Korean subsidiary JT Capital. Purchased receivables mostly include purchased receivables in the receivables collection business operated by Japanese subsidiary Nihon Hoshou.

Loans by the banking business

Loans by the banking business consist of the loans recorded for JT Chinae Savings Bank and JT Savings Bank (savings bank operations in South Korea) and for Bank J Trust Indonesia (banking operations in Indonesia). In FY03/19, loans by the banking business were JPY277.9bn for South Korea (JT Chinae Savings Bank and JT Savings Bank) and JPY63.6bn for Indonesia (Bank J Trust Indonesia).

Historically, loan amounts exhibited notable fluctuations in FY03/13, FY03/15, and FY03/17.

- In FY03/13, loans by the banking business totaled JPY48.2bn. JT Chinae Savings Bank started savings bank operations in October 2012, and took over part of Mirae Savings Bank's assets as well as loan receivables from Solomon Savings Bank (January 2013).
- In FY03/15, the company expanded loans by JPY177.7bn YoY (+381% YoY). In South Korea, the corresponding increase was JPY102bn YoY (+218% YoY). JT Chinae Savings Bank took over the lending business of three group companies in South Korea as well as receivables from JT Capital, and increased the amount of new loan receivables through television commercials and other advertising initiatives and by turning JT Savings Bank into a subsidiary. The conversion of PT Bank Mutiara Tbk. (currently Bank J Trust Indonesia) into a subsidiary drove further increase.
- In FY03/17, the company recorded increases in both the volume and value of new loans.

Liabilities

The main categories on the liabilities side are banking business deposits, corporate bonds, and loans.

Bank deposits:

Bank deposits are deposits at Chinae Savings Bank in South Korea and at Bank J Trust Indonesia. Historically, deposit amounts exhibited notable fluctuations in FY03/13, FY03/15, and FY03/17.

- J Trust launched a mutual savings bank business therein October 2012. Due to taking over some of Mirae Savings Bank's liabilities, J Trust booked deposits in FY03/13.
- In FY03/15, deposits increased owing to Chinae Savings Bank's takeover of the lending business of three group companies as well as receivables from JT Capital, and to the conversion of JT Savings Bank and Indonesia's PT Bank Mutiara Tbk. into subsidiaries.

Net assets

J Trust's net assets grew by approximately 22x from FY03/09 to FY03/17, mainly reflecting a build-up of net income and fund procurement through rights offerings.

Net assets grew especially rapidly in FY03/12 and FY03/13. In FY03/12, a major contributing factor to the increase in net assets was the booking of a JPY29.4bn profit on negative goodwill arising from the KC Card consolidation. Net assets rose by JPY21.4bn in FY03/13. The main factors were net income of JPY13.3bn as well as an increase of JPY5.8bn in minority interests following the consolidation of Adores as a subsidiary.

Net assets in FY03/14 came to JPY184.2bn, an increase of JPY113.3bn from FY03/13, with net income of JPY11.1bn and a rise in net worth of JPY97.9bn due to the rights offering in July 2013.

