

Management Discussion and Analysis

Overview

During the year under review to March 1997, Promise positioned itself for future growth by establishing its leadership in the consumer finance market in terms of interest rates offered, size of loans outstanding, and network.

The value of secured loans extended has declined, but our unsecured loan operations achieved stable growth in lending through the judicious provision of credit. As a result, the consumer loans outstanding at the end of the fiscal year stood at ¥784.2 billion. This represents an increase of ¥102.1 billion, or 15.0%, from the year before. Operating income has climbed in line with the steady increase in the consumer loans outstanding. It stands at ¥198.8 billion, an increase of ¥19.6 billion, or 11.0%, from the year before.

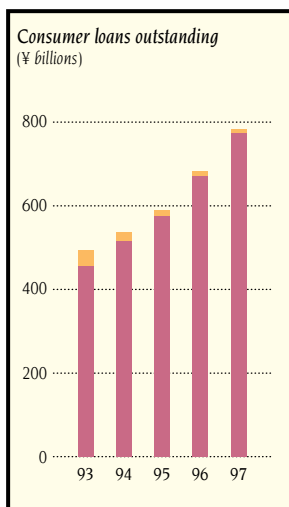
Market interest rates have remained at low levels, and our interest burden on fund procurement has declined. In addition, we promoted the “0123 Activity” throughout the year as a corporate-wide endeavor to enhance cost management, increase productivity, and boost employee

morale. As a result of our greater operating efficiency, net income this fiscal year reached ¥34.6 billion, a rise of ¥3.9 billion from the year before.

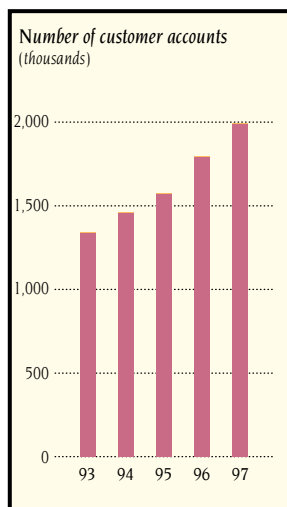
Operating Income and Profit

Operating income for the year under review reached ¥198.8 billion, an 11.0% year-on-year increase. Promise has posted operating income growth for each of the last five years, with growth rates ranging from 7.6% to 11.0%. There was only a slight increase in the average loans outstanding per customer account. Most of the income growth resulted from the greater number of customer accounts. As of the end of fiscal year 1997, the number of unsecured loans customer accounts totaled 1,991,000, a 10.9% increase from the end of the previous year. In contrast, the amount of the average loans outstanding rose only 4.2% during the same period, from ¥373,000 to ¥389,000.

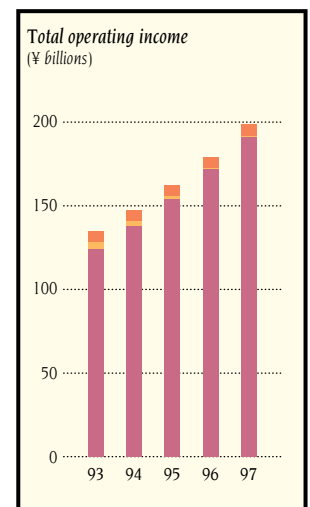
Introduction of unmanned branches and automated credit providers and their subsequent popularity was a major factor in our high rate of growth. Our operating profit margin improved



Legend: Secured loans (orange), Unsecured loans (pink)



Legend: Secured loans (orange), Unsecured loans (pink)



Legend: Other operating income (orange), Other financial income (yellow), Interest on consumer loans (pink)

despite the impact felt during the full fiscal year of higher operating expenses as a result of our aggressive investments to strengthen future revenue, and the adverse effect on profit margins caused by the reduction of our maximum interesting rates on loans effective October 1995.

Operating profit soared to ¥76.9 billion, a sharp 14.2% year-on-year increase, and our operating profit ratio rose 1.1 percentage points to 38.7%. This increase resulted from capping financial expenses, reducing advertising expenses, and a slackening in the rate of increase for personnel expenses from the previous year. Financial expenses were nearly flat from the year before, falling ¥100 million to ¥23.6 billion despite a ¥64.4 billion rise in the amount of borrowing outstanding. This was due to the diversification of our sources of funding and the rollover of higher interest rate debt on maturity.

Advertising expenses declined to ¥10.9 billion from the previous year's total of ¥11.6 billion. Employees' salary and bonuses rose ¥700 million from the year before, a 4.3% increase. This increase lagged operating income growth by a sizeable margin.

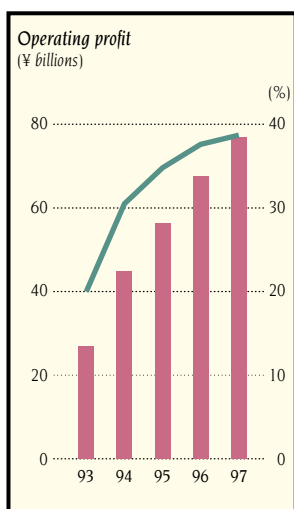
Income by Segment

Our mainstay business is the provision of small-lot unsecured consumer loans accounting for the bulk of our operating income. Of Promise's ¥198.8 billion in operating income this fiscal year, ¥190.5 billion, or 95.8%, was from this business.

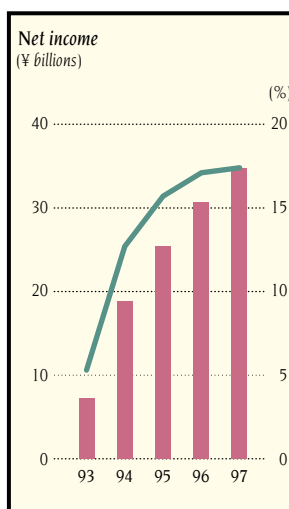
Promise has frozen the issue of new secured loans. As a result, the operating income derived from secured loans was flat from the year before at ¥800 million, just 0.4% of total operating income. Other financial income totaled ¥500 million, stemming from a ¥1.6 billion decline in the average deposit balance and lower income resulting from the decline in market interest rates. Other operating income rose ¥500 million from the year before to ¥6.9 billion as a result of the increase in the collection of credit losses previously written off.

Expenses

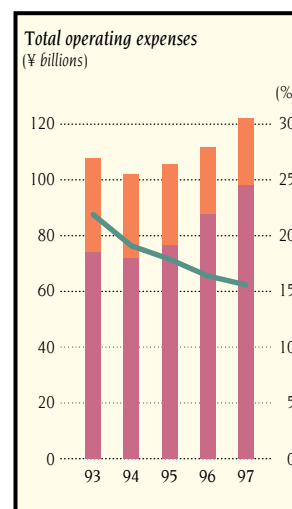
Most of Promise's operating income is derived from interest on consumer loans. Operating expenses, however, are generally divided into



— Ratio of operating profit to total operating income



— Ratio of net income to total operating income



— Financial expenses
— Other operating expenses
— Ratio of total operating expenses to consumer loans outstanding

three categories: financial expenses, general and administrative expenses, and provisions for uncollectible loans.

Financial expenses are comprised almost entirely of interest payments. These totaled ¥23.6 billion, representing almost no change from last year. There was a decline in the average interest rate on borrowings, which fell from 3.48% to 3.00%. This was due to a range of factors, including the reduction in market interest rates and the rollover of high interest rate borrowings. The ratio of fixed-interest rate borrowings to total borrowings reached 58.7% as of March 1997, including straight bonds, convertible bonds, and interest rate swaps. It is worthy of note that this sound financial strategy provides a substantial cushion against any future increase in market interest rates.

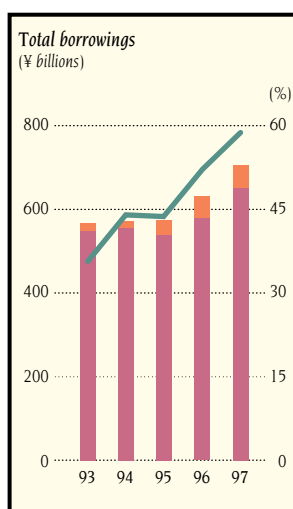
The ratio of provision for uncollectible loans to the consumer loans outstanding at the end of the fiscal year, was stable year-on-year at 3%. Therefore, an provision of ¥20.3 billion for uncollectible loans was recorded on the statements of income. This total was higher than the ¥17 bil-

lion of the year before, and well above the ¥14 billion and ¥14.9 billion of the previous two years. This step was taken to enhance the company's financial security.

