

## Financial Review

### Overview

During the fiscal year ended March 31, 2002, the Japanese economy slipped further into recession, owing in part to a decelerated world economy. As a result of these and other circumstances, Japan's exports and industrial production experienced further substantial declines and corporate profits came under increased pressure. The unemployment rate rose above 5%, the highest level reported to date, and the average price on the Tokyo Stock Exchange dropped to the lowest levels since the bursting of Japan's bubble economy. In addition, personal consumption remained stagnant and deflationary pressures increased. All of these factors led to negative growth in Japan's GDP and created a severe economic environment. On the other hand, use of the Internet and broadband communications expanded rapidly, and several Internet-based banks went into full-scale operations. As a consequence, e-commerce increasingly became a part of our daily lives, and signs emerged that it would bring major changes in future customer transactions.

Confronting these developments, Promise and its consolidated subsidiaries worked to use the resources of the entire Group more efficiently to respond flexibly to the severe conditions in the operating environment and build a strong management base. As a result, total operating income increased, but credit losses rose, as the number of personal bankruptcies expanded along with the deterioration in the employment situation, and legal settlements of claims rose at a faster pace than expected. To deal with these developments, Promise increased its allowance for credit losses, thus resulting in the Company's first decline in profitability since it listed its shares.

### Results of Operations

#### Total Operating Income

Consolidated total operating income during the year under review increased 9.7%, to ¥394.5 billion. Of this total, income from financial service activities advanced 10.1%, to ¥377.3 billion, thus making the largest contribution to the rise in operating income. Interest on consumer loans, which accounts for most of this income, was up 10.7%, to ¥362.8 billion. The percentage of income from this source increased 0.8 percentage point, to 92.0%. An analysis of operating income is as follows.

The rise in interest on consumer loans was in response to a higher balance of consumer loans outstanding. Additional factors accounting for

the increase included a quantitative expansion in the number of service outlets and qualitative improvements in service delivery systems.

Looking first at service outlets, we added a net 30 operating offices during the fiscal year, bringing the total to 1,785 at fiscal year-end, resulting in an increase in the number of opportunities to provide services to our customers. We also added a net 6 automated contract machines, bringing the total to 1,651, and a net 26 automated cash-handling machines (cash dispensers and ATMs), thus increasing the total to 2,208.

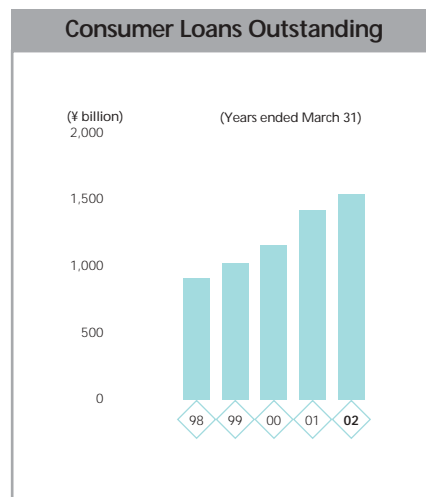
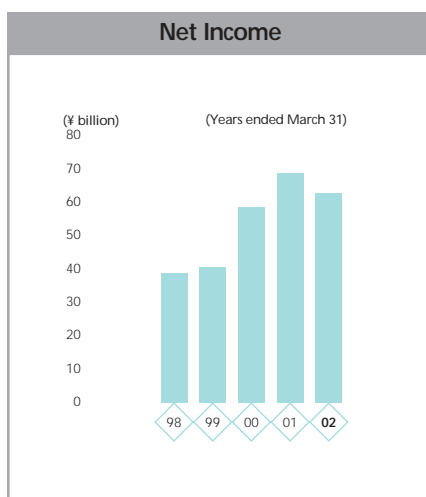
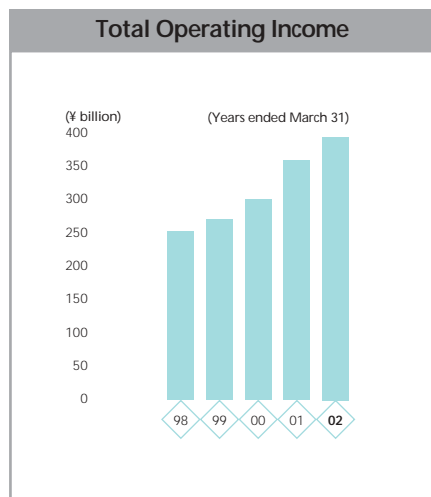
Looking next at qualitative improvements in our services, we took steps to upgrade our service delivery systems. For example, beginning in July 2001 we put our "Navigation System" into full operation, which offers advice tailored to individual customers regarding the best loan products and repayment plans for their needs. In addition, in November 2001 we merged our call center functions and Internet functions to establish a comprehensive service center. With this new system, customers can make a "one-stop phone call" to access the full range of our services—from responses to their questions to advice on repayment.

