Financial Review

Overview

During the consolidated accounting period ended March 31, 2001, the impact of decelerating economic expansion in the United States gave rise to increasing uncertainties about the future direction of the Japanese economy as a whole. This also had a negative impact on the employment situation and personal income amid an already harsh employment environment. In addition, competition further intensified in the consumer finance market—the Promise Group's main business field. We have also seen widespread adoption of the Internet, brought about by advances in IT and e-commerce, which has accompanied the spread of mobile phones. Furthermore, the trend toward mergers between large-scale companies and strategic corporate alliances suggests the possibility of significant changes in the future market structure.

To respond proactively to such a volatile environment, the Promise Group is in the process of integrating and realigning Group companies and striving to create a Group structure that will make better use of the Company's strength as a leading consumer finance company while promoting effective use of the Group's management resources and development of a high-quality, strong operating base.

As a result, consolidated operating income during the year under review increased 19.6%, to ¥359,641 million ($2,902,675 thousand), due to a strong performance centered on the parent company and the inclusion of the earnings results of newly consolidated subsidiaries. Operating profit rose 20.2%, to ¥127,418 million, and net income expanded 10.7%, to ¥64,845 million.

Cash and cash equivalents declined ¥27,361 million, to ¥103,968 million. Although income before income taxes and other adjustments were at a high level, consumer loans outstanding increased and fund procurement declined. Regarding dividends applicable to the period, Promise's policy is to return a portion of profits to its shareholders, taking into consideration the favorable earnings performance. Promise declared an annual dividend of ¥90 per share (including the mid-term dividend payment), up ¥10 from the previous fiscal year. This is the seventh consecutive dividend payment increase since the listing of our shares.

Operating Results: Operating Income, Operating Expenses, and Operating Profit

Consolidated operating income during the year under review increased 19.6%, or ¥58,917 million, to ¥359,641 million ($2,902,675 thousand). Consumer loans receivable expanded 22.4%, to ¥1,418,656 million, which resulted in interest on consumer loans advancing 20.6%, or ¥56,078 million, to ¥327,821 million ($2,645,850 thousand). In addition to a strong performance by the parent company, the inclusion of three new consolidated subsidiaries—Rich Co., Ltd., Shinkou Co., Ltd., and Towa Co., Ltd.—raised the total balance of consumer loans receivable.

However, the interest on consumer loans of Towa Co., Ltd., was not included in the figures for the year under review because the acquisition date for additional stocks of the company by the parent is now regarded as being at the end of the consolidated accounting year.

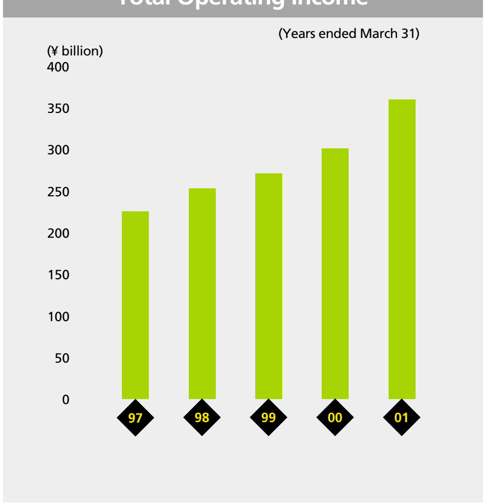
The actual average yield per annum on loans to consumers rose 0.11 percentage point, to 25.48%, due primarily to the relatively higher yields of the newly consolidated subsidiaries. Other operating income increased 26.3%, or ¥3,997 million, to ¥19,199 million, due to a large increase in income from the recovery of the previously written-off balances of consumer loans and their accompanying interest.

Sales decreased slightly, to ¥12,621 million, owing to depressed car sales at an overseas subsidiary. As a percentage of finance-related income, consolidated operating income rose 0.8 percentage point, to 95.3%. Over the past six fiscal years, the Promise Group has reported a record average annual growth of 12.3% in operating income.

