Management Discussion and Analysis

Operating Income

Total operating income for the year under review grew 8.2%, to ¥238.3 billion. Over the past five years, Promise has achieved record operating income every year with growth averaging 10% during that period. Operating income expansion reflected an 8.6% increase in interest on consumer loans to ¥230.6 billion that could mainly be attributed to the 12.7% increase in loans outstanding to ¥976.6 billion. The actual yield per annum on unsecured loans was 24.9% and the average balance of unsecured loans per account increased by 7.7%, to ¥432,000.

By segment, small-lot unsecured consumer loans, our mainstay business, generated the bulk of operating income. They accounted for ¥967.9 billion or 99.1% of loans outstanding at year end. The remainder of loans outstanding comprised secured loans, which rose slightly to ¥8.7 billion.

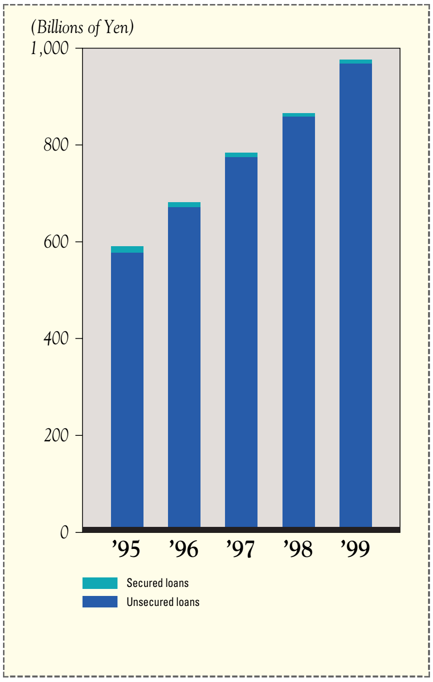
Other operating income, consisting mainly of collection of credit losses previously written off and recovered interest, declined 3.4% from the year before to ¥7.7 billion, representing 3.2% of total operating income.

Operating Expenses

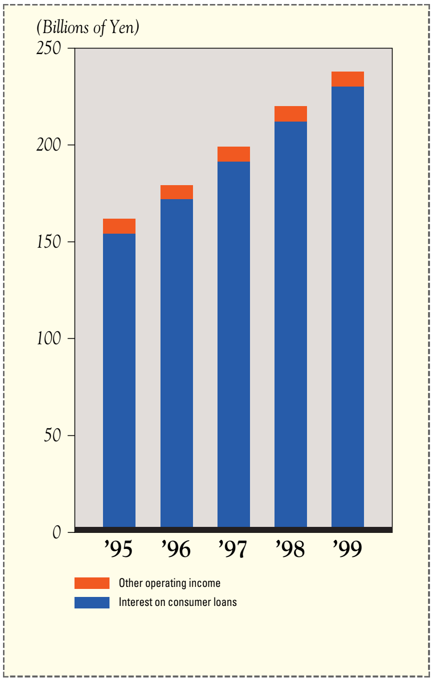
Total operating expenses rose 14.5%, to ¥153.6 billion. Financial expenses, which are comprised almost entirely of interest payments, declined 5.4%, to ¥20.9 billion despite the increase in consumer loans outstanding, reflecting lower long-term interest rates. The average interest rate fell from 2.872% to 2.681% on long-term fund procurement, which accounted for 97.3% of total fund procurement. The average interest rate for the year on short-term fund procurement, however, rose from 1.458% to 1.643%. Other factors contributing to the decline in financial expenses were the rollover of high interest rate funds, greater direct financing in capital markets, and an increase in long-term funds. The ratio of fixed-interest rate fund procurement to total fund procurement reached 66.7% as of the end of March 1999. With interest rates expected to eventually rise from their current lows, fixed-rate fund procurement provides a substantial cushion against any future increase in market interest rates.

G&A expenses grew 11.9%, to ¥96.9 billion. Advertisements, which account for 14.4% of G&A expenses, jumped 22.8%, to ¥13.9 billion because of a corporate advertisement campaign conducted in national newspapers during the fiscal year. Employees' salary and bonuses increased 5.7%, to ¥20.7 billion, generating 21.4% of G&A expenses. This growth mirrored the 6.0% rise in the number of employees at year end. Rent expenses were almost the same as in the previous year, at ¥10.6 billion, accounting for 10.9% of G&A expenses. Finally, other expenses, which include depreciation expenses, grew 14.8%, to ¥51.6 billion, accounting for 53.3% of G&A expenses. Among other expenses, communication expenses continue to grow due to the Company's aggressive investment in unstaffed branches, tie-up ATMs and CDs, and automated credit providers. In addition, Promise recorded a ¥12.8 billion or 32.0% increase in com-

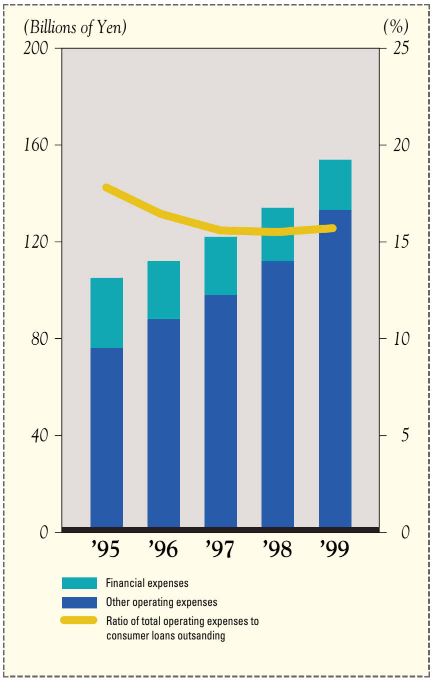
Consumer loans outstanding



Total operating income



Total operating expenses



puting costs related to the development of the Network Open Agility system, (NOA).

Because of the growth in bad debt, the ratio of provision for uncollectible loans to consumer loans outstanding at the end of the fiscal year rose to 3.7% year-on-year, compared with 3.2% in fiscal 1998, resulting in a provision of ¥35.8 billion for uncollectible loans (including write-offs of ¥600 million) on the statements of income.

Consequently, operating profit decreased 1.7%, to ¥84.7 billion, and our operating profit ratio dropped 3.6 percentage points to 35.6%.

Total other expenses, net decreased ¥2 billion, to ¥1.7 billion. This decline can be attributed principally to the lack of several large loss items posted in the previous year. Other notable items included the amortization of a ¥1 billion deferred charge and a substantial increase in equity in earnings of Tokumei Kumiai (Japanese leveraged leasing transactions), to ¥1 billion.

As a result, income before income taxes edged up slightly, to ¥83.0 billion. The Company's effective tax rate fell slightly from 51% to 48% due to lower corporation and enterprise taxes. Consequently, net income advanced 3.9%, to ¥40.2 billion.

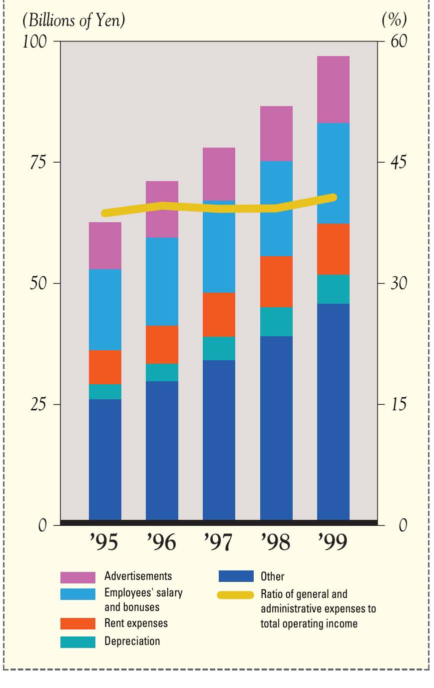
Fund procurement

During the fiscal year under review, we continued to diversify our funding sources by issuing a variety of financial instruments domestically and overseas that make use of our high credit rating, including equity issues, commercial paper, and unsecured straight bonds. Highlighting these efforts was our public issue of 11 million shares, raising ¥61.8 billion, and three straight bond issues, raising ¥30 billion. We have increased the proportion of direct finance from zero to 8.3% during the past five years, and intend to raise this figure to 30%. This strategy relates strongly to the new Non-bank Bond Issuing Law, which was enacted in May 1999, after the end of the fiscal year under review. The Law allows regulated consumer finance companies to raise capital for their loan operations directly from capital markets through bond or commercial paper issues. Funding of consumer loan operations was previously limited to loans or share issues.

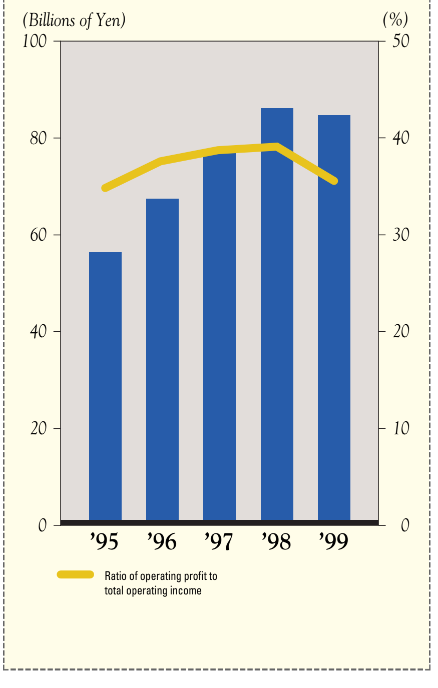
As of March 31, 1999, our total fund procurement outstanding, including capital market funding, had risen 5.2% over the previous year to ¥834 billion, of which ¥742.3 billion, or 97.3%, was accounted for by long-term fund procurement, inclusive of current portion. The net increase in long-term loans and straight bonds was ¥83.6 billion while the net decrease in short-term loans and commercial paper was ¥42 billion.

Of the Company's outstanding fund procurement, including straight and convertible bonds, as of year-end, a total of 66.7% was accounted for by fixed-rate fund procurement, compared with 60.3% in fiscal 1998. This increase reflects the Company's policy of increasing the proportion of long-term fixed rate funds to achieve stable financing and hedge

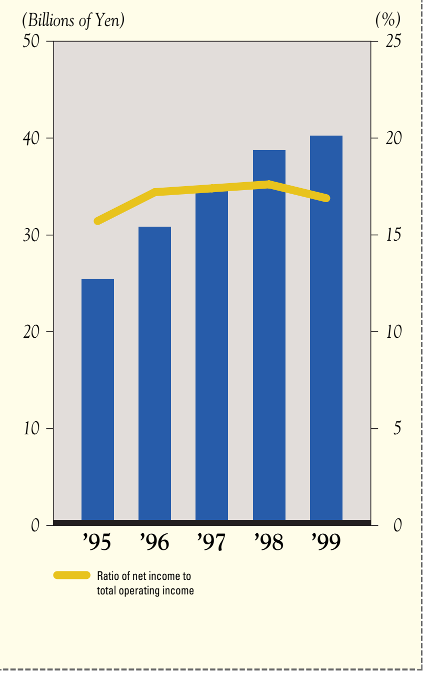
General and administrative expenses



Operating profit



Net income



against the eventual rise in interest rates. Promise also uses floating to fixed interest rate swaps and interest rate caps to hedge against increased funding costs associated with rising interest rates. During the fiscal year under review, the Company purchased interest rate swaps with a notational amount of ¥2.8 billion and an interest rate cap with a notational amount of ¥10.0 billion.

Write off of Credit Losses

Credit losses written off this year totaled ¥27.6 billion, including both secured and unsecured loans. The ratio of credit losses written off to the unsecured consumer loans outstanding as of the end of the year was 2.81%, rising slightly from the 2.47% recorded in the previous fiscal year due to the growing number of bad loans related to the downturn in the economy and other factors. Stringent credit control policies have enabled the Company to keep growth in write-offs to a minimum—personal bankruptcies rose 45.6% in 1998.