Statement of cash flows

Cash flow statement (JPYmn)	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.
Cash flows from operating activities (1)	9,234	-16,489	9,378	11,434	15,452	-32,435	-14,434
Pre-tax profit (loss)	4,614	35,319	13,821	11,689	1,106	-5,602	-8,359
Depreciation	120	216	2,560	2,311	2,957	2,549	2,390
Gain on negative goodwill	-	-29,444	-294	-1,060	-14,573	-	-24
Goodwill amortization	86	110	687	1,320	1,334	3,147	3,308
Change in provision for doubtful accounts	-3,108	-3,342	-4,865	-6,964	-6,518	-7,207	6,225
Loan loss write-offs	4,655	8,007	10,252	9,081	9,532	7,701	4,185
Change in deposits in banking business	-	-	2,311	-10,612	60,271	10,981	89,868
Income taxes paid	-828	-1,654	-1,324	-2,206	-2,411	-3,251	-1,922
Increase in operating loans	-3,616	-7,847	-6,824	-4,198	-9,483	-25,830	-35,028
Decrease in operating loans	4,145	8,328	13,205	7,965	22,273	33,163	35,813
Change in loans in banking business	-	-	-25,392	6,601	-43,878	-40,298	-95,597
Cash flows from investing activities (2)	-310	-12,424	36,764	-17,775	-15,148	-7,896	-4,774
Purchase of tangible assets	-135	-239	-2,121	-3,713	-2,948	-2,948	-1,937
Purchase of intangible assets	-9	-29	-380	-1,201	-2,771	-2,771	-1,558
Purchase of marketable securities	-	-	-31,004	-147,430	-1,621	-76,581	-130,242
Proceeds from sale of marketable securities	-	-	36	64	94	34,770	101,208
Proceeds from redemption of marketable securities	-	-	35,052	147,453	10	34,419	24,984
Proceeds from business transfer	-	-	40,766	-	-	-	-
Payments for absorption-type company split	-	-16,894	-	-	-	-	-
Free cash flow (1+2)	8,924	-28,913	46,142	-6,341	304	-40,331	-19,208
Cash flows from financing activities	-908	24,165	-2,441	74,464	-20,593	13,026	10,935
Proceeds from short-term borrowings	5,837	28,131	3,817	5,761	10,986	22,190	21,423
Repayment of short-term borrowings	-6,636	-7,998	-6,460	-4,593	-10,151	-15,229	-26,059
Proceeds from long-term borrowings	800	5,791	7,293	5,543	17,004	36,718	26,189
Repayment of long-term borrowings	-1,094	-1,924	-6,533	-28,668	-32,642	-21,677	-18,122
Proceeds from issuance of shares	-	-	-	96,602	-	-	-
Purchase of treasury shares	-0	-	-	-2	-	-6,271	-7,279
Dividends paid	-356	-358	-366	-839	-1,180	-1,164	-1,401

Cash flow statement (JPYmn)	FY03/17 IFRS	FY03/18 IFRS	FY03/19 IFRS
Cash flows from operating activities (1)	-12,413	4,581	18,831
Pre-tax profit (loss)	-433	2,898	-31,135
Depreciation	2,636	2,456	1,535
Change in trade and other receivables	-10,805	-11,644	497
Change in deposits in banking business	86,236	49,354	39,554
Change in loans in banking business	-87,500	-42,789	-5,395
Income taxes paid	-1,922	-2,231	-2,332
Cash flows from investing activities (2)	-4,468	-7,603	-15,190
Purchase of tangible assets and investment property	-1,843	-1,474	-1,941
Proceeds from sale of tangible assets and investment property	1,162	270	48
Purchase of in tangible assets	-1,537	-794	-1,983
purchase of marketable securities in banking business	-102,457	-106,170	-105,252
Proceeds from sale of marketable securities in banking business	73,739	97,229	95,565
Proceeds from redemption of marketable securities in banking business	24,984	984	5,869
Free cash flow (1+2)	-16,881	-3,022	3,641
Cash flows from financing activities	10,612	7,798	-525
Net change in short-term borrowings	-4,635	4,112	-4,929
Net change in current portion of bonds	14,959	5,915	-5,487
Repayments of long-term borrowings	-10,751	-18,938	-26,946
Proceeds from long-term borrowings	26,189	17,850	31,964
Redemption of bonds	-7,446	-6,577	-5,956
Proceeds from issuance of bonds	470	7,060	9,540
Purchase of treasury shares	-7,279	-	-
Dividends paid	-1,401	-1,235	-1,236

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods
Note: FY03/17 IFRS results exclude results for discontinued operations (Adores, Inc).

Cash flows from operating activities

Cash flows from operating activities are primarily influenced by fluctuations in pre-tax profit or loss, operating and other receivables, and changes in the value of deposits and loans in the banking business.

Cash flows from investing activities

Cash flows from investing activities are heavily influenced by fund flows accompanying acquisitions and business transfers.

Cash flows from financing activities

There is a tendency for cash flows from financing activities to fluctuate in line with changes in interest-bearing debt, share issuance, and dividend payments.

Other information

History

Nobuyoshi Fujisawa (born 1970) is J Trust's president. He is a graduate of Tokyo University's Faculty of Medicine. In 2001, after graduating and working for a year, he joined Be Japan KK (a real estate-backed loan lender), attracted by a high starting salary. There he developed a knack for financial workouts, collecting receivables and making property-backed loans. He became president after just two years, expanding Be Japan's loan book and turning around the once-struggling operator. As reward for his efforts, he became the company's largest shareholder, holding about a one-third share of the business.

In 2005 Be Japan partnered with Livedoor; Livedoor then bought out Be Japan. Fujisawa sold his shares at a substantial profit but remained with Livedoor, becoming the CEO of several subsidiaries under the financial/real estate arms of Livedoor Financial Group.

Livedoor began fraying in 2006 when its executives were accused of securities fraud. At the end of the same year, all shares of Livedoor Financial Holdings (now Kazaka Financial Group) were transferred to private equity fund Advantage Partners. Fujisawa was chosen to manage Kazaka Finance's operations.

Fujisawa bought out Kazaka Finance in 2009 establishing Neoline Holdings and becoming CEO. He then made a successful takeover bid for business loan lender Ikko Corporation (now J Trust) in 2008 with his own capital, thereby becoming the largest shareholder.

Since 2009, J Trust has grown rapidly through acquisition (details follow). Fujisawa was the CEO of both J Trust and Neoline Holdings, but his businesses were consolidated when Neoline Holdings became part of J Trust group in 2012.

The company has strengthened its overseas operations since 2012. It began savings bank operations in South Korea in October 2012, and established an investment base in Singapore in October 2013. In addition, it acquired a commercial bank in Indonesia in November 2014.

As of June 2018, the company is focusing on the Domestic Financial Business, the Financial Business in South Korea, and the Financial Business in Southeast Asia.

March 2009	Bought 100% of Station Finance (now Nihon Hoshou) from Hankyu Corp.
September 2010	Bought 100% of Lopro Corporation (now Nihon Hoshou).
August 2011	Bought 97.76% of KC Card (formerly Rakuten KC) from Rakuten.
March 2012	Bought and transferred the consumer financial business of Takefuji Corp. (now TFK under corporate rehabilitation) to Lopro Corporation (now Nihon Hoshou) via an absorption-type split.
April 2012	Company bought Next Japan Holdings through a stock swap.
June 2012	Made Adores a consolidated subsidiary.
July 2012	Bought 100% of JT Investment (formerly Neoline Holdings) from NLHD.
October 2012	Obtained a South Korean savings bank business license via Chinae; launched savings bank business with the establishment of Chinae Savings Bank (currently JT Chinae Savings Bank).
July 2013	Procured JPY97.6bn of funds via rights offering (non-commitment/gratis-allotment of listed conversion options).
October 2013	Established J Trust Asia Pte. Ltd. in Singapore as a foothold for advancement into Southeast Asia.
March 2014	Bought 100% of KJI Consumer Finance LLC and HICAPITAL CO., LTD., making them subsidiaries.
November 2014	In Indonesia acquired 99.0% of Indonesian commercial bank PT Bank Mutiara Tbk.'s shares from Indonesia Deposit Insurance Corporation, making it a consolidated subsidiary.
January 2015	Demerged the credit card business of KC Card, which was taken over by KC Card's Subsidiary KC (currently YJ Card) with

	all of KC's shares sold to Yahoo Japan Corporation and SoftBank Payment Service Corp. Also, KC Card's trading name changed to J Trust card.
January 2015	In South Korea, purchased all the shares of Standard Chartered Savings Bank Korea Co., Ltd., made it a consolidated subsidiary, and changed trading name to JT Savings Bank.
March 2015	In South Korea, purchased all the shares of Standard Chartered Capital (Korea) Co., Ltd., made it a consolidated subsidiary, and changed trading name to JT Capital.
June 2015	Established PT JTrust Investments Indonesia in Indonesia as a subsidiary of J Trust Asia Pte. Ltd.
October 2017	Transferred the General Entertainment business, part of the Real Estate business, and Other business (money exchange services) of Adores, Inc. to Adores Company Split Preparatory Company through a company split (absorption-type split). At the same time, Adores, Inc. changed its trading name to KeyHolder, Inc., and Adores Company Split Preparatory Company changed its to Adores, Inc.
March 2018	Sold all shares in Adores, Inc. to Wide Leisure, K.K., and subsequently excluded Adores from the scope of consolidation.
May 2018	Purchased all the shares of Capital Continent Investment NBFI (now, J Trust Credit NBFI), which conducts automobile loans, from Japan Pocket Co. Ltd., and entered the Mongolian market.
October 2018	In Indonesia, J Trust Asia Pte. Ltd. acquired shares of PT Olympindo Multi Finance (now, PT J Trust Olympindo Multi Finance) and 60% of new shares via third-party allotment to make PT J Trust Olympindo Multi Finance a consolidated subsidiary.

