

An Interview with the President—A Review of Promise's Corporate Strategy



In an increasingly challenging environment, Promise is continuing to innovate in its activities, looking always to future development. While we are proceeding with reforms in the parent company, we are also significantly strengthening the management of the Promise Group, aiming for sustained growth in earnings.

Question

The Japanese economy is confronting a difficult set of conditions. Looking back over the fiscal year ended March 31, 2002, how would you evaluate Promise's performance?

Answer

The operating environment for Promise's activities during the fiscal year changed significantly from previous years. First, an increase in the unemployment rate to more than 5% is something that could not have happened before in Japan. As a result of the increase in the number of customers without the funds to repay their loans due to unemployment, concerns about loans past due and credit losses rose sharply. In addition, there have been no signs of a peaking out of the number of personal bankruptcies in Japan, and we must give our attention to the impact of the Civil Rehabilitation Law for individuals, which went into effect in April 2001, and other developments.

Looking back over the fiscal year, we not only were obliged to monitor our loan portfolio carefully but also found these developments were having an impact on our performance. In parallel with this, the entry of foreign companies and banks into the consumer loan industry has become quite conspicuous. The entry into our industry of foreign companies through M&A and domestic banks through the establishment of joint ventures and alliances in the loan guarantee field will most likely contribute to the expansion of the consumer finance market, but it will also bring substantially increased competition. There was virtually no impact from these latter developments during the fiscal year, but we expect them to gradually have an effect in the years ahead. Amid this environment, we reported increases in consumer loans outstanding, total operating income, and income before income taxes. Unfortunately, the rise in provisions to the allowance for credit losses of the parent company had a strong negative impact, causing us to report our first decline in net income since we listed our shares.

Question

What is your view of future developments in the operating environment? What is the outlook for Promise's performance for the year ending March 31, 2003?

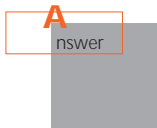
Answer

We believe there will be no major changes in the economic environment for the foreseeable future. Some forecasters and others have expressed views that the Japanese economy would begin to recover in mid-2002, but, even if the economy recovers, this will first have an impact on corporate performance and other indicators, such as private-sector capital investment. The performance of consumer finance companies is influenced by trends among income earners. However, indicators that are directly linked to income earners, such as the unemployment rate and the propensity to consume, tend to lag behind other indicators during periods of recovery. Although actual results will depend on the strength of the recovery, real recovery in our customer segments will probably take at least another one to two years.

For this reason, we believe the operating environment during the fiscal year ending March 2003 will be as difficult as it was in the previous year. Our current outlook is for further real increases in credit losses. Nevertheless, since we set aside a sufficient allowance for credit losses during the year ended March 2002, credit losses, including provision for uncollectible loans, for the year ending March 2003 will remain at virtually the same level as for the previous year. As a consequence, we are forecasting an increase in net income.



What are your views concerning growth prospects in the medium term?

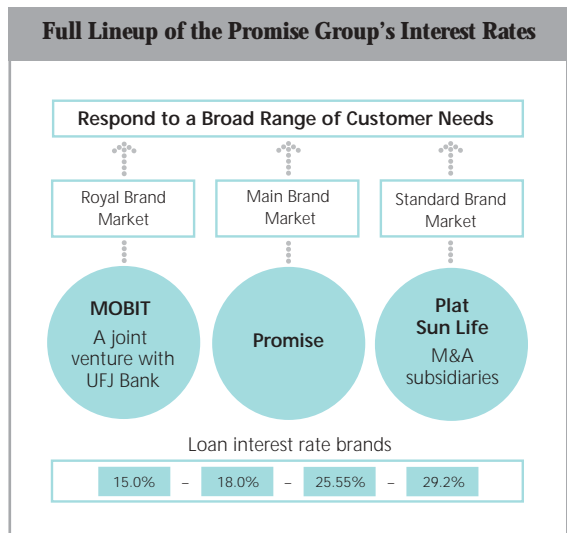


Since the fiscal year ended March 2001, we have implemented strong measures to increase our consolidated earnings power. These measures are based on our business model, which calls for winning customers in all segments of the consumer loan market by providing a broad range of loans with interest rates suited to the risk profiles of customers in differing segments. In more specific terms, we are developing various market segments through MOBIT, a joint venture with UFJ Bank; Promise; and its M&A subsidiaries.