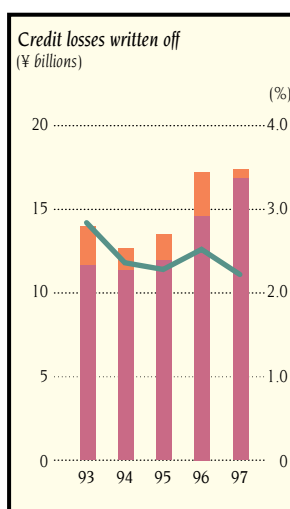
General and administrative expenses rose to ¥78 billion, a 9.9% increase from the previous year's total of ¥70.9 billion. There was a slight increase in employees' salary and bonuses to ¥19 billion, but depreciation expenses, rent expenses, and other expenses rose at a much higher rate. This reflects the company's aggressive investment in unmanned branches, tie-up CDs, and automated credit providers.

Borrowing

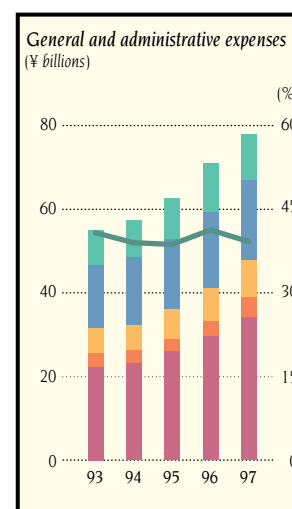
Promise has worked hard to diversify and strengthen its source of funds. While maintaining our long-standing close relationship with four companies--our main bank, The Long-Term Credit Bank of Japan, The Sumitomo Trust & Banking, Nippon Life Insurance, and Sumitomo Life Insurance--we have diversified our fund sources by issuing commercial paper and straight bonds that make use of our high credit rating.



Short-term bank loans
Long-term debt*
Actual fixed ratio
* including bonds payable



Secured loans
Unsecured loans
Ratio of credit losses written off to consumer loans outstanding



Advertisements
Employees' salary and bonuses
Rent expenses
Depreciation
Other
Ratio of general and administrative expenses to total operating income

As of March 31, 1997, our total borrowings outstanding stood at ¥706.1 billion, of which ¥653.1 billion, or 92.5%, was accounted for by long-term borrowings, inclusive of current portion.

Of the company's borrowing, a total of 58.7% is accounted for by fixed-rate borrowings, including convertible bonds, straight bonds, and interest rate swaps. Excluding convertible bonds, straight bonds, and interest rate swaps, fixed-rate borrowings rose from 34.9% of total borrowing during the last fiscal year to 49.5% this fiscal year.

The company continues to benefit from the rollover of borrowing incurred during the higher interest rate environment of five years ago. Therefore, we can keep to a minimum the impact of any market interest rate increase on our cost of fund procurement.

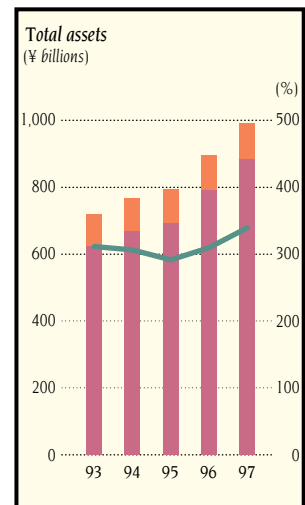
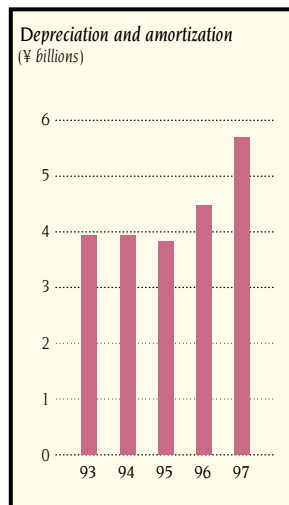
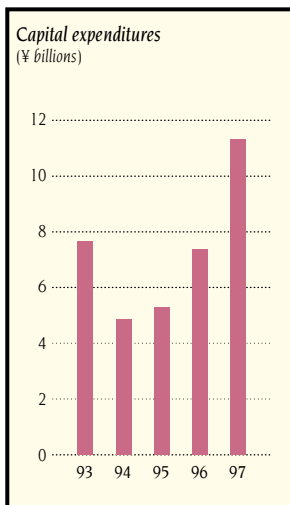
Write off of Credit Losses

Credit losses written off this year totaled ¥17.4 billion, including both secured and unsecured loans. The ratio of credit losses written off to the

consumer loans outstanding as of the end of the year was 2.2%. This compares favorably to the total credit losses written off last year of ¥17.2 billion, which accounted for 2.5% of the consumer loan outstanding. The credit loss ratio for unsecured loans held steady at 2.1%.