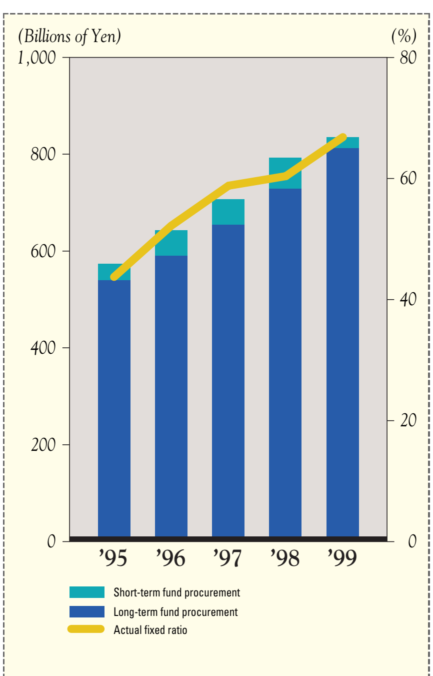
Cash Flow

The Company maintained adequate liquidity for operations during the fiscal year. Net cash provided by operating activities was ¥87.2 billion, compared with ¥72.0 billion in the previous fiscal year. This increase resulted mainly from greater income and growth in adjustments to reconcile net income to net cash, depreciation and amortization and provision for uncollectible loans. Net loss on sales or disposal of property and equipment included ¥1.8 billion related to moving or closing branches (including the closure of our audiovideo software rental and sales outlets) and changing signs due to the introduction of a new visual identity. In addition, we recorded a loss of ¥400 million related to replacing computer terminals and the transfer of Prosaver operations to a subsidiary. Net loss on sales of short-term investments and investments in securities included a gain of ¥3.1 billion from sales of shareholdings in 27 companies and a valuation loss of ¥3.1 billion because of the low value of the shares of the Long-Term Credit Bank and Sumitomo Trust and Banking. Net cash used in investing activities was ¥148.6 billion, compared with ¥107.6 billion in fiscal 1998. The increase resulted mainly from consumer loans expanding at a greater rate than the principal collected on consumer loans. Net cash provided by financing activities was ¥92.6 billion, compared with ¥81.3 billion last year, reflecting increased long-term fund procurement. Consequently, the net increase in cash and cash equivalents was ¥31.2 billion, bringing cash and cash equivalents at the end of the year to ¥161.9 billion.

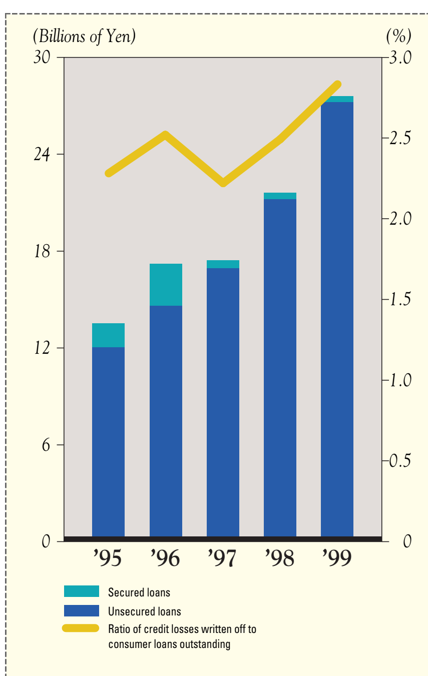
Capital Expenditures

Promise's capital expenditures in fiscal 1999 were mainly used in establishing new branches, upgrading existing branches, increasing the number of automated credit providers and ATMs, and replacing visual items, such as signs, in conjunction with the introduction of a new visual

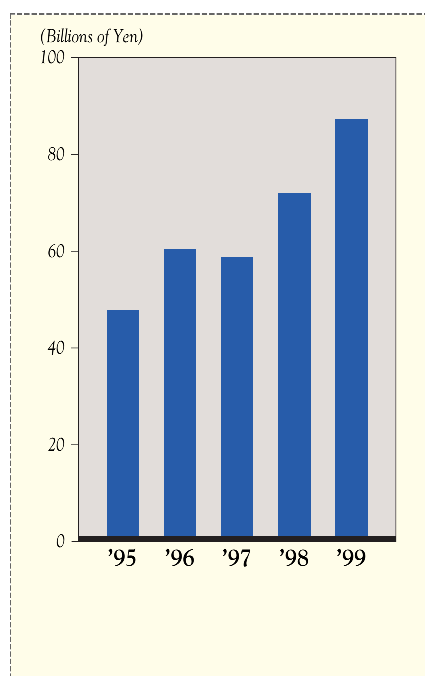
Total fund procurement



Credit losses written off



Net cash provided by operating activities



identity. The number of unsecured loan branches rose from 1,003 at the end of last year to 1,201. Among unsecured loan branches, the number of staffed branches rose from 418 to 435, and the number of unstaffed branches jumped from 585 to 766. There was also an increase in the number of ATMs, which climbed from 1,335 as of the end of March 1998 to 1,511 as of the end of March 1999.

This enhancement of the company's facilities resulted in capital expenditures of ¥7.3 billion, compared with ¥9.6 billion in fiscal 1998. The major portion of these expenditures were allocated to upgrading and replacement of machinery, equipment, and signs. The Company estimates that capital expenditures for fiscal 2000 will amount to ¥11.5 billion, and will be used for a similar purpose as in fiscal 1999, focusing on the replacement of signs.

Shareholders' Equity and Dividends

Shareholders' equity climbed substantially during the period under review due to the public issue of 11 million shares. This capital increase was the major factor behind shareholders' equity jumping ¥94.3 billion or 35.6%, to ¥359.3 billion. As a result, the shareholders' equity ratio advanced from 23.8% to 28.7%.

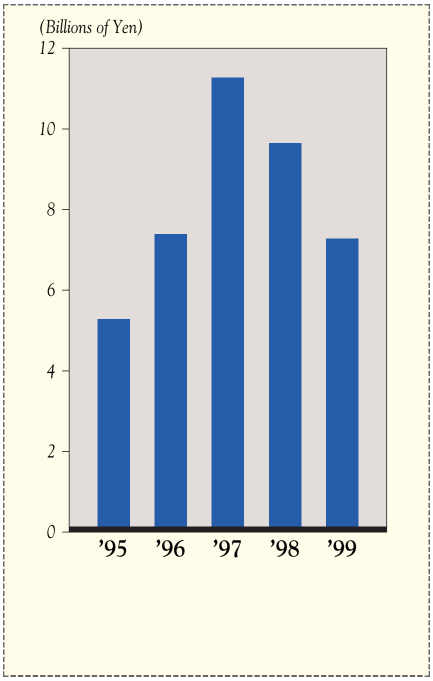
We consider technological development and capital expenditures for information processing technology indispensable for meeting the challenge of increasing competition in the consumer finance industry. Therefore, we will strive to accrue internal reserves in conjunction with the increase in shareholders'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

Promise's dividend policy focuses on increasing the return of profits to shareholders in accordance with revenue and earnings.

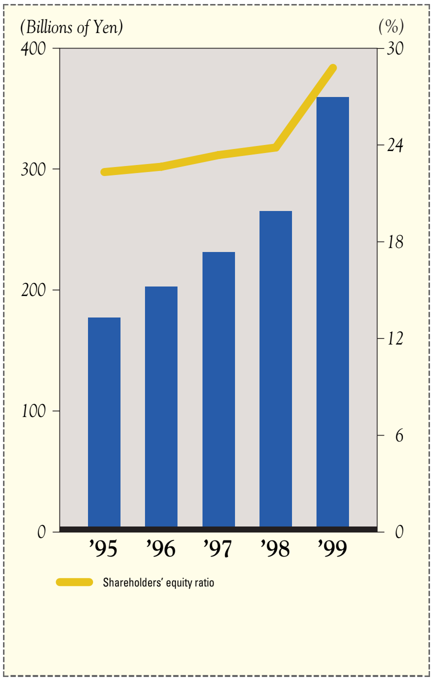
Year 2000 Compliance

In October 1998, the Company brought its new computer system, Network Open Agility (NOA), on stream. With NOA's introduction, Promise's mission critical systems are now year 2000 compliant. A Year 2000 Project Team is supervising the process of attaining full compliancy by September 1999 throughout the Company and its subsidiaries and affiliates, including contingency plans. Total expenditures on the Year 2000 issue are expected to be ¥1.3 billion, with approximately ¥200 million to be spent during the final phase in fiscal 2000.

Capital expenditures



Total shareholder' equity



Cash dividends and payout ratio