MOBIT is targeting its marketing efforts toward relatively low-risk customers and is focusing on providing revolving credit lines with interest rates at 15% and 18% that customers can apply for via such telecommunications channels as the Internet or telephone. In principle, to keep its costs to a minimum, MOBIT has no branches, and customers make loan withdrawals and repayments through Promise, UFJ Bank, and the channels of its other alliance partners.

Plat, on the other hand, is developing its position in the higher-interest segment, where rates are approximately 29.2%. Plat was established through the merger of three companies we acquired previously—Rich, Shinkou, and TOWA—and, after the merger, we reduced the total number of offices of these three formerly independent companies from 194 to 81 to improve efficiency. We then provided access for Plat customers to Promise's nationwide network of automated contract machines and ATMs, so they could receive loans and make repayments conveniently. Consequently, Plat became a consumer finance company

with service delivery channels comparable to those of Japan's leading consumer lenders.





Question

How would you appraise the market response to MOBIT and Plat's marketing efforts? What is the outlook for their performance?

Answer



At present, we have a 45% equity stake in MOBIT, and, for the year ended March 2002, we reported ¥3.1 billion in equity in its net loss. However, for the year ending March 2003, MOBIT is expected to show a profit; therefore, the impact of this loss on Promise will be eliminated. In its customer development activities, MOBIT is steadily expanding its base among customers who have different attributes from those of Promise customers, and—as this brand has the potential to develop a new customer segment—we are anticipating contributions to consolidated performance from a steady increase in MOBIT's consumer loans and profits.

As a result of the merger, Plat is a more streamlined company than its three predecessors, and we expect it to conduct low-cost operations. Looking ahead, Plat set its target for the ratio of expense to the loan balance at less than 20% to realize low-cost operations. We believe that Plat will expand its number of customers and consumer loans using its various competitive strengths, which include the know-how of the three former companies as well as Promise's customized credit analysis and approval system and its nationwide channels.

For the year ending March 2003, Plat's net income is forecast to decline temporarily because of costs associated with the merger and advertising expenditures to familiarize customers with the new brand, but we anticipate major improvements in performance for the year ending March 2004.

Question

You acquired another consumer finance company, Sun Life Co., Ltd., during the fiscal year. Could you please tell us how you will position this company and also what your future M&A strategy will be?

Answer

Sun Life became a wholly owned subsidiary of Promise in December 2001. The financial statements of this company are fully reflected in our consolidated balance sheets as of March 31, 2002, and in our consolidated statements of income for the period since this company was acquired. At the end of the fiscal year under review, Sun Life had consumer loans outstanding of ¥20.2 billion. Sun Life has pursued a strategy of maintaining dominance in the four prefectures of Shikoku Island and in Okayama Prefecture. Therefore, brand awareness of the company is high in those areas. For this reason, we are planning to have Sun Life continue its activities without modification.

Regarding our M&A strategy, thus far we have not diversified our activities into completely new businesses but have aimed for a greater diversity of business activities through expansion of our operations within the limits of our know-how. If there are good potential M&A opportunities in the consumer finance

field, we will consider acquisitions after examining the quality of the acquisition candidate's assets and possibilities for cutting costs. In addition, we will include companies outside consumer finance areas, including those in the credit card and installment sales finance businesses, if we believe an acquisition would produce mutual benefits. The most important point is that the business model underlying the acquisition has to generate profits.

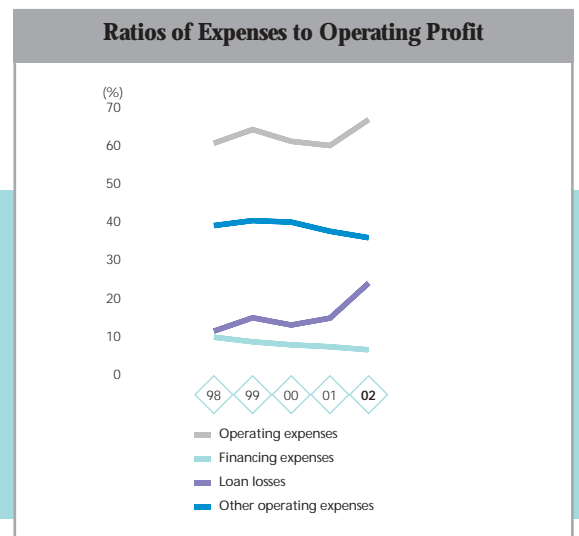
Question

As you develop the market using three brands, Promise, with the largest volume of the three companies, seems to be experiencing a decline in the growth of its consumer loans. What are the prospects for growth, both in loans and in net income?