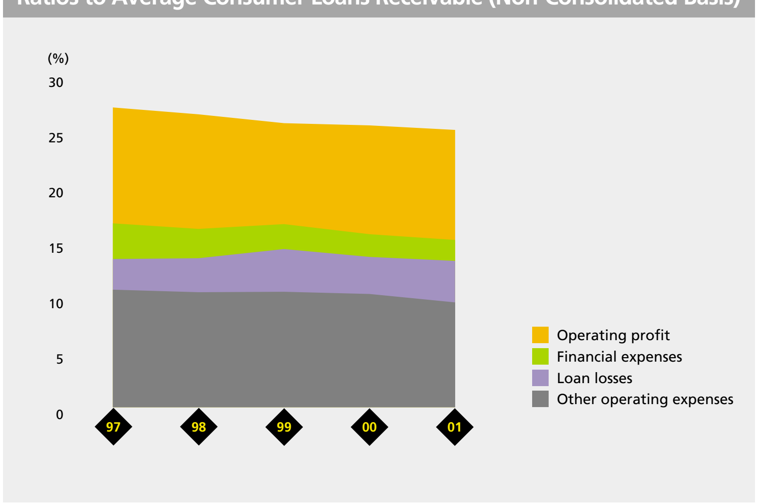
Consolidated operating expenses rose 19.3%, or ¥37,526 million, to ¥232,223 million ($1,874,281 thousand), slightly below the rate of growth for operating income. The principal reason for this increase was higher general and administrative (G&A) expenses, which increased 17.2%, or ¥20,334 million, during the fiscal year, to ¥138,407 million ($1,117,088 thousand). As for general expenses, except for strategic advertising expenses and other Company policy-related expenses, the Group as a whole has made concerted efforts to maximize efficiency and implement costcutting measures. The size of the increase was attributable primarily to the existing costs of the aforementioned newly consolidated subsidiaries.

A breakdown of G&A shows advertising expenses increased 45.1%, or ¥8,084 million, to ¥25,998 million ($209,834 thousand), due to an aggressive television commercial and newspaper advertising campaign to promote our corporate VI and distinctive yellow signage. Advertising expenses accounted for 18.7% of G&A expenses. Employees' salaries and bonuses, which accounted for 21.7% of G&A expenses, rose 14.8%, or ¥3,862 million, to ¥30,045 million, owing to the inclusion of personnel expenses of the newly consolidated subsidiaries. Rent expenses, representing 9.6% of G&A expenses, increased 7.3%, or ¥906 million, to ¥13,264 million, due to the inclusion of the rental fees of the existing outlets and equipment of the newly consolidated subsidiaries.

Total Operating Income



Ratios to Average Consumer Loans Receivable (Non-Consolidated Basis)



Among other expenses, a primary expense is commission payments relating to computer system development and charges for providing customer credit information, which rose 7.5%, or ¥977 million, to ¥14,062 million, accounting for 10.2% of total G&A expenses. In addition, special cost increases during the period include the cost of retirement benefit allowances, which surged 100.6%, or ¥2,026 million, to ¥4,039 million, accounting for 2.9% of total G&A expenses. This surge was due primarily to an increase in accumulated retirement benefit expenses because of the introduction of retirement benefit accounting. Credit losses including provision for uncollectible loans increased 39.6%, or ¥15,838 million, to ¥55,990 million. This addition was made in view of the upward trend in personal bankruptcies and the condition of the newly consolidated subsidiaries with the aim of taking all available measures to ensure asset soundness.

Financial expenses, which consist almost entirely of interest payments, rose only 11.6%, or ¥2,782 million, to ¥26,714 million ($215,607 thousand), because long-term interest rates rose only slightly despite a substantial increase in interest-bearing debt backed by an expansion in consumer loans. The average interest rate on long-term debt, which accounts for 97.0% of total borrowings, including corporate bonds, fell from 2.534% to 2.305%. The main reasons for the fall were the refinancing of high-interest funds, direct fund-raising in capital markets, and an increase in long-term funds. Thus, the ratio of fixed rate fund procurement to total borrowings rose from 81.9% to 83.4% at the end of March 2001. As market rates are likely to rise from their extremely low levels, an increase in fixed rate fund procurement will provide Promise with a substantial cushion against any increases in market rates. At Promise's Taiwanese subsidiary, the cost of sales for products—primarily automobiles—fell 9.0%, to ¥11,112 million, in line with the decline in sales.

As a result of these factors, operating profit rose ¥21,391 million, or 20.2%, to ¥127,418 million ($1,028,394 thousand), and the operating profit ratio increased 0.1 percentage point, to 35.4%.