News and topics

March 2019

On **March 27, 2019,** J Trust and its subsidiary, KeyHolder, Inc., announced the formation of a business alliance with SAMURAI & J PARTNERS and the purchase of stock acquisition rights.

J Trust and its consolidated subsidiary, Nihon Hoshou Co., Ltd., will establish a business alliance with SAMURAI&J PARTNERS Co., Ltd. (JASDAQ Growth: 4764; hereinafter "SAMURAI"), with J Trust subscribing to share acquisition rights issued by SAMURAI via a third-party allotment. On the same day KeyHolder, also a consolidated subsidiary of J Trust, announced that it will establish a business alliance with SAMURAI, and that it will subscribe to share acquisition rights issued by SAMURAI via a third-party allotment.

Details of business alliance with J Trust and Nihon Hoshou

SAMURAI recognizes that building a medium- to long-term recurring revenue business is essential for the development of a stable earnings base, one of key management issues of its business portfolio. In the investment banking business, with an emphasis on the SAMURAI crowdfunding site, it is developing investment projects to expand its product offering and lineup and is looking for partnerships with companies that can help evolve the SAMURAI brand.

J Trust plans to develop and manage products that incorporate Nihon Hoshou's credit guarantees together with SAMURAI. Further, the company, together with SAMURAI, looks to review and develop ways to procure a portion of management funds for its overseas financial business through SAMURAI. As a result of the alliance, SAMURAI's trust and profile with investors will be enhanced through developing safe and reliable investment products, ranking alongside domestic deposits, government bonds and the corporate bonds of major domestic companies. From J Trust's point of view, SAMURAI will broaden the range of financing methods available for its group companies.

Details of business alliance with KeyHolder

Through its business alliance with SAMURAI and subscription to share acquisition rights, KeyHolder will focus on the joint development and operation of fan club sites and data management services, in addition to the development and promotion of experience-based crowdfunding services. KeyHolder will consult with SAMURAI and leverage SAMURAI's expertise in the development of crowdfunding and fan club services for its own proprietary IP content to provide fans with enhanced satisfaction in their experiences.

Issue of new share acquisition rights by SAMURAI to J Trust and KeyHolder, Inc.

Allotment date	April 26, 2019
Total number of share acquisition rights	357,000
Issue price	JPY49,980,000 (JPY140 per share acquisition right)
Funds raised	JPY5,024,000,000 Amount raised by issue of share acquisition rights: JPY49,980,000 Amount raised by exercise of share acquisition rights: JPY4,998,000,000
Exercise price	JPY140 per share
Allottee	J Trust: 214,200 share acquisition rights (equivalent to 21,420,000 shares) KeyHolder: 142,800 share acquisition rights (equivalent to 14,280,000 shares)
Exercise period of stock acquisition rights	Five year period from May 7, 2019 to May 6, 2024

Note: The amount in funds raised assumes that all share acquisition rights are exercised. Various expenses are incurred in the procurement of funds.

Overview of business partner and issuer of stock acquisition rights

- Company Name: SAMURAI&J PARTNERS Co., Ltd.
- Business: Investment banking, Fintech, IT
- Capital: JPY2.1bn
- Date of establishment: February 1996
- Major shareholders and shareholding ratios: Nobuyoshi Fujisawa (standing proxy: UBS Securities Co., Ltd.) 19.45%; Kazuhiko Terai 9.62%; NLHD Co., Ltd. 7.40%

(JPYmn)	FY01/17	FY01/18	FY01/19
Net assets	834	1,411	2,209
Total assets	872	1,765	2,705
Revenue	148	383	530
Operating loss	87	183	246

February 2019

On **February 13, 2019**, the company announced revisions to its forecasts, booking of operating expenses, and revision to dividend forecast.