Answer

The balance of consumer loans outstanding of Promise alone as of March 31, 2002, was ¥1,324.7 billion, representing an increase of 7.9% over the previous fiscal year-end. Until the fiscal year ended March 2001, we recorded double-digit growth, so our loan growth rates are gradually declining. Thus far, Promise alone has grown organically, and there were no increases at all in its loan balance because of mergers or acquisitions. If we assume that we had continued this policy of organic growth, there appear to be two causes for a decline in the growth rate. One is relative decline because of a high volume of assets, and the other

is the impact of our cautious stance toward lending. If we assume that we increased the balance of our loans by the same amount each period, the denominator would expand each period, and the growth rate would decline just because of the laws of mathematics. That is one factor at work here. On the other hand, if we consider the current economic environment, tightening our credit standards results in restraint in making new loans, and that also leads to lower growth in our assets. When implementing a lending policy, it is important to make selective use of the accelerator and the brakes. We believe that in the current operating environment, it is necessary to rely mainly on the brakes. Therefore, our policy is to pay close attention to the quality of our assets while maintaining an appropriate rate of growth, but this will lead to a decline in growth on a non-consolidated basis. However, we want to maintain growth in profit. That is why we have designated cost reductions as a key issue and have begun to reduce our expenses. During the fiscal year under review, among operating expenses, loan losses rose and put pressure on profit. We are continuing to focus on restraining loan losses, but we are aware that reducing loan losses is difficult in this recessionary environment. In addition, there is a possibility that, among financial costs, our cost of funds may rise, but there is likely to be no further decline. In short, to increase profit, the key will be how



much we can lower other operating expenses. Compared with other companies in the consumer finance industry, our ratio of operating expenses is relatively high; therefore, we believe there should be ample potential for cost reductions. We are beginning to review each of our expense categories this fiscal year, and our plans call for reducing short-term expenses starting with the year ending March 2003. In the case of medium-term expenses, we will begin to make reductions in the year ending March 2005.

Question

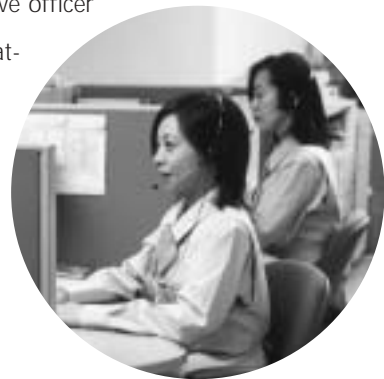
Recent management initiatives at Promise have included a major reorganization implemented in April 2002 and then the introduction of the executive officer system. Could you please explain the background and objectives for these rapidly implemented changes?

Answer

If we look at the operating environment, we see a number of uncertainties that may well have an impact on the performance of consumer finance companies. These include the cloudy outlook for the economic environment, growing competition as banks and foreign companies enter the market, and the review and possible revision of the legal upper limit on interest rates, which is scheduled for June 2003.

To further substantially improve our performance in this environment, we have to have marketing and service delivery capabilities that are better than those of our competitors, and we must strengthen the abilities of our staff and our organization, both of which are key to providing superior services.

In the reorganization we implemented in April this year, we eliminated our previous three-layered structure consisting of our head office, regional offices, and branches and made the transition to a horizontal organization that directly links our head office with the branches. Under this new organization, the proposals of our staff who are in direct contact with customers and data on customer needs are fed back quickly to the head office. Moreover, strategies prepared by the head office can be put into action by all employees in a short period of time. In these times of rapid change, the most important thing is for our organization to move flexibly and accurately in response to trends among customers. The executive officer system we have adopted is intended to make decision making faster in all our operating divisions and make the new organizational setup work more effectively.