As a consequence of the aforementioned initiatives and other factors, the number of customer accounts rose 3.3% over the previous fiscal year, to 3.2 million, and the balance of consumer loans outstanding was up 8.8%. The weighted average contracted interest rate charged on the balance of consumer loans outstanding declined 13 basis points, to 25.35%. The principal reason for this drop was the decline in average contractual interest rates on unsecured consumer loans. Even though this decline in the average contractual interest rate acted to reduce operating income during the fiscal year, the rise in consumer loans outstanding was greater, thus leading to an overall increase in interest on consumer loans.

Sales of merchandise declined 2.6%, to ¥12.3 billion, because of a drop in automobile sales of an overseas subsidiary. Other operating income increased 1.3%, to ¥19.4 billion. This was due to an increase in revenues of PAL Corporation Ltd. and Net Future Co., Ltd.

#### Operating Expenses and Other Income (Expenses)

Consolidated operating expenses rose 20.6%, or ¥47.8 billion, from the previous fiscal year, to ¥280.0 billion. As a result, operating profit declined 10.1%, to ¥114.5 billion, and the operating profit ratio fell 6.4 percentage points, to 29.0%. The principal factor accounting for



the rise in operating expenses was the increase in credit losses including provision for uncollectable loans of ¥41.0 billion. This was due to the rise in nonperforming loans accompanying the deterioration in the employment situation. The composition of operating expense items was as follows.

Financial expenses declined 6.9%, to ¥24.9 billion. This decrease, despite an increase in interest-bearing debt, was due to lower funding costs. The average funding rate fell from 2.43% in the previous fiscal year to 2.10%. This fall was the result of a shift from higher-cost bank loans and an increase in the percentage of direct funding from capital markets, including bond issues. The cost of sales decreased 4.4%, to ¥10.6 billion, paralleling the drop in sales.

General and administrative expenses rose ¥9.1 billion, or 6.6%, to ¥147.5 billion. One of the factors accounting for this increase was the consolidation of two additional companies. By expense item, the principal cause of the increase was personnel expenses, including salaries of employees. Also accounting for some of the increase were higher advertising and promotion costs, rents, and fees paid. The rise in fees paid was primarily due to expenses incurred in connection with the development of computer systems to increase the quality of services and expenses for customer information introduction fees. Credit losses including provision for uncollectable loans rose 73.2% from the previous year, to ¥97.0 billion.

Total other expenses, net, posted a marked decline from ¥20.0 billion in the previous fiscal year to ¥2.2 billion for the fiscal year under review. The principal cause of this decline was a drop in net loss on sales or disposal of property and equipment, which fell from ¥18.2 billion in the previous year to ¥1.1 billion. Other expense items in the previous fiscal year included the amortization of deferred charge related to the issuance of new shares amounting to ¥1.0 billion (nil in the fiscal year under review) and an impairment loss on deposits for a golf club membership of ¥1.1 billion (compared with an impairment of ¥200 million for the year under review). The absence or decline of such items contributed to profitability during the year under review.

As a result of the foregoing factors, income before income taxes rose 4.6%, to ¥112.3 billion. The ratio of income taxes to income before income taxes increased slightly from 39.6% to 44.0%, but both figures are close to the legal tax rate in Japan of 42%. As a consequence, net income declined 2.9%, to ¥62.9 billion, and the ratio of net income

to total operating income was down 2.0 percentage points, to 16.0%. Return on equity declined 2.1 percentage points, to 11.5%.