General and Administrative Expenses

The primary categories for general and administrative expenses are advertising expenses, employees' salary and bonuses, rent expenses, and depreciation expenses. These expenses accounted for 56.2% of all general and administrative expenses. As a reflection of our aggressive investment in unmanned branches and tie-up CDs, rent expenses and depreciation expenses rose significantly during the year. This was offset by the decline in advertising expenses and the growth rate of employees' salary and bonuses, which lagged our operating income growth by a substantial margin. Therefore, the rate of increase for general and administrative expenses from the year before was 9.9%, below the growth in operating income.



■ Fixed assets
■ Current assets
— Current ratio

Capital Expenditures

Promise's network of loan branches expanded greatly during the year in question. The number of unsecured loan branches rose from 609 at the end of last year to 748. Meanwhile, the number of manned branches declined from 579 to 467, and the number of unmanned branches soared from 30 to 281. There also was an increase in the number of ATMs and tie-up CDs, which climbed from 5,949 as of March 1996 to 13,400 as of March 1997.

This enhancement of the company's facilities resulted in an increase in capital expenditures from ¥7.3 billion in fiscal year 1996 to ¥11.3 billion this fiscal year.

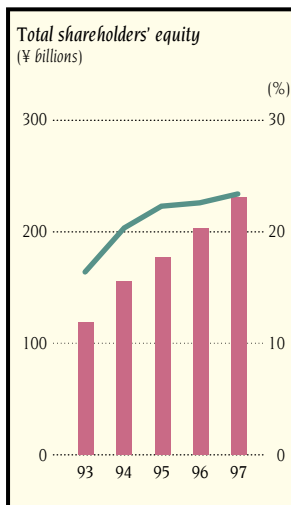
Shareholders' Equity and Dividends

There was a sharp increase in shareholders' equity during the year in question, from ¥202.7 billion to ¥231.4 billion, a 14.1% increase. As a result, the shareholders' equity ratio rose from 22.6% to 23.3%.

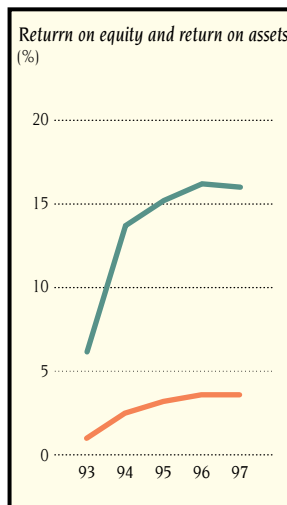
We consider technological development and capital expenditures for information processing technology indispensable for meeting the challenge of increasing competition in the consumer finance industry. Therefore, we will strive to accrue internal reserves in conjunction with the increase in shareholders' equity and boost revenue and earnings to enable us to respond with flexibility to future trends.

Promise's dividend policy emphasizes the shareholder. We have always believed that the most important element of our operating policy is to return profits to shareholders. Therefore, we have continually increased dividends. Our policy for the future will be to strive to increase the return of profits that are supported by our revenue and earnings. As a result, dividends for this year will be increased from ¥55 per share to ¥60 per share.

In addition, the company has decided to conduct a stock split, offering 1.1 shares of stock for every share of par value stock as of November 20, 1997.

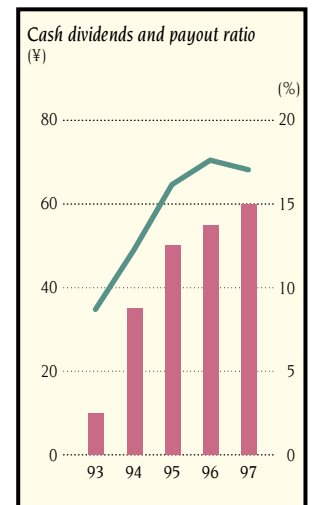


— Shareholders' equity ratio



— Return on equity
— Return on assets

Notes: Return on equity = Net income / Average shareholders' equity
Return on assets = Net income / Average total assets



— Payout ratio