Other Income (Expenses) and Net Income

Total other expenses, net, expanded ¥17,200 million, to ¥20,026 million. Net loss on sales or disposal of property and equipment surged ¥16,067 million, to ¥18,242 million, which was attributable to the Company's sale of all its rental properties in one package to its subsidiary Pal Corporation Ltd. Other items include a decline in profits due to equity in net losses of affiliates totaling ¥3,154 million, a loss on the devaluation of a golf club membership of ¥1,110 million, and an absence of ¥2,094 million worth of profits from special-purpose anonymous associations for leveraged lease transactions (Tokumei Kumiai) during the period under review, due to their liquidation.

Positive factors included an increase in equity in earnings of ¥869 million, to ¥1,862 million, from special-purpose companies and net gain on sales of investments securities, which rose ¥1,422 million, to ¥1,956 million. Other positive factors include ¥639 million in proceeds from the liquidation of unconsolidated subsidiaries and the absence of the ¥1,454 million, one-time provision of unfunded employees' retirement benefits arising from the introduction of new accounting standards during the previous fiscal year.

As a result, income before income taxes rose 4.1%, or ¥4,191 million, to ¥107,392 million ($866,767 thousand). Net income for the year was ¥64,845 million ($523,368 thousand), which was 10.7%, or ¥6,273 million, higher than that for the previous fiscal year. The difference in the rate of profit increase is due to the admission of affiliated companies' stock appraisal losses following the introduction of tax-effect accounting, which reduced the tax burden for corporate and other taxes from 42.8% to 39.6%.

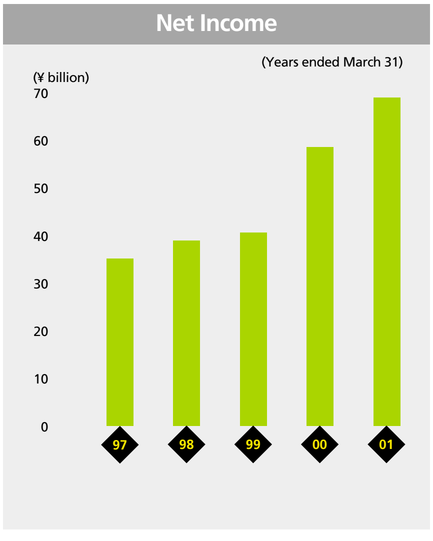
Basic net income per share rose ¥38.10, to ¥525.02 ($4.21), and the return on equity ratio (ROE) was 13.57%.

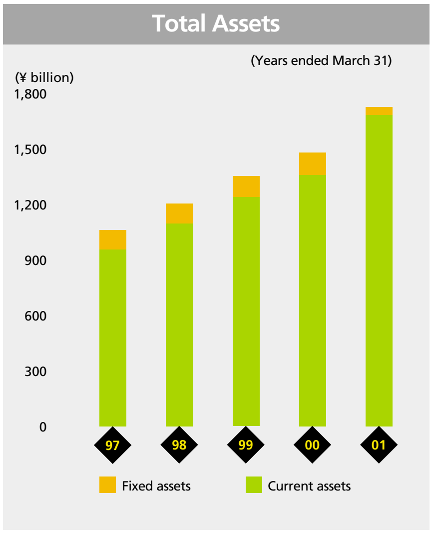
Financial Position

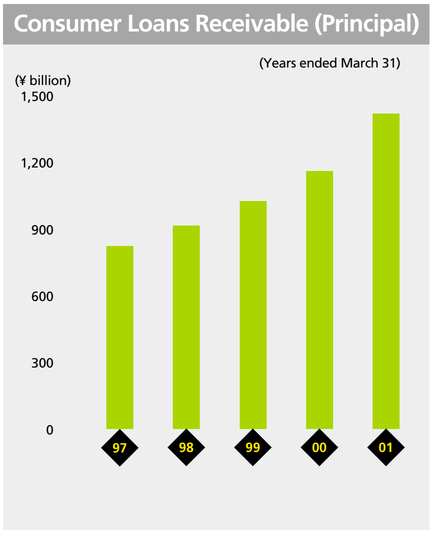
At fiscal year-end, total assets rose 13.6%, or ¥201,545 million, to ¥1,679,394 million. As stated earlier, this was due primarily to the 22.4%, or ¥259,403 million, surge in principal consumer loans receivable, to ¥1,418,656 million. In view of this rise in principal consumer loans receivable and the condition of newly consolidated subsidiaries, the Company increased the allowance for credit losses 38.1%, or ¥16,938 million, to ¥61,349 million, to ensure the quality of assets.

On the other hand, cash and cash equivalents declined ¥27,361 million, to ¥103,968 million, due to fund demand accompanying the large increase in consumer loans receivable. Moreover, restraints on fund procurement necessitated the use of a portion of cash on hand to fund the shortfall. The Company was able to reduce its cash position through the active use of commitment facilities (special credit lines) and other funding schemes that allow it to have flexible and efficient access to liquidity.

Total current assets rose 15.5%, or ¥210,204 million, to ¥1,565,165 million. Total investments and advances increased ¥6,356 million, to ¥54,644 million. This was due primarily to the acquisition of additional







shares in consolidated subsidiaries, after which the excess investment cost over net assets of consolidated subsidiaries' acquired accounts increased ¥6,158 million. Property and equipment, net, fell ¥15,553 million, to ¥44,354 million. Losses were generated on Promise's sale of all its rental properties to its consolidated subsidiary PAL Corporation Ltd. Consequently, total current assets declined ¥15,414 million on land sales.

Total liabilities at fiscal year-end increased ¥122,132 million, to ¥1,161,890 million. Of this total, short- and long-term interest-bearing debt, including corporate bonds, increased ¥123,676 million, to ¥1,094,274 million. On a cash flow basis, additional funds raised, net of repayments, amounted to an increase of ¥28,421 million. The remainder was largely accounted for by the debt of newly consolidated subsidiaries. Meanwhile, accounts payable and other liabilities fell ¥1,544 million, to ¥67,616 million.

Total shareholders' equity rose ¥79,413 million, to ¥517,504 million. Of this total, common stock rose ¥156 million and additional paid-in capital increased ¥23,792 million, owing to the issuance of additional stock by the parent company in connection with the increase in the Company's holdings in Rich Co., Ltd., and Towa Co., Ltd., making them wholly owned companies through the application of the simplified share exchange method as provided for under the provisions of the Commercial Code of Japan. Consolidated retained earnings, derived mainly from net income for the period, rose ¥54,166 million, to ¥384,668 million. Among other items, accompanying the change in standards for accounting for financial instruments, the Company credited ¥4,518 million in unrealized valuation gains on securities directly to shareholders' equity based on the fair market value method. In addition, accompanying the adoption of a stock option plan, ¥2,921 million in treasury stock was subtracted from shareholders' equity for the period under review. As a result of these factors, the Company's shareholders' equity ratio increased an additional 1.2 percentage points, rising from 29.6% to 30.8%, thus maintaining a high level in the consumer finance industry.

Credit Losses Written Off

Credit losses written off for the year under review, including unsecured and secured loans, totaled ¥48,789 million, up ¥14,701 million. The ratio of credit losses to total outstanding consumer loans at the end of the fiscal year rose 0.5 percentage point, from 2.94% to 3.44%, owing to the surge in the number of personal bankruptcies and the inclusion of credit losses of the newly consolidated firms Rich Co., Ltd., and Shinkou Co., Ltd. Despite a 13.5% increase in the number of personal bankruptcies in 2000, thanks to the Company's stringent loan screening and appropriate credit management, the Company was able to minimize the increase in credit losses written off.

Fund-Raising

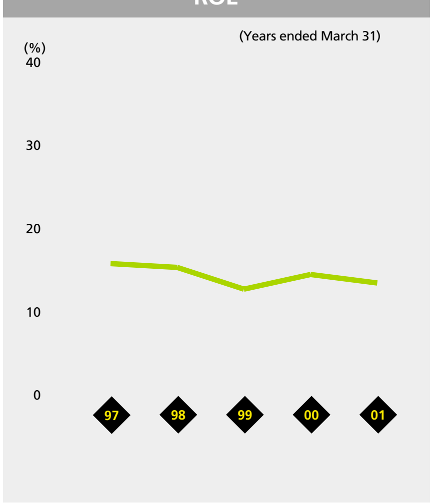
During the fiscal year under review, we made use of our high credit ratings to diversify our funding in Japan. Sources tapped included the issuance of commercial paper and unsecured straight-bonds as well as funding operations that make use of interest rate caps, interest rate swaps, and other financial instruments. Of particular note was ¥72,000 million raised by the parent company through six issues (Nos. 16-21) of straight corporate bonds and one issuance of straight bonds by GC Co., Ltd. (No. 1). Over the past seven years, the Company has increased the ratio of funding directly from capital markets, excluding new share issues, from 0% to 26.8% for the year under review. Plans call for this ratio to be increased to 30%. This financial strategy is closely linked to the Nonbank Bond Issuing Law, which came into effect in May 1999. In the past, we were limited to financing our lending activities through bank borrowings or the issue of new equity. However, as a result of the enactment of this law, consumer finance companies satisfying certain conditions as to size of operations may now issue corporate bonds and commercial paper to fund their primary lending business, thus making direct funding from capital markets possible.

At the end of the fiscal year, total fund-raising outstanding, excluding shareholders' equity, was ¥1,094,274 million, up 12.7% from the previous fiscal year-end. Of this total, 83.4% was fixed rate funding, 1.5 percentage points higher than for the previous fiscal year. This reflects the Company's finance policy aimed at stabilizing fund procurement. Under this policy, Promise is increasing the balance of funds procured at long-term, fixed interest rates as a means of hedging the risks associated with possible rises in interest rates. Moreover, to avoid the impact of rising market rates on interest paid on floating rate borrowings, certain of these borrowings have interest rate caps that place a ceiling on interest to be paid. In addition, we use interest rate swaps to fix a portion of interest costs on floating rate borrowings. The notional amount of Promise's contractual indebtedness covered by interest caps was ¥160,600 million at the balance sheet date.

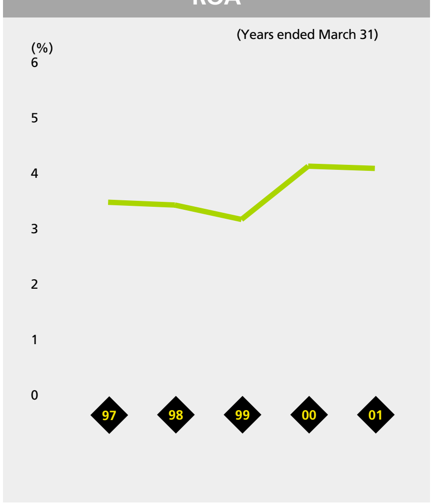
Cash Flows

Cash and cash equivalents at end of the year amounted to ¥103,968 million ($839,129 thousand), a net decrease of ¥27,361 million from the

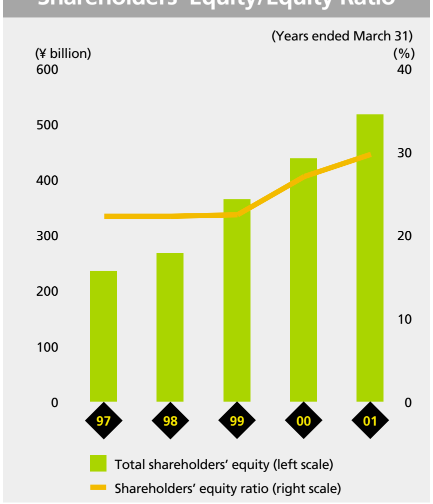
ROE



ROA



Shareholders' Equity/Equity Ratio



previous fiscal year-end. This was due to an increase in consumer loans receivable and a decline in fund procurement due to an appropriation of cash on hand, as explained in the section on the Company's financial position, reflecting the financial policy of restraining additional fund-raising except to secure liquidity and mobility while raising the efficiency of financing operations. Management believes this amount of liquidity is sufficient for the conduct of Promise's operations.

Net cash used in operating activities amounted to ¥31,562 million ($254,739 thousand), ¥35,068 million lower than the previous fiscal term. Of this, cash inflow of income before income taxes of ¥107,392 million ($866,767 thousand) and adjustments for non-cash items, such as depreciation and amortization, provision for uncollectible loans, loss on sales or disposal of property and equipment, other non-cash items, and deduction of income taxes paid, totaled ¥97,200 million, up ¥25,850 million compared with the previous fiscal year. This is attributable to the continued high level of income before income taxes. Among non-cash items, significant losses were recorded on sales or disposal of property and equipment, amounting to ¥18,242 million.

Regarding operating assets and liabilities, installment sales receivable and accrued interest from consumer finance receivables declined ¥9,218 million, to ¥128,762 million. Although the balance of consumer loans receivable rose ¥2,802 million, to ¥136,769 million, conventional installment sales receivable declined substantially, because certain receivables were securitized and, under new accounting standards, were treated as receivable sales and no longer included in installment sales receivable, resulting in a decline in this item.

Net cash used in investing activities declined ¥10,517 million, to ¥9,735 million. Net outflows for purchases of property and equipment, net, decreased ¥3,560 million, to ¥6,902 million.

An additional outflow of ¥3,798 million was made to increase ownership in subsidiaries to 100%.

Net inflows include ¥6,195 million in funds from two subsidiaries fully acquired through the aforementioned Simplified Share Exchange Method provided for under the Commercial Code of Japan. Net purchases and sales of investments in securities generated a net inflow of ¥2,033 million during the period, compared with a net outflow of ¥3,861 million the previous fiscal year.

Net cash provided by financing activities decreased ¥40,047 million, to ¥15,080 million ($121,710 thousand). This was due primarily to the repayment of short- and long-term borrowings amounting to ¥43,126 million. Also, proceeds from seven issuances of unsecured straight bonds, net of expenses, of ¥71,547 million fell short of the nine issuances of the previous fiscal year, which amounted to ¥124,257 million. Cash dividends paid totaled ¥10,421 million. An amount of ¥2,920 million was paid for the acquisition of treasury stock accompanying the adoption of the stock option plan.

Capital Expenditures

Capital expenditures during the fiscal year totaled ¥6,902 million. Principal expenditures included the establishment of new branches, installation of additional automated credit providers, and purchases of information processing equipment.

The number of branches at the end of the fiscal year under review was 1,755. This network comprised 637 staffed branches and 1,118 unstaffed branches. In addition, the number of automated credit providers and ATMs rose substantially, to 1,645 and 2,101, respectively, and the number of CDs, to 81. Newly consolidated subsidiaries' branches and automated dispensers have been included in this total. We estimate capital expenditures for the year ending March 31, 2002 will be a relatively low ¥2,929 million, reflecting the completion of the current round of such investments. We plan to focus this investment primarily on the installation of automated credit providers and the opening of new outlets.

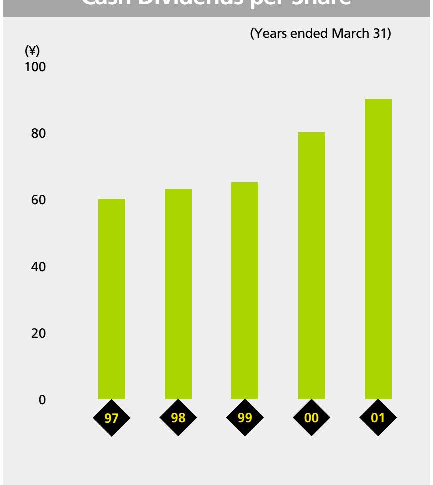
Dividend Policy

The Company's management has long recognized as one of its top priorities the allocation of a portion of net income to shareholders. Since our listing on the Tokyo Stock Exchange, our regular payment of dividends has been highly regarded by the Tokyo Stock Exchange, as demonstrated by the awards Promise has received from the Exchange.

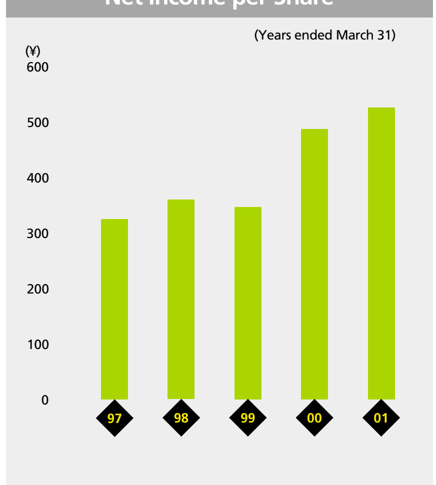
In view of our performance during the year under review, we set cash dividends at ¥45 ($0.36) per share for the second half of the fiscal year. A cash dividend of ¥45 was also paid for the first half of the fiscal year. As a result, the annual dividend applicable to fiscal 2001 was ¥90 ($0.73) per share, or ¥10 per share higher than that of the previous fiscal year. This was the seventh consecutive year since the listing of our shares in which we have increased shareholder dividends.

As a consequence, our dividend payout ratio for the year under review was 17.56%, ROE was 13.64%, and the ratio of dividends to shareholders' equity was 2.22%.

Cash Dividends per Share



Net Income per Share



Shareholders' Equity per Share