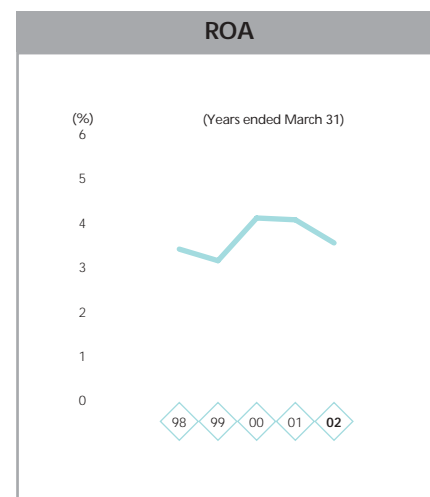
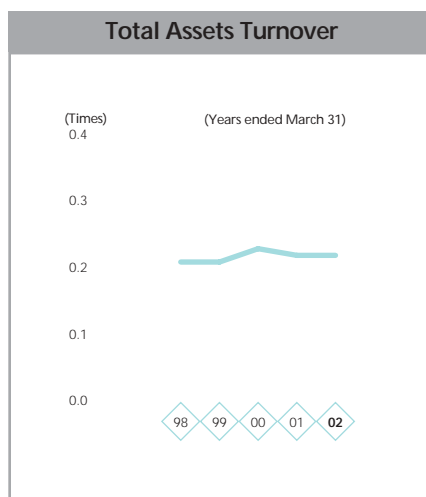
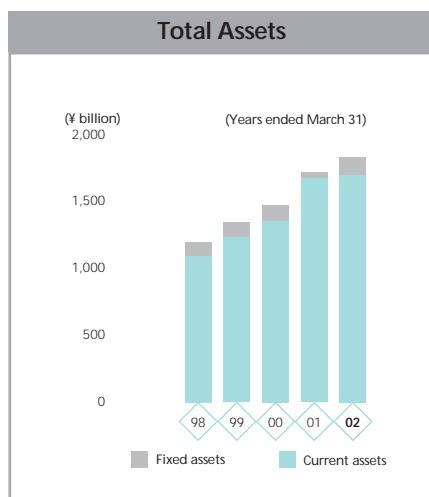
### Financial Condition

The total assets of the Promise Group rose ¥154.4 billion, or 9.2%, to ¥1,833.8 billion. A portion of this increase, as well as the increase in liabilities described below, was due to the expansion of the scope of consolidation to include two additional companies. Current assets of the Promise Group increased ¥138.0 billion, or 8.8%, to ¥1,703.2 billion. Of this total, consumer loans outstanding expanded ¥124.6 billion and accounted for approximately 81% of the rise in total assets. Among other assets, cash and cash equivalents increased ¥20.4 billion; deferred tax assets (in both current assets and investments and advances) rose ¥18.0 billion; and investments in securities—undertaken primarily to strengthen the Company's business portfolio (investments in securities and in non-consolidated subsidiaries and affiliates)—increased ¥7.4 billion.

Total consolidated liabilities increased ¥97.0 billion, or 8.4%, to ¥1,258.9 billion. Current liabilities decreased ¥14.4 billion, to ¥340.2 billion. On the other hand, long-term liabilities rose ¥111.4 billion, to ¥918.7 billion. Short-term interest-bearing debt, net, dropped ¥44.6 billion, but long-term interest-bearing debt, net, posted a gain of ¥115.2 billion. As a result, the current ratio improved approximately 60.0 percentage points, to 500.7%. Total short-term and long-term interest-bearing debt rose ¥70.6 billion on a net basis, to ¥1,164.9 billion.

Shareholders' equity increased 11.1%, to ¥574.9 billion, reflecting an increase in retained earnings from net income and a rise in additional paid-in capital accompanying the issuance of new shares. The issue of new shares was in connection with the exchange of shares, as provided for under the Japanese Commercial Code, for the acquisition of Sun Life. As a result of this acquisition, Sun Life became a wholly owned subsidiary of Promise and was consolidated with the parent beginning with the fiscal year under review.

The Company's debt-to-equity ratio declined 9.0 percentage points, to 202.6%, while the equity ratio increased 0.5 percentage point, to 31.3%. As a consequence of these various factors, the liquidity position and capital structure both showed improvement over the end of the previous fiscal year.



### Consumer Loans Outstanding and the Allowance for Credit Losses

Consumer loans outstanding expanded 8.8% over the previous fiscal year-end, to ¥1,543.3 billion. The ratio of consumer loans to consumer loans outstanding expanded 0.1 percentage point, to 99.8%. The ratio of unsecured loans to consumer loans outstanding rose 0.2 percentage point, to 99.3%. The balance of loans made under revolving credit contracts accounted for 99.6% of consumer loans outstanding, representing a 0.1-percentage-point rise from the previous fiscal year-end. On the other hand, consumer loans outstanding due in more than one year declined from 0.4% to 0.1%. The unused portion of revolving credit facilities stood at ¥427.7 billion at fiscal year-end. The amount of consumer loans outstanding classified as nonperforming at the end of the fiscal year was ¥50.6 billion, ¥11.6 billion higher than at the end of the previous fiscal year. The coverage ratio for the Company's loan portfolio (defined as the allowance for credit losses divided by the balance of consumer loans outstanding) was increased 1.3 percentage points, to 5.6%, in view of the rising incidence of nonperforming exposure. The increase in nonperforming loans reflects the higher number of individuals filing for personal bankruptcy, accompanying the rise in the unemployment ratio, and the increase in the use of legal procedures for dealing with disputes regarding monetary claims. Credit losses written off for the year under review amounted to ¥72.3 billion, ¥23.5 billion higher than in the previous fiscal year.