Question

Will you continue to implement management reforms like these?



Answer

We are moving forward with reforms that involve the entire Promise Group in three areas. These are management structure, personnel and organizational structure, and business structure. As soon as the details of these reforms are finalized, we will move forward to implement them one by one. The reorganization and the introduction of the executive officer system that I just described were implemented as part of these

reform plans. We have an ongoing program of activities to improve

our capabilities for winning

new customers and increasing the repeat business ratio of existing customers. These activities include: the implementation of a visual identity program; strengthening our advertising and promotion; the provision of services over the Internet and via mobile phones; the expansion of our service delivery channels through alliances with other companies in other business fields, including financial institutions, installment sales companies,

and convenience store chains; the issuance of Promise JCB cards with credit features; and the provision of financial products with preferential interest rates to our premium account customers. Looking ahead, we will aggressively develop and implement new measures as we work toward further corporate reforms.

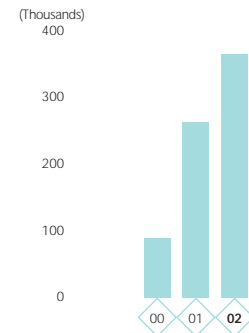
Question

What steps are you taking to prepare for the possibility of an increase in interest rates and any other changes in the funding environment?

Answer

For our borrowings from financial institutions, we have a basic policy of obtaining stable funding at low rates, namely the long-term prime rate. At present, funding rates remain at low levels, but, even if our borrowing rates begin to rise, we will not be able to increase our lending rates to customers. Therefore, we are increasing our ability to deal with rising interest rates by increasing the ratio of fixed-rate borrowings. Our total fixed-rate debt, including bonds, on a consolidated basis represented 88.7% of our total debt. On a non-consolidated basis, the ratio was 92.9%. Basically, as the maturity of our borrowings is five years, even if the level of interest rates rises, we will be able to keep the effect to a

Number of Promise JCB Cards Issued

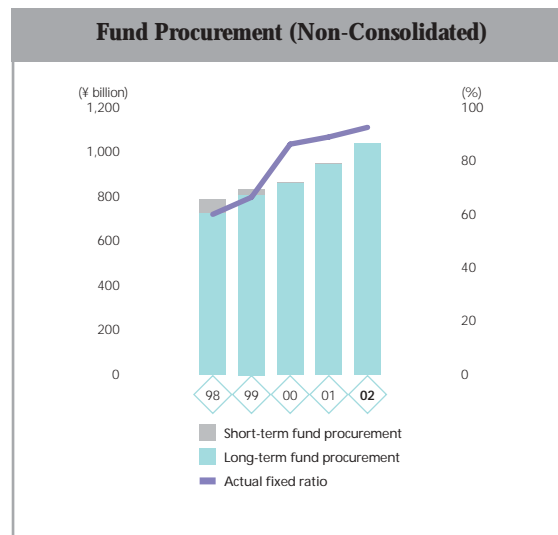


* Promise JCB cards issued from June 25, 1999

minimum. We are also actively working to reduce our funding costs and diversify our funding sources by issuing unsecured straight bonds in the domestic capital market. Our outstanding balance of bonds issued at the end of the fiscal year under review was ¥312.0 billion, and direct funding from capital market sources accounted for 27.2% of our total debt. We have set a goal of raising capital market funding to 30% of total debt.

To prepare for any sudden changes in the funding environment, we are making use of commitment facilities and other contractual arrangements

as backups for our funding program. The total contractual value of these arrangements as of March 31, 2002, was ¥130.0 billion, which we believe is sufficient. Also, to further diversify our sources of funds, we are taking necessary measures to ensure the stability of our funding base.



Question

Is there any message to shareholders and investors that you would like to emphasize?

Answer

We will continue to work to substantially strengthen the management of the Group as a whole and enhance its performance. When a group of companies becomes this large, it becomes more difficult to sustain double-digit rates of growth, but we intend to continue to increase net income and earnings per share through a range of initiatives. These include the sharing of management resources within the Promise Group, aiming for stable funding from a diversity of sources, and pursuing greater efficiency in the Group's operations. As we continue to implement structural reforms in the parent company, we will remain committed to the active development of our business operations and responding to the expectations of our shareholders.