Revisions to FY03/19 consolidated forecasts

Fundamental approach

J Trust decided to eliminate uncertainty regarding earnings and lay the groundwork for a rapid profit recovery. To this end, the company reviewed its business portfolio and decided to dispose of all of its shares in Highlights Entertainment Co., Ltd., and withdraw from all unprofitable businesses without growth prospects. Under this approach, the company decided to account for all conceivable risks at an early stage in FY03/19, aiming at a rapid profit recovery as performance improves.

Recording operating expenses

In the Financial Business in Southeast Asia, J Trust decided to write off all the non-performing loans (NPLs) that consolidated subsidiary PT Bank J Trust Indonesia Tbk. (BJI) held prior to acquisition at once as well as conservatively book provisions for doubtful accounts (and at-risk loans) arising after the acquisition. These moves resulted in the recording of a JPY10.8bn loss in the segment. By making concerted efforts to collect NPLs transferred to subsidiary PT J Trust Investments Indonesia (JTII), the company aims at a recovery in earnings in the servicer business.

In the Investment Business, J Trust decided to record provisions for doubtful accounts for the entire amount of claims against Group Lease PCL held by consolidated subsidiary J Trust Asia Pte. Ltd. It thus booked provisions for doubtful accounts of JPY19.9bn. This meant that future collections will be booked as profit, so the company anticipates a rapid profit recovery as it works to collect outstanding amounts.

Revisions to FY03/19 full-year results and dividend forecasts

- Operating revenue: JPY75.4bn (previous forecast, JPY83.4bn)
- Operating loss: JPY32.7bn (operating profit of JPY7.1bn)
- Loss*: JPY36.4bn (profit of JPY5.3bn)
- Basic EPS: -JPY352.8 (EPS of JPY51.6)
- Annual DPS: JPY7.0 (interim DPS of JPY6.0, year-end DPS of JPY1.0; previous forecast of JPY12.0 [interim DPS of JPY6.0, year-end DPS of JPY6.0])

*Loss attributable to owners of parent.

Reasons for revision

While the Financial Business in Japan and Financial Business in South Korea and Mongolia are performing well, the company expects operating revenue to be below the initial forecasts as it discontinued the operations of Highlights Entertainment. In addition, interest income in the Financial Business in Southeast Asia will be lower than previously expected due to a lower loan balance. For profit lines below operating profit, as previously mentioned, operating expenses increased due to the booking of losses in the Financial Business in Southeast Asia and the Investment Business, and decreased profitability in the Financial Business in Southeast Asia, so results are expected to be below previous forecasts.

Future prospects

In the Financial Business in Japan, prospects are for slowing growth in guarantees for condominium loans, but the company is not having to fulfill its obligations on existing condominium loans, and anticipates a low probability of guarantee execution in the future. The company thinks that the credit guarantee business will continue to perform well since it accrues guarantee fee revenue on the guarantee balance. It also expects solid collections in the receivables collection business.

In the Financial Business in South Korea and Mongolia, profits are growing steadily as the company responds flexibly to changes in the legal and regulatory environment, and maintain a balance between the savings bank and receivables collection business.

The Financial Business in Southeast Asia posted operating losses in Q3 due to the previously mentioned losses, but the company aims to improve results at BJI through organizational streamlining and efficiency measures. The company also forecasts a recovery in performance from synergies with PT J Trust Olympindo Multi Finance, into which it acquired shares in October 2018. J Trust also expects to improve segment results by strengthening NPL collection at JTII, the only servicer operating in Indonesia.

In the Investment Business, J Trust expects the reversal of aforementioned allowances for doubtful accounts.

The company does not intend to change its three-pronged business structure comprising banking, financing, and servicer companies, and thinks the fundamental earnings platform will be further strengthened under this model. The company aims for increases in enterprise value as it expands its business platform primarily in Southeast Asia, through initiatives such as the purchase of shares in ANZ Royal Bank (Cambodia) Ltd. announced in May 2018.

September 2018

On **September 27, 2018**, the company announced that its consolidated subsidiary obtained approval from the Indonesian authorities to acquire shares in PT Olympindo Multi Finance.

The company made an announcement on April 19, 2018 that its consolidated subsidiary J Trust Asia Pte. Ltd. planned to acquire shares in PT Olympindo Multi Finance (OMF; based in Jakarta, Indonesia) from its owner Ang Andi Bintoro and his family, and also subscribe to shares newly issued by OMF (capital increase) via third-party allotment. On September 26, 2018, J Trust Asia received approval from the Indonesian financial authorities regarding the subject share transfer.

The company intends to expedite the closing procedures of this transaction and complete the share acquisition at an early date.

On **the same day**, the company announced a change in the recipient of receivables pertaining to the change in subsidiary announced on September 25, 2018.

On September 25, 2018, the company announced that it planned to sell (transfer) all its shareholdings in consolidated subsidiary Highlights Entertainment Co., Ltd. (HE) as well as all outstanding loans receivable to Sai Partners, Inc. Thereafter, Sai Partners made a request to change the destination of the receivables portion of this transaction, and the recipient of the receivables was accordingly changed from Sai Partners to Suhama Management, Inc.

On **September 25, 2018**, the company announced a change in subsidiary (share transfer), transfer of receivables, and the recording of losses accompanying the transfers.

At the Board of Directors meeting held in September 2018, the company resolved to sell all its shareholdings in consolidated subsidiary (second-tier subsidiary) Highlights Entertainment Co., Ltd. to Sai Partners, Inc. Additionally, it plans to sell to Sai Partners the outstanding loans receivable.

The details of the sale (transfers) are as follows.

- Number of shares to be transferred: 20,000 shares
- Share transfer price: JPY5.0mn
- Receivables transfer price: JPY145.0mn
- Transfer date (planned): October 1, 2018

Accompanying these transfers, the company expects to book losses of JPY2.4bn in Q2 FY03/19. Further, it intends to disclose Highlight Entertainment's operating results and profit/loss related to these transfers in accordance with the disclosure of discontinued operations based on IFRS 5.

Major shareholders

Top shareholders	Shares held	Shareholding ratio
NLHD Co., Ltd.	26,697,872	25.22%
Nobuyoshi Fujisawa	14,907,272	14.08%
Taiyo Hanei Fund, L.P.	5,100,500	4.82%
State Street Bank and Trust Company 505019	4,153,600	3.92%
Taiyo Fund, L.P.	3,806,200	3.60%
Saikyo Leasing Co., Ltd.	2,890,000	2.73%
JAPAN POCKET Co., Ltd.	1,780,000	1.68%
Goldman Sachs International	1,620,967	1.53%
Japan Trustee Services Bank, Ltd. (Trust account 9)	1,458,500	1.38%
Japan Trustee Services Bank, Ltd. (Trust account)	1,203,900	1.14%
SUM	63,618,811	60.10%

Source: Shared Research based on company data
Shareholding percentages calculated after excluding treasury shares
As of end-March 2019

Shareholder return

The company views the appropriate return of profits to shareholders as a matter of importance. It strives to redistribute profits, while also taking into account the future operating environment and industry conditions.

Dividends

In FY03/19, J Trust initially planned to pay an annual dividend of JPY12.0 (interim dividend of JPY6 and year-end dividend of JPY6). However, t company revised its dividend forecast when it lowered its earnings forecasts along with the Q3 results to an annual

DPS of JPY7.0 (interim DPS of JPY6.0, final DPS of JPY1.0). In FY12/19, the company expects to pay a year-end dividend of JPY1.0 per share payable to shareholders of record as of December 31, 2019.

Acquisition of treasury stock

In FY03/16, the company bought back 6.250,000 shares (upper limit) (5.29% of shares outstanding) worth JPY6.3bn. It then retired the 6.3mn shares.

The company purchased 6,000,000 of its own shares (5.35% of shares outstanding) on August 15, 2016 and another 3,188,000 of its shares (3.01%) on August 16, 2016.

Company profile

Company	Head office
J Trust Co., Ltd.	Toranomon First Garden, 1-7-12 Toranomon, Minato-Ku, Tokyo 105-0001
Phone	**Listed on**
+81-3-4330-9100	Tokyo Stock Exchange 2nd Section
Established	**Exchange listing**
March 18, 1977	September 8, 1998
Website	**Fiscal year-end**
http://www.jt-corp.co.jp/en/	March
IR web	**IR Phone**
http://www.jt-corp.co.jp/en/ir/	+-81-3-4330-9100
IR mail	
jtrust_ir@jt-corp.co.jp	

About Shared Research Inc.

We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at http://www.sharedresearch.jp.

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Axell Corporation
Azbil Corporation
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Bell-Park Co., Ltd.
Benefit One Inc.
B-lot Co.,Ltd.
Broadleaf Co., Ltd.
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Career Design Center Co., Ltd.
Carna Biosciences, Inc.
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Chiyoda Co., Ltd.
Chugoku Marine Paints, Ltd.
cocokara fine Inc.
COMSYS Holdings Corporation
CRE, Inc.
CREEK & RIVER Co., Ltd.
Daiichi Kigenso Kagaku Kogyo Co., Ltd.
Daiseki Co., Ltd.
DIC Corporation
Digital Arts Inc.
Digital Garage Inc.
Dream Incubator Inc.
Earth Corporation
Elecom Co., Ltd.
en-Japan Inc.
euglena Co., Ltd.
Evolable Asia Corp.
FaithNetwork Co., Ltd.
Ferrotec Holdings Corporation
FIELDS CORPORATION
Financial Products Group Co., Ltd.
FreeBit Co., Ltd.
FRONTEO, Inc.
Fujita Kanko Inc.
Gamecard-Joyco Holdings, Inc.
GCA Corporation
Good Com Asset Co., Ltd.
Grandy House Corporation
Hakuto Co., Ltd.
Hamee Corp.
Happinet Corporation
Harmonic Drive Systems Inc.
HOUSEDO Co., Ltd.
IDOM Inc.
IGNIS LTD.
i-mobile Co.,Ltd.
Inabata & Co., Ltd.
Infocom Corporation
Infomart Corporation
Intelligent Wave, Inc.
ipet Insurance CO., Ltd.
istyle Inc.
Itochu Enex Co., Ltd.
JSB Co., Ltd.
JTEC Corporation
J Trust Co., Ltd
Japan Best Rescue System Co., Ltd.
JINS HOLDINGS Inc.
JP-HOLDINGS, INC.
KAMEDA SEIKA CO., LTD.
Kenedix, Inc.
KFC Holdings Japan, Ltd.
KI-Star Real Estate Co., Ltd.
Kondotec Inc.
Kumiai Chemical Industry Co., Ltd.
Lasertec Corporation
LUCKLAND CO., LTD.
MATSUI SECURITIES CO., LTD.
Medical System Network Co., Ltd.
MEDINET Co., Ltd.
MedPeer,Inc.
Mercuria Investment Co., Ltd.
Micronics Japan Co., Ltd.
Milbon Co., Ltd.
MIRAIT Holdings Corporation
Monex Goup Inc.
MORINAGA MILK INDUSTRY CO., LTD.
NAGASE & CO., LTD
NAIGAI TRANS LINE LTD.
NanoCarrier Co., Ltd.
Net One Systems Co.,Ltd.
Nichi-Iko Pharmaceutical Co., Ltd.
Nihon Denkei Co., Ltd.
Nippon Koei Co., Ltd.
NIPPON PARKING DEVELOPMENT Co., Ltd.
NIPRO CORPORATION
Nisshinbo Holdings Inc.
NS TOOL CO., LTD.
OHIZUMI MFG. CO., LTD.
Oisix ra daichi Inc.
Oki Electric Industry Co., Ltd
ONO SOKKI Co., Ltd.
ONWARD HOLDINGS CO.,LTD.
Pan Pacific International Holdings Corporation
PARIS MIKI HOLDINGS Inc.
PIGEON CORPORATION
QB Net Holdings Co., Ltd.
RACCOON HOLDINGS, Inc.
Raysum Co., Ltd.
RESORTTRUST, INC.
ROUND ONE Corporation
RVH Inc.
RYOHIN KEIKAKU CO., LTD.
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Tenpo Innovation Inc.
3-D Matrix, Ltd.
TKC Corporation
TOKAI Holdings Corporation
TOYOBO CO., LTD.
Toyo Ink SC Holdings Co., Ltd
Toyo Tanso Co., Ltd.
Tri-Stage Inc.
VISION INC.
VISIONARY HOLDINGS CO., LTD.
WirelessGate, Inc.
YELLOW HAT LTD.
YOSHINOYA HOLDINGS CO., LTD.
YUMESHIN HOLDINGS CO., LTD.
Yume no Machi Souzou Iinkai Co., Ltd.
Yushiro Chemical Industry Co., Ltd.
ZAPPALLAS, INC.

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