### Capital Expenditures

Capital expenditures during the year under review amounted to ¥6.6 billion, compared with ¥6.9 billion for the previous fiscal year. The bulk of this amount was for IT-related investments required for conducting the Company's financial services business operations and went for setting up new offices and automated contract machines or relocating existing offices and facilities. The funds used for these investments were derived from the Company's own funds or from borrowings. The number of offices and related information were mentioned previously.

### Fund-Raising

The Company is actively engaged in ensuring that it has diversified and stable funding sources, while also aggressively introducing new funding schemes, such as commitment facilities. Interest-bearing debt at the

end of the fiscal year under review, including borrowings from financial institutions, was ¥1,164.9 billion. Of this total, 27.2% was raised through the issuance of corporate bonds and commercial paper (CP). At the end of the fiscal year, the balance of unsecured straight bonds outstanding amounted to ¥312.0 billion, ¥55.0 billion higher than at the end of the previous fiscal year. This total includes ¥85.0 billion raised during the fiscal year under review. In addition, the Company also raises funds through the issuance of CP and had ¥6.8 billion outstanding at fiscal year-end, ¥3.5 billion less than at the end of the previous fiscal year. The average interest rate on bonds and CP was 1.80%, versus 1.96% for the previous fiscal year.

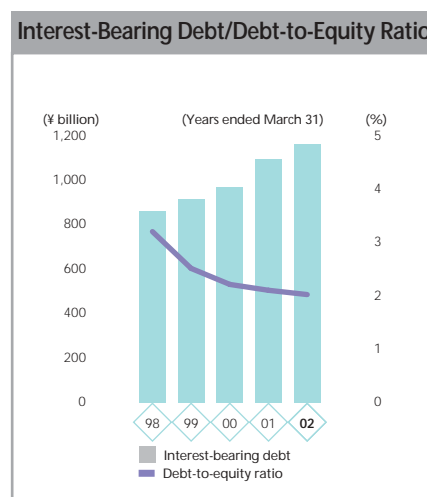
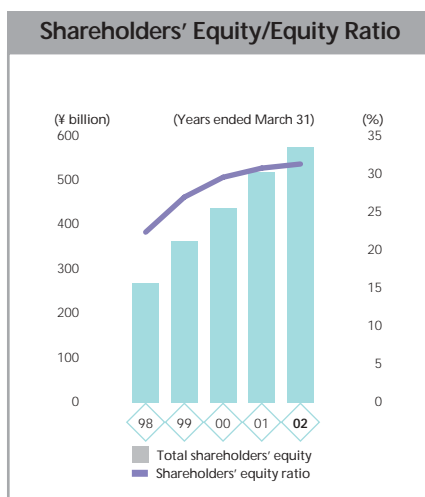
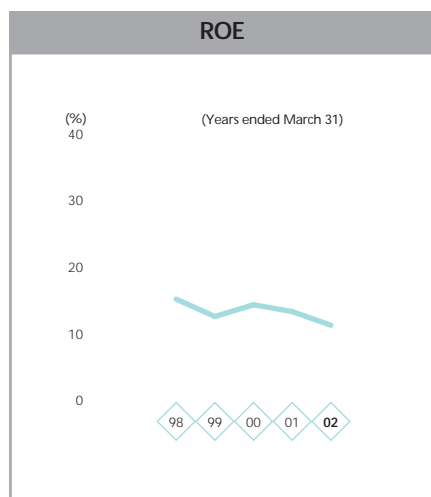
For fund-raising from financial institutions, Promise (the parent company) has a basic policy of preparing for any future fluctuations in interest rates by borrowing mainly long-term funds from stable sources at the long-term prime rate and increasing the percentage of borrowings at fixed rates. For borrowings with floating rates, Promise uses derivatives, such as interest rate swaps and caps to reduce the risk of future interest rate fluctuations. The contractual amount of interest rate swaps and caps at the end of the fiscal year under review was ¥1,685 billion. The total outstanding short-term and long-term borrowings from financial institutions at year-end amounted to ¥846.1 billion, ¥19.1 billion higher than at the end of the previous fiscal year. The average interest rate on these borrowings was 2.22%, versus 2.59% for the previous fiscal year.

In addition to the above sources, Promise has arranged for overdraft facilities and commitment lines to increase its flexibility in fund-raising. The unused portion of these facilities at fiscal year-end was ¥139.4 billion.

### Cash Flows

Cash flows from operating activities were not sufficient to cover the Company's need for the conduct of operations. The shortfall in operating cash flow and funds for capital investment and cash dividends was covered by borrowings. As a result of the raising of sufficient funds, cash and cash equivalents at the end of the fiscal year amounted to ¥124.4 billion, an increase of ¥20.4 billion from the beginning of the fiscal year. Cash and cash equivalents for the year under review were as follows.

Net cash used in operating activities was ¥7.1 billion, representing a ¥24.4 billion improvement from the previous fiscal year. The principal reasons for this improved cash flow position were: (1) a ¥21.8 billion



improvement in the sum of income before income taxes and adjustments for depreciation and amortization and the provision for credit losses on consumer loans outstanding and (2) an improvement of ¥33.8 billion, owing to lower commitments to consumer loans outstanding. However, these improvements were partially offset by: (1) a decline in the net loss on sales or disposal of property and equipment (which is an expense item similar to depreciation and requires no cash outflow) of ¥17.2 billion and (2) a shift in the direction of notes and accounts receivable, from a decline for the previous fiscal year to an increase for the fiscal year under review, thus requiring an additional ¥12.7 billion in cash.

Net cash used in investing activities rose ¥3.4 billion, to ¥13.1 billion, compared with the previous fiscal year. This was due primarily to an increase in payments for purchase of investment securities of ¥12.9 billion, due mainly to the acquisition of ¥13.3 billion in preferred securities and the underwriting of a third-party allocation of shares by MOBIT, amounting to ¥5.0 billion. This increase in payments for the purchase of investment securities was partially offset by a decline of ¥5.8 billion in net cash used for loans.

Net cash provided by financing activities rose ¥24.9 billion, to ¥39.9 billion. This was mainly due to a net increase (after deduction of repayments) in fund-raising of ¥20.7 billion, including short-term and long-term borrowings, CP, and bonds. The Company reported a ¥2.9 billion cash outlay for purchases of treasury stock for use in its stock option program, but no such purchases were made during the fiscal year under review.

#### Dividend Policy

The Company believes that returning a portion of profits to shareholders is an issue of the highest priority. Therefore, while expanding retained earnings and strengthening its financial position, the Company is working to improve its performance through the active expansion of its activities and aims at all times to respond to the expectations of shareholders for returns on their investments. The Company's policy regarding retained earnings is to place emphasis on employing these funds for capital investments in new facilities and the expansion of facilities that will strengthen competitiveness. Key areas for capital investment include the expansion of service delivery channels and other uses of these funds that will lead to the application of increasingly sophisticated IT.

Based on these policies, the Company will increase its annual cash dividend by ¥10, to ¥100 per common share. This includes a commemorative dividend of ¥10. As a consequence, the Company's dividend payout ratio will rise 2.8 percentage points, to 20.4%, and the ratio of dividends to shareholders' equity will increase 0.1 percentage point, to 2.3%.

#### Business Outlook and Forecasts for Performance

The outlook on the Japanese economy is for continued difficult conditions for the foreseeable future despite the appearance of signs of a bottoming out in certain sectors. Therefore, conditions warrant continued close monitoring. Amid this environment, as a result of pressures on corporate profits and employment adjustments, the number of customers who have lost their jobs and do not have funds to repay their loans is increasing. Concern is therefore rising sharply that the consumer finance industry in Japan will experience an increase in nonperforming loans.

Given this market outlook, the parent company, which is the core company in the Promise Group, has made the decision to implement a Groupwide program of structural reforms to ensure the Group's competitiveness. Also, as a structural reform of the Group organization, the regional office system has been abolished and replaced in April 2002 by two operating headquarters, one for eastern and the other for western Japan. Under this new operational system, the Company will structurally reform its business activities with the aims of "concentrating" its business infrastructure for greater efficiency while "diversifying" its service capabilities. The goal of these reforms will be to create a more powerful corporate structure that can adapt to market conditions and continue to generate stable earnings.

For the fiscal year ending March 31, 2003, the Company is forecasting a 5.2% rise in total operating income on a consolidated basis, to ¥415.2 billion, and a 13.5% increase in net income, to ¥71.5 billion. These forecasts are judgments prepared by the Promise Group based on information available at the time these estimates were made and are subject to latent risks and uncertainties. Accordingly, if the various factors that are the basis for these forecasts differ from the assumptions made by the Group, actual performance may differ substantially from these forecasts.

