

# Presentation of 2nd Quarter Results for FY2008

**NIS GROUP CO., LTD.**  
**8571**

*※The figures herein are based on Japanese GAAP.*

*The term “FY 2008” refers to the Company’s fiscal year ending March 31, 2009 and other fiscal years are referred to in a corresponding manner unless otherwise stated.*

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## **I. Summary of 2nd Quarter Results for FY2008**

## Summary of Operating Results (Consolidated)

■ NIS Group Co., Ltd. and its consolidated subsidiaries attempted to further improve management efficiency; however, due to a global recession in the midst of a prolonged period of global financial and capital markets turmoil and a credit crunch, our operating revenue decreased drastically. This is mainly attributable to a decrease in the amount of loans originated and the balance of loans receivable, reflecting constraints on the origination of new loans due to the deterioration of the financing environment and a delay in sales of real estate due to the deterioration of liquidity in Japanese real estate markets. The large decrease in ordinary income is due to impairment losses of real estate caused by the significant downturn in the real estate markets and additional allowance for loan losses.

(Millions of yen except percentages)

	2Q FY2007	2Q FY2008	YoY %
Operating revenues	51,686	19,811	(61.7)
Net operating revenues	27,477	(2,671)	-
Operating income (losses)	1,853	(20,861)	-
Ordinary income (losses)	1,146	(22,327)	-
Special gains	41	363	782.4
Special losses	1,466	8,290	465.2
Losses before income taxes and minority interest	278	30,254	-
Net losses	1,959	30,921	-

# Breakdown of Major Losses

(Millions of yen)

1. Real estate related	*Losses on impairment of real estate for sale in the servicing business and real estate business	12,098
	*Provision for loan losses	4,904
2. Investment securities related	*Losses related to disposition of Araigumi (Equity losses on affiliates accounted for under the equity method and losses on impairment of investment in affiliated companies)	1,968
	*Losses on impairment of investment securities	2,235
3. Loans related (excluding real estate related)	*Provision for losses on excess interest repayments	1,227
4. Others	*Losses on cancellation of swap contracts in association with the U.S. dollar-denominated unsecured straight bonