



# Fiscal Year Ending March 31, 2002

## Interim Operating Results

### Aiful Corporation Information Meeting

*Wednesday, November 7, 2001*

– Caution: Notes concerning projected operating results –

With the exception of data concerning past actual operating results, all of the items pertaining to Aiful Corporation's plans, policies and other matters described in the numerical values of this data book are forecasted values related to future operating results. All such figures have been calculated on the basis of management's assumptions and opinions, based on information that Aiful Corporation understands at the present time. Accordingly, these forecasted values involve risks and uncertainty factors. Depending upon various factors, the actual operating results achieved may differ from these forecasted values. Items considered to be potential risks and uncertainty factors in these forecasts include, among others, changes in the economic circumstances surrounding Aiful Corporation, changes in the size of the market for consumer loans, the percentage of customers who default on their loans, the level of interest Aiful Corporation pays on its borrowings, and the maximum legal limit on interest rates charged on consumer loans. These materials have not been prepared for the purpose of soliciting investment in any securities.

Note 1: The financial statement of a Life had not received audit only at one company of lives the term ended March 2001, although the term ended September 2001 had received audit.

Note 2: Happy credit has received audit, however, Sinwa is exempt from audit by the special case of commercial law in Japan.

Note 3: The data currently described as "Managed asset basis" among the data of a Life is the pro forma amount in which the accounts top also included the operating assets excepted from balance sheet by securitization, and it is not what received audit in itself.

## Fiscal Year ending March 31, 2002 Interim Operating Results Points

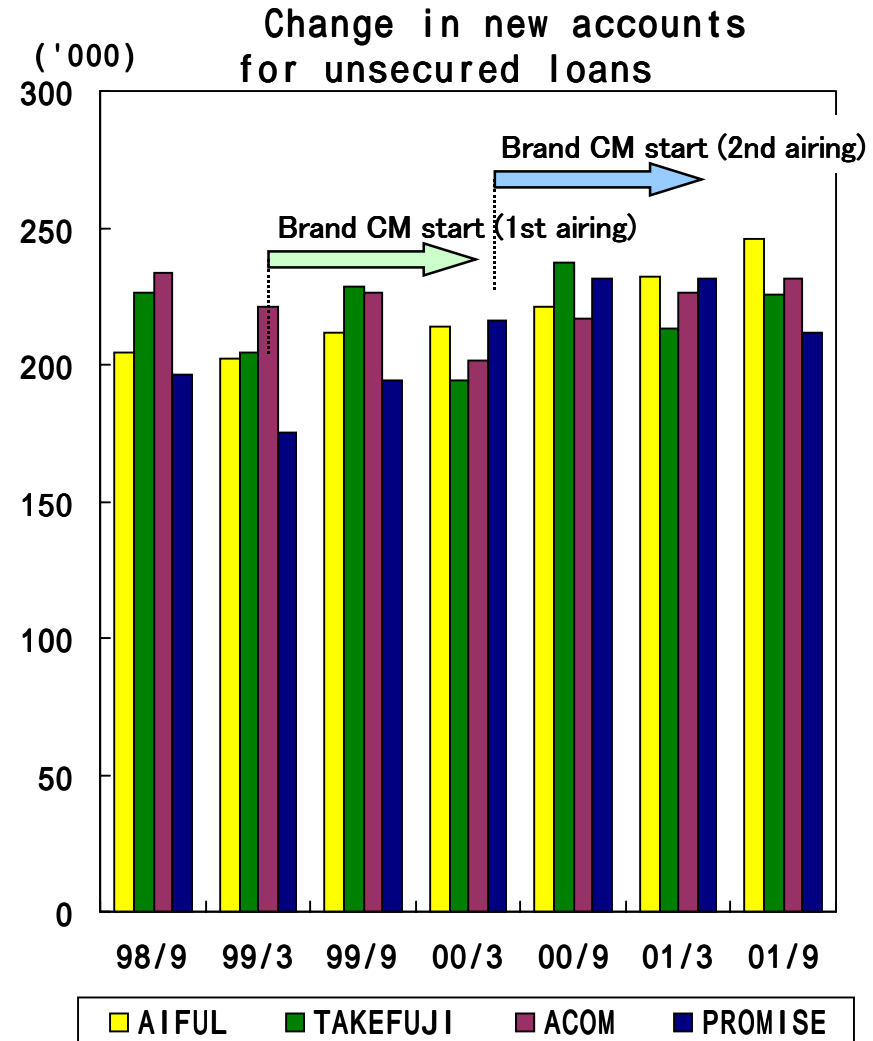
### Acquisition of new unsecured loans

- New customer accounts (unsecured loans)

Interim period actual: 245,000 accounts  
(11.1% increase over the same period in the prior fiscal year)

Fiscal year plan: 491,000 accounts  
(8.5% increase over the prior fiscal year)

- TV-CM of customer contact and telephone reception scenes  
→ Brand = “Safety”, “Friendliness”



## Fiscal Year ending March 31, 2002 Interim Operating Results Points

### New unsecured loan customers

- How should we interpret the good growth in new customers?

→ Loan agreement closing ratio is unchanged

→ Improved customer attributes

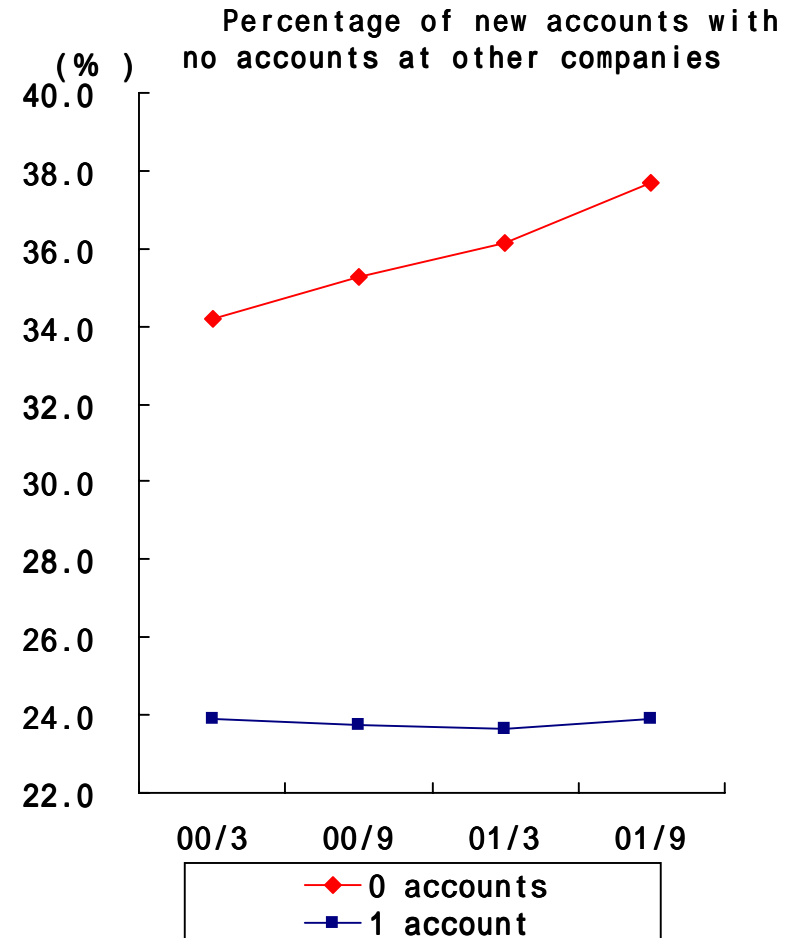
Percentage of new customers with no accounts at other companies:

Rose from 36% (prior period) → 38% (current period)

- What will be the results of this good growth?

→ Average new account customer borrows ¥170,000

→ Difference in new account acquisition = difference in future ability to grow



## Fiscal Year ending March 31, 2002 Interim Operating Results Points

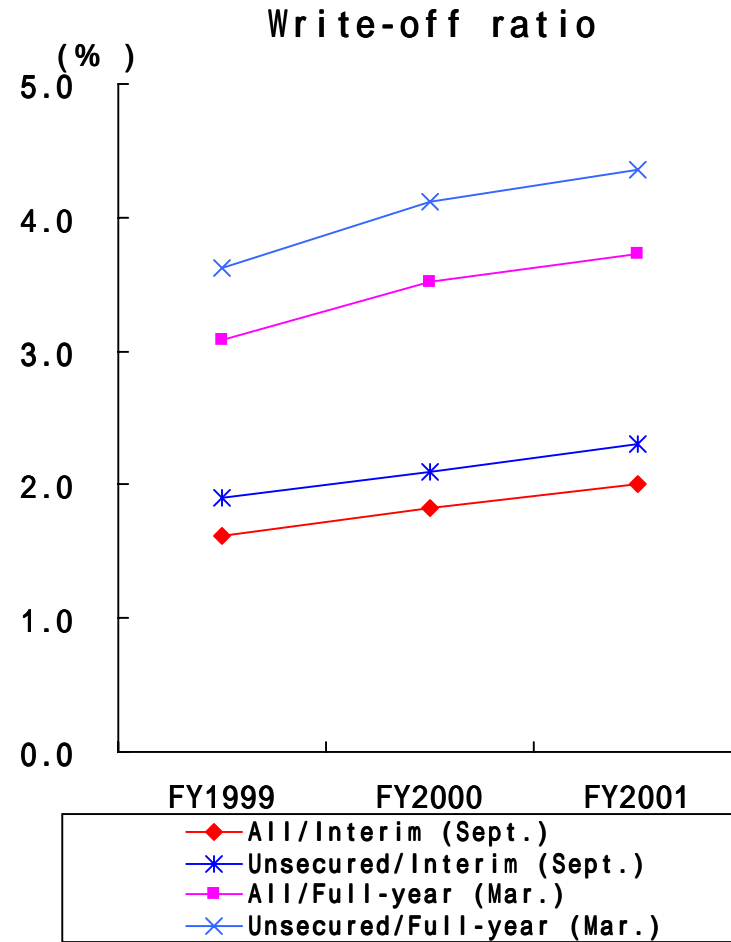
### Doubtful account trends

■ Interim period Write-off ratio

	(6 months ended 00/9)	(6 months ended 01/9)
All loans:	1.82%	→ 2.01% (+19bp)
Unsecured loans:	2.09%	→ 2.31% (+22bp)

■ Full-year Write-off ratio

	(12 months ended 01/3)	(12 months ending 02/3)
All loans:	3.52%	→ 3.73% (+21bp)
Unsecured loans:	4.12%	→ 4.36% (+24bp)



## Fiscal Year ending March 31, 2002 Interim Operating Results Points

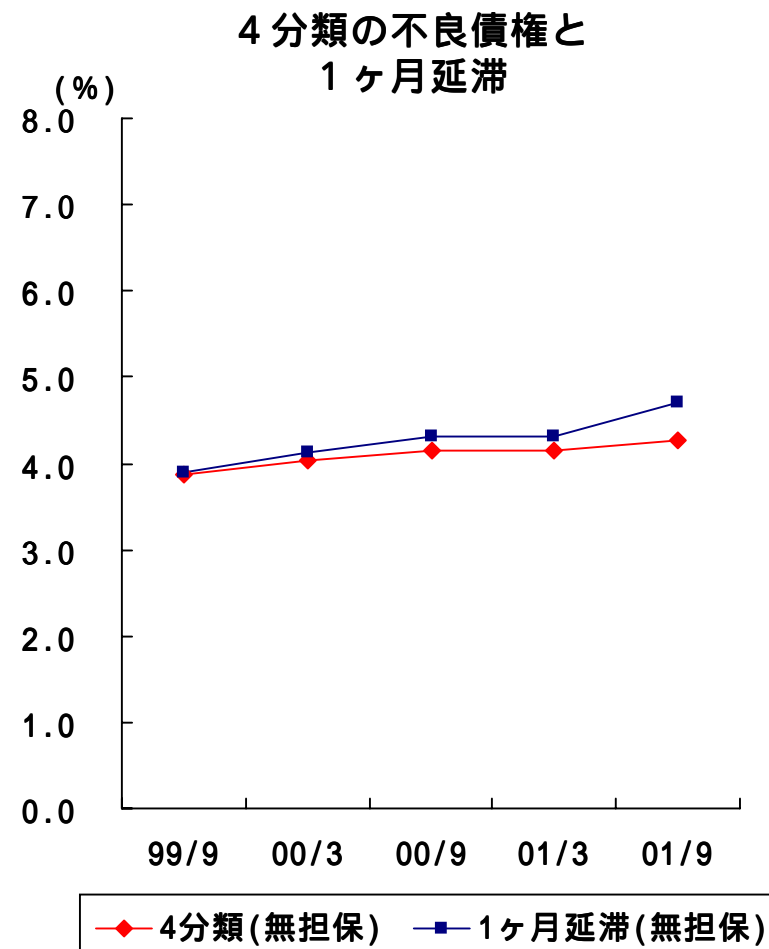
### Doubtful account trends - balances

- Percentage of “four classifications of doubtful accounts” (red line)

	00/3	00/9	01/3	01/9
All loans	5.76	5.66	5.51	5.77
Unsecured	4.03	4.15	4.15	4.27

- Percentage of unsecured loans one month in delinquency (blue line)

	00/3	00/9	01/3	01/9
1 month in delinquency	4.1	4.3	4.3	4.7



## Fiscal Year ending March 31, 2002 Interim Operating Results Points

### How should we interpret the factors causing the rise in doubtful accounts?

#### ■ “Social” factors

- “Higher unemployment rate” → 5.3% at the end of September
- “Credit and *sarakin* attorneys” are more active → Increased lawyer mediation
- “Increase in number of personal bankruptcies” → Return to double-digit year-on-year increase



Normal pattern



Not “a problem unique to Aiful”,  
but rather “a problem for the entire industry.”

#### ■ “In-house” factors

- Cyclical movement = “Timing difference” between “past high growth” and “occurrence of bad debts” (“numbers trick”)
- High percentage of new customers with high default risk compared to existing customers (“numbers trick”)
- Aggressive lending posture (actual conditions)



## Fiscal Year ending March 31, 2002 Interim Operating Results Points

### What measures will Aiful implement for doubtful accounts?

#### 《Countermeasures》

- “Revise scoring used when providing loans”
- “Introduce a ‘contact center’ for credits outstanding”

#### Introduce 7th Scoring System

(Planned operation from 02/4)

#### Contact Center

(Begin testing in Osaka from 01/11)

- Improve “sales efficiency” and “expenditure efficiency”  
→Result of personnel expense reductions: Annual estimate Roughly ¥3~4 billion
- Will enable Aiful to “make task levels uniform” and “improve density” for “outstanding credits” that are provided at just branches

## Fiscal Year ending March 31, 2002 Interim Operating Results Points

### Relationship between doubtful accounts and the macro-economy

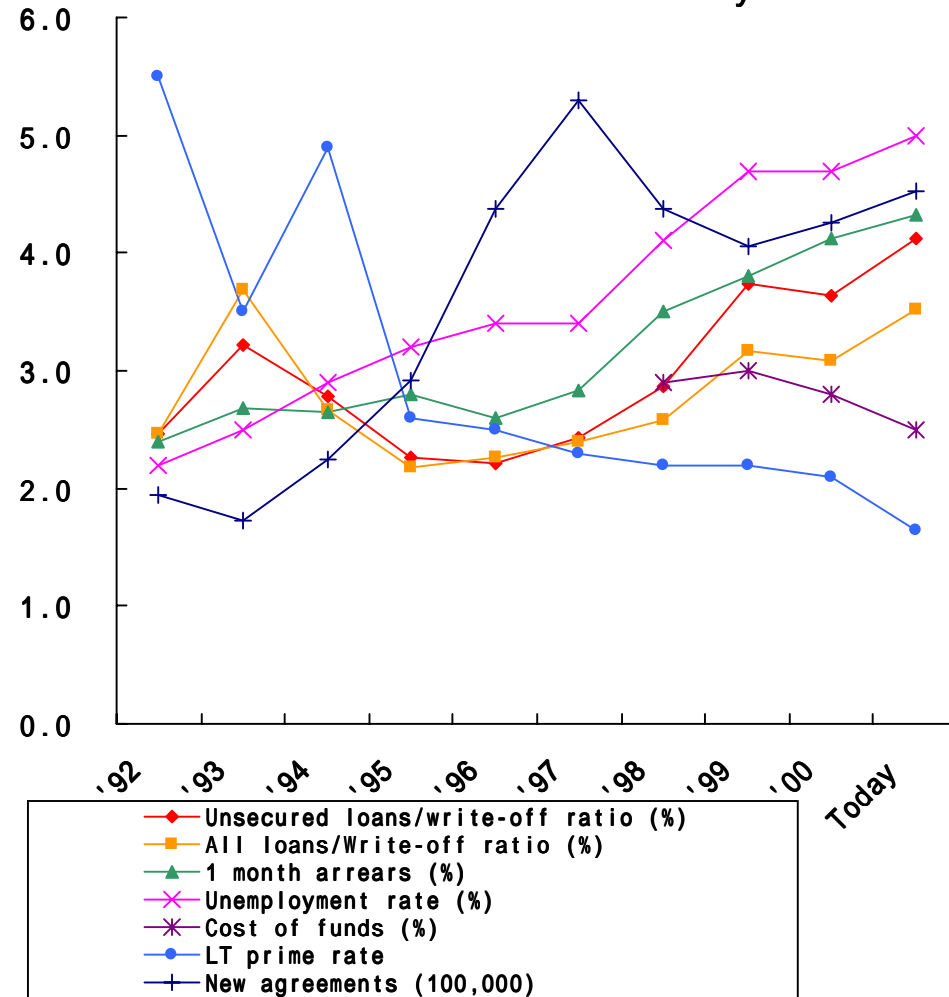
#### ■ Influence of the unemployment rate

	(1992)	(Today)
Unemployment rate	2.1%	5.3% (+3.2%)
Write-off ratio (All loans)	2.0%	3.5% (+1.5%)



Possibility that Aiful's write-off ratio may reach a maximum of 4% if the unemployment rate rises by another 1% (6%)

#### Macro correlation analysis







Fiscal Year ending March 31, 2002 Interim Operating Results Points

**Results of Aiful's public offering**

«Results of the public offering Executed in August, 2001»

- Subscription shares 8,500,000 shares → Demand for 45,000,000 shares
  
- Subscription price ¥10,241 per share      Total raised: ¥87.0 billion
  
- 01/9/30 Shareholders' equity ratio:      Aiful Corporation: 23.7%  
   Consolidated: 21.4%
  
- Debt ratings: Moody's Baa2  
                                 R & I    A -  
                                 JCR     A +

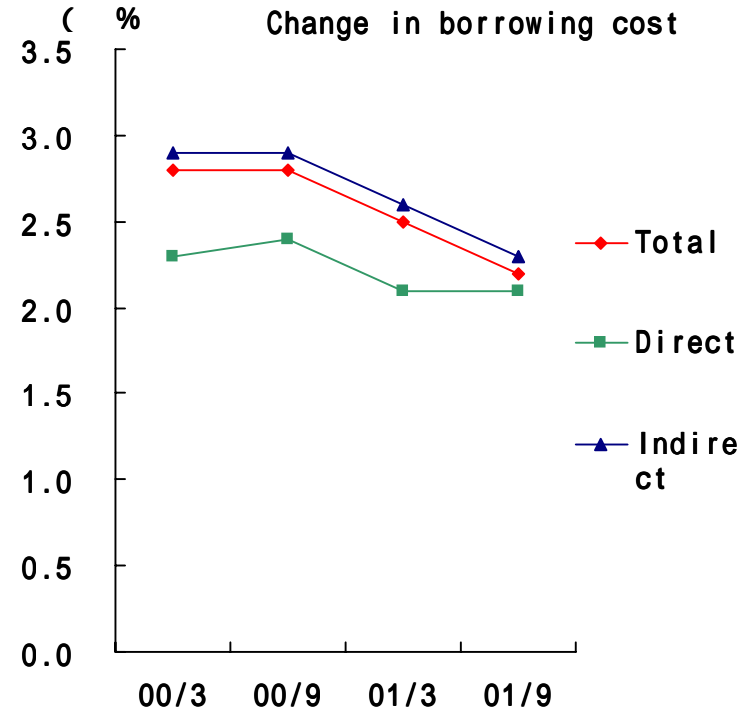
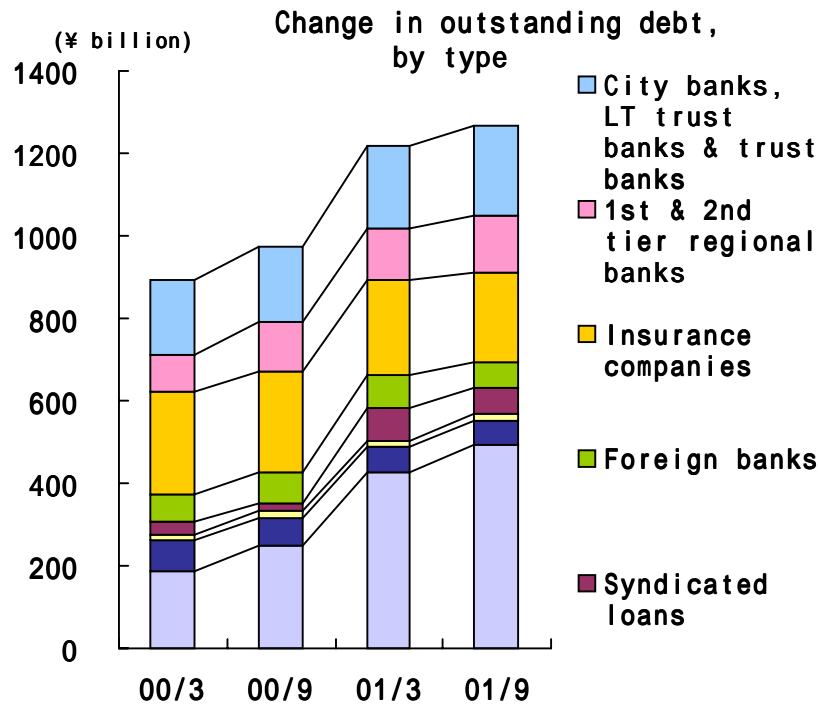
## Fiscal Year ending March 31, 2002 Interim Operating Results Points

### Capital funds procurement trends

	Average interest rates during the period	(Ended 01/3)	(Ended 01/9)
All	2.5%	→	2.2%
Indirect borrowing	2.6%	→	2.3%
Direct borrowing	2.1%	→	2.1%

To prepare against a future rise in interest rates,

- Maintain 4:6 direct to indirect borrowing ratio
- Strengthen relationship with core banks
- Fix interest rates using caps, swaps, etc.



## Aiful Corporation: FY ending 02/3 (Interim period) Operating Results

### Main factors causing change in operating revenues

#### ■ Outstanding loan balances

	(Interim period)	(Full year)
Unsecured loans	¥976.8 billion (+13.3%)	¥1,029.2 billion (+11.6%)
Secured loans	¥253.5 billion (+24.7%)	¥277.9 billion (+23.2%)
Small business loans	¥14.8 billion (+42.0%)	¥16.4 billion (+34.7%)
<b>All loans</b>	<b>¥1,245.3 billion (+15.7%)</b>	<b>¥1,323.6 billion (+14.1%)</b>

#### ■ Interest yield

	(Full year ended 01/3)	(6 months ended 01/9)	(Full year ending 02/3 Plan)
Unsecured loans	26.0%	→ 25.7%	→ 25.6%
All loans	24.3%	→ 24.0%	→ 23.8%

※Effected by the increase in the share of low-interest, large balance loans

(Example) Increase in share of loans with balance of ¥500,000 or greater 35.2% → 37.1%

#### ■ As a result of the above,

##### Operating revenue

(6 months ended 01/9 Actual)	¥151.2 billion (+14.6% compared to prior year)
(FY ending 02/3 Plan)	¥307.1 billion (+13.8% compared to prior year)

## Aiful Corporation: FY ending 02/3 (Interim period) Operating Results

### Main factors causing change in operating income (operating expenses)

	(6 months ended 01/9 Actual)	(Fiscal Year ending 02/3 Plan)
<p>■ Financial expenses:</p> <p>→ Bond issuance concentrated in prior year H2 (Funding for purchase of Life.)</p>	<p>¥16.6 billion (+21.7% compared to prior year)</p>	<p>¥33.2 billion (+15.8% compared to prior year)</p>
<p>■ Expenses for doubtful accounts:</p> <p>→ Rise in the unemployment rate</p>	<p>¥27.5 billion (+35.8% compared to prior year)</p>	<p>¥55.6 billion (+17.6% compared to prior year)</p>
<p>■ Advertising &amp; PR expenses:</p>	<p>¥10.2 billion (+28.8% compared to prior year)</p>	<p>¥19.7 billion (+15.6% compared to prior year)</p>



Operating income:	¥55.6 billion (+4.9% compared to prior year)	¥118.5 billion (+14.7% compared to prior year)
-------------------	---	---

## Aiful Corporation: FY ending 02/3 (Interim period) Operating Results

### Main factors causing change in ordinary income and net income)

	(6 months ended 01/9 Actual)	(Fiscal Year ending 02/3 Plan)
■ Non-operating expenses:	¥6.2 billion (+326.2% compared to prior year)	¥7.3 billion (+337.7% compared to prior year)
(Increase in equity capital)	¥4.2 billion ( <u>lump-sum write- off in H1</u> ) → Main factor behind the drop in ordinary income	
■ Ordinary income:	¥51.5 billion (▲1.2% compared to prior year)	¥116.0 billion (+12.2% compared to prior year)
■ Extraordinary loss:	¥0.4 billion (▲90.5% compared to prior year) → No more losses on subordinated loans to life insurance companies	¥0.7 billion (▲93.4% compared to prior year)
■ Net income:	¥27.2 billion (+8.9% compared to prior year)	¥61.0 billion (+25.8% compared to prior year)

## Aiful Corporation: FY ending 02/3 (Interim period) Operating Results

### Main factors causing changes in various consolidated income items

	(6 months ended 01/9 Actual)	Fiscal Year ending 02/3 Plan)
■ Operating revenue:	¥191.5 billion (+40.9%)	¥400.9 billion (+42.9%)
→ Aiful's growth + addition of operating revenues from new subsidiaries Life, Shinwa, etc.		
■ Operating expenses:	¥134.8 billion (+62.6%)	¥280.1 billion (+58.9%)
→ Addition of subsidiaries' operating expenses		
■ Operating income:	¥56.7 billion (+6.9%)	¥120.8 billion (+15.8%)
→ Addition of subsidiaries' operating expenses + amortization of goodwill		
■ Ordinary income:	¥50.7 billion (▲2.1%)	¥114.6 billion (+10.8%)
→ New stock issuance expense of ¥4.2 billion, in addition to factors cited above		
■ Net income:	¥24.9 billion (+1.0%)	¥56.5 billion (+17.3%)
→ Extraordinary loss taken in the prior year, will not effect current year net income		



## Life Co., Ltd.

### Basic policies for Life's operations

#### «Basic policies»

- “Original business” = “credit cards” and “consumer finance”
  - » “Integrated services” → Increase the number of cards issued, and increase the balances from credit card use
  - » “Individual product services” → Increase the number of member stores, and increase balances from customers' use of the company's products
  
- Improve profitability by “restructuring the portfolio”
  
- Improve profitability by “spending cuts and restructuring”
  
- Build a “sales system and foundation that can meet the competition because they are always in a competitive mode”





# Life Co., Ltd.

## Original business (individual product services)

### «Individual product services business»

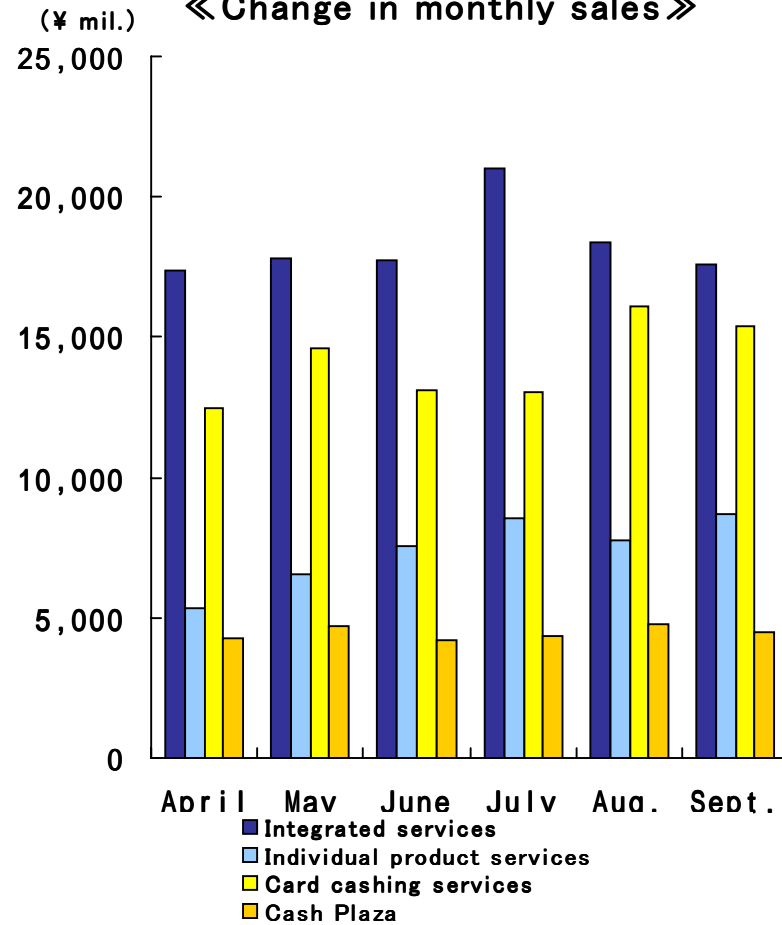
- Member stores:  
(FY ended 01/3) 73,601 stores  
↓  
(6 months ended 01/9) 74,633 stores

- TOP 5: Autobacs  
Diana  
Aderans  
Juel Verite Ohkubo  
DEO DEO

As a result of this aggressive sales expansion policy,

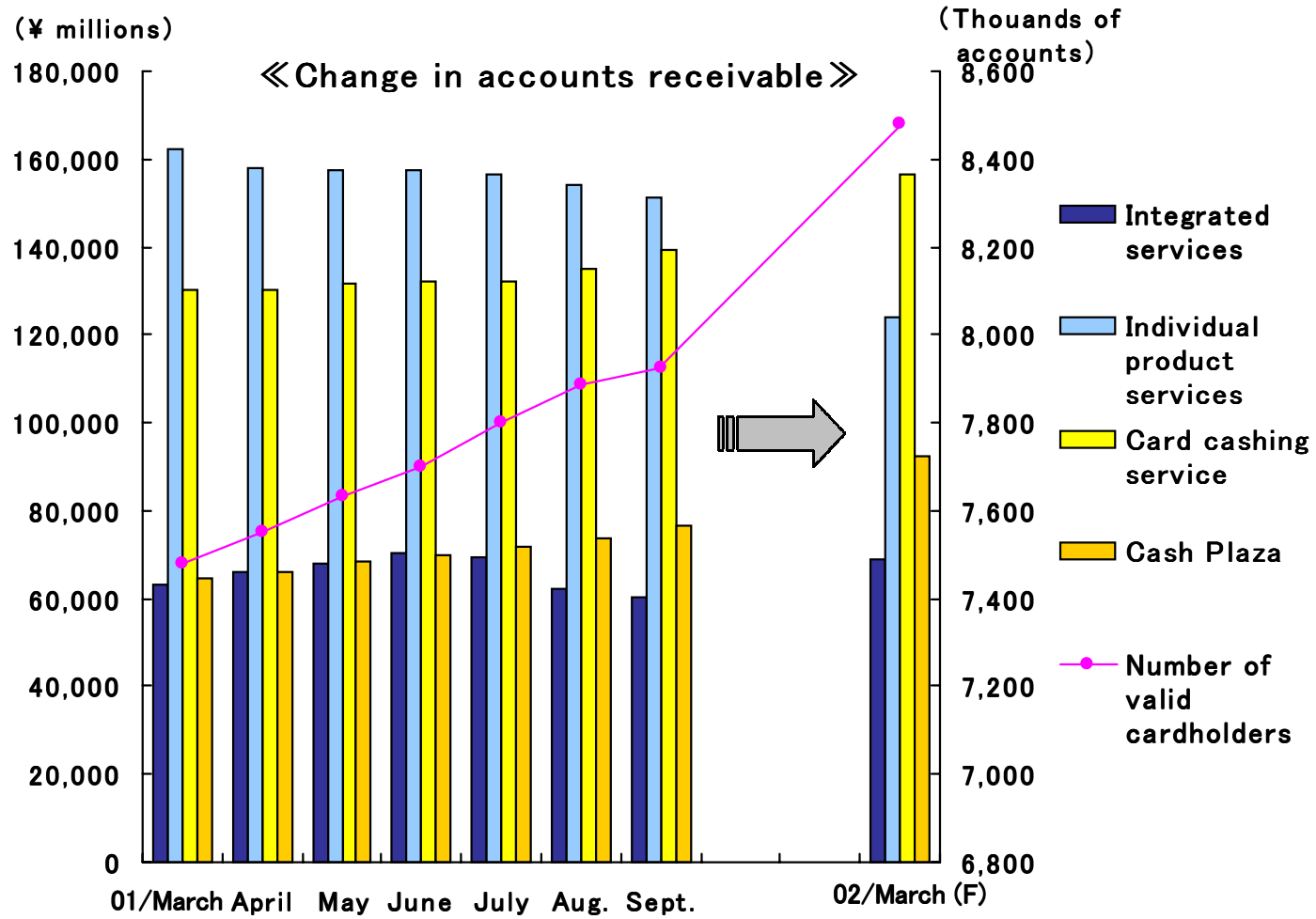
Life is continuing to build the management foundations for executing a new approach to its business.

### «Change in monthly sales»



**Life Co., Ltd.**

**Change in accounts receivable**



Policies to promote credit card use

“New approaches to credit card issuance”

- Immediate issuance of cards at unstaffed branches (system for immediate issuance at 105 branches at the end of the period)
- Begin sale of specialized revolver cards (second half)

Measures to “improve the rate of card use”, “increase sales receivables” and “increase convenience”

- Issuance of “minimum payment method” cards (scheduled for introduction next summer)
- Introduction of the Aiful Scoring System for cards (scheduled for the second half)
- Payments on credit card balances at ATMs (scheduled for the second half)

**Portfolio restructuring**

«Restructuring of the asset portfolio»

■ Businesses Life will eliminate because of low profitability

- Automobile loans      ¥33.7 billion → ¥23.6 billion (▲30%)
- Partner loans        ¥54.4 billion → ¥37.7 billion (▲31%)

■ Businesses Life will strengthen because of high profitability

- Cash Plaza            ¥64.4 billion → ¥76.5 billion (+19%)
- Card cashing        ¥129.9 billion → ¥139.4 billion (+7%)

■ Individual product services business other than automobile loans

- General products    ¥55.1 billion → ¥56.5 billion (+3%)
- Special products    ¥50.2 billion → ¥52.6 billion (+5%)

**Portfolio restructuring**

«Cash Plaza operations»

■ Policies to increase the number of new customers

- Change the name and unify the brand  
→ From “Demi Plaza” to “Life Cash Plaza”
- Aggressive branch openings and branch relocations  
→ Open 32 new branches during H1 (25 staffed, 7 unstaffed)



Increase number of customers visiting branches and number of applications

■ Policies to increase card use by existing customers

- Increase card limits by introducing the Aiful Scoring System  
From ¥347,000 (when policy begun) → ¥381,000 (end of H1)



Increase in individual account balances

## Life Co., Ltd.

### Portfolio restructuring

«Life has successfully restructured its portfolio»

An ideal portfolio where the increase in profitable cashing covers the decrease in low-profit automobile loans

«Planned portfolio at end of current fiscal year»

(¥ millions)

	01/3	→	01/9	Percent change (b/a%)	→	2002/3 (Forecast)	
	a		b			c	Percent change (c/a%)
Integrated services	63,080	→	65,409	4%	→	69,038	9%
Individual product services	162,275	→	151,092	▲7%	→	160,137	▲1%
Auto loans	33,782	→	23,689	▲30%	→	15,431	▲54%
Special	50,228	→	52,654	5%	→	56,776	13%
General	55,127	→	56,560	3%	→	67,312	22%
Subrogated repayment	23,138	→	18,190	▲21%	→	20,617	▲11%
Leasing & other	22	→	22	0%	→	19	▲13%
Card cashing	129,989	→	139,438	7%	→	156,781	21%
Cash Plaza	64,401	→	76,559	19%	→	92,223	43%
Other loans	2,168	→	1,131	▲48%	→	980	▲55%
Partner loans	54,499	→	37,785	▲31%	→	23,104	▲58%
Bank guarantees	79,248	→	72,676	▲8%	→	66,956	▲16%
Home loans	50,631	→	47,986	▲5%	→	45,189	▲11%
Total	606,313	→	592,097	▲2%	→	614,425	1%

- We plan to smoothly restructure Life's assets while keeping the total loan receivables nearly flat on an outstanding balance basis.

## Life Co., Ltd.

### Expense reductions

#### ■ Restructuring of the credit management division

- 11 management branches throughout Japan → Unified into “2 east-west centers”
  - » Reduced part-time employees by about 300 people
  - » Reduced fixed expenses such as rent

#### ■ Introduced Aiful’s loan collection know-how to Life

- » Individuals required for collections 320 → 120 (▲63%) 

- » Collection amounts

Credits before write-off ¥2.7 billion → ¥1.5 billion (▲45%)

Credits after write-off ¥3.9 billion → 750 million (19 times)

Total ¥2.7 billion → ¥2.3 billion (▲15%)

Reduction  
of about  
¥3.0  
billion

#### ■ Relocation of back office functions

- Back office management branches → “relocate to off-street locations”

#### ■ Policies to reduce funding costs

##### ■ Securitization of Life’s loan assets

- » Non-recourse loans ¥240.0 billion

→ Repaid the full amount during October using securitization

- » Interest rate: 4.5% → 1.0% (▲3.5%)

Reduction of  
approximately  
¥3.0 billion

## Life Co., Ltd.

### Systems and organizations

- Build a “sales system and foundation that can meet the competition because they are always in competitive mode”
  - Flatten the organization, speed up decision making and clarify authority and responsibility
    - » Officers 1100 → (End of September) 360
  - Policies to improve incentives
    - » Salaries and bonuses linked to operating results
    - » Eliminate seniority system and shift to a personnel system based on results and performance



As a result of introducing these changes,

- Transforming Life from a “cautious organization” into a “hard-driving organization”
- Life’s “turnover rate” will not climb to the normal level because of reasons such as retirement to get married
- The morale of the entire company is improving



# Life Co., Ltd.

## Interim period income and full-year plan income

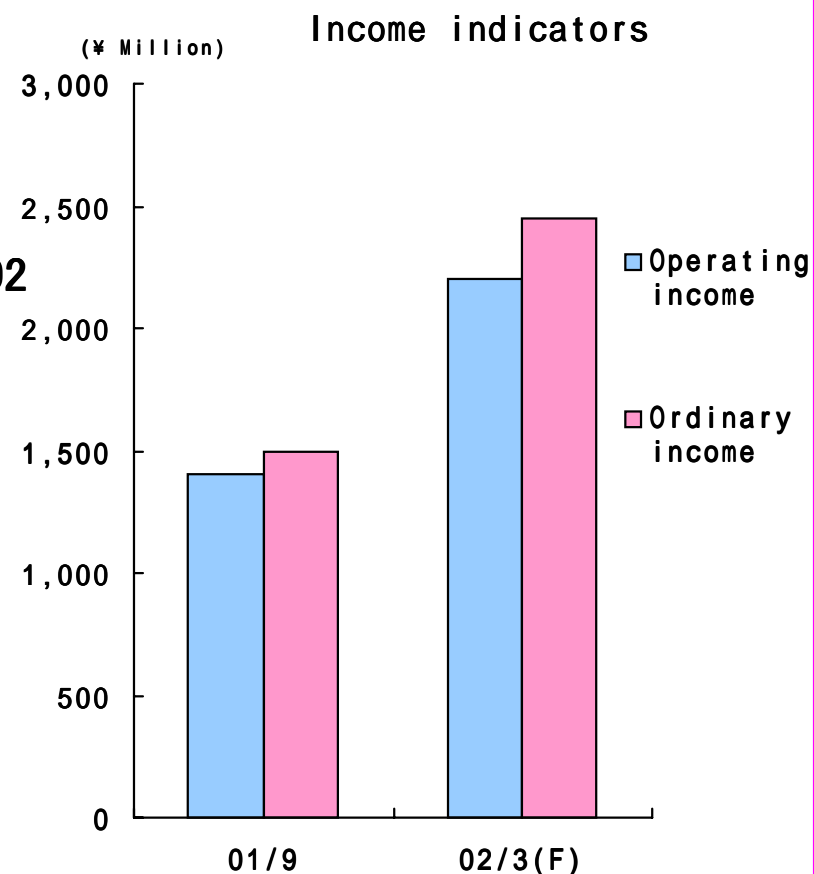
### Interim operating results for the fiscal year ending March 2002

■ Operating revenue	¥37.7 billion
■ Operating expenses	¥36.2 billion
■ Operating income	¥1.4 billion
■ Ordinary income	¥1.5 billion

### Plan for the fiscal year ending March 2002

■ Operating revenue	¥79.4 billion
■ Operating expenses	¥77.2 billion
Financial expenses	¥9.8 billion
Bad debt expenses	¥15.4 billion
Advertising & PR	¥4.6 billion
Other general expenses	¥47.3 billion
■ Operating income	¥2.2 billion
■ Ordinary income	¥2.4 billion

(※ All of the above are on a loan credit basis)





Life Co., Ltd.

Interim period plan

- Four basic policies
  - “Expand integrated services and individual product services”
  - “Restructure the portfolio”
  - “Reduce spending”
  - “Build a competitive sales system”



- Ordinary income projection

Fiscal year ending March 2003	¥9.0 billion
Fiscal year ending March 2004	¥17.3 billion
Fiscal year ending March 2005	¥27.5 billion

## Happy Credit Co., Ltd. and Shinwa Co., Ltd.

### Interim operating results and full-year plan

	【 Happy Credit 】	【 Shinwa 】
《6 months ended 01/9 Actual》		
■ Outstanding loans:	¥29.5 billion (+19.0%)	¥19.0 billion (+29.,7%)
■ Loan agreement closing ratio:	28% → 54%	30% → 36%
■ Number of new accounts:	18,000 (+80%)	8,000 (+166%)
■ Account size:	¥290,000 → ¥310,000 (+7%)	¥330,000 → ¥360,000 (+9%)
■ Interest yield: revenue:	34% → 29% ¥3.8 billion	34% → 30% ¥2.5 billion
■ Bad debt expense:	¥1.8 billion	¥0.9 billion
■ Write-off ratio:	4.69%	2.59%
《Fiscal year ending 02/3 Plan》		
■ Ordinary income (full-year plan):	¥1.1 billion	¥1.0 billion

## Businext

### Interim period business situation

■ Loan balance    ¥2.45 billion

- ❖ A time to ascertain if there is “negative fall-out from commercial loan bashing”
- ❖ Selling “loans with interest rates within the scope of the Interest Rate Restriction Law” to “medium-risk businesses”
- ❖ First time to approach this business



**Approach business at a  
slow pace**

## Consolidated Income Statement

### Consolidated profit and loss (Total basis)

#### Group company profit performance (6 months ended September 2001)

(¥ millions)

	Aiful	Life	Happy	Shinwa	Businext	Sanyo Shinpan	Consolidation adjustment account	Consolidated
Operating revenue	151,230	34,091	3,885	2,523	90	1,110	-1,348	191,584
Operating expenses	95,550	32,638	3,603	2,059	1,452	1,089	-1,518	134,875
Operating income	55,680	1,453	282	463	-1,361	20	169	56,709
Ordinary income	51,542	1,574	284	466	-1,361	27	-1,745	50,788
Net income	27,259	62	100	242	-1,362	11	-1,325	24,987

#### Group company profit plan (fiscal year ending March 2002)

(¥ millions)

	Aiful	Life	Happy	Shinwa	Businext	Sanyo Shinpan	Consolidation adjustment account	Consolidated
Operating revenue	308,082	76,745	8,142	5,262	394	2,363	0	400,987
Operating expenses	189,578	74,540	7,023	4,205	2,925	2,229	-377	280,183
Operating income	118,504	2,205	1,118	1,057	-2,532	134	377	120,803
Ordinary income	116,000	2,448	1,120	1,062	-2,531	137	-3,477	114,698
Net income	61,052	1,836	439	428	-2,534	-266	-4,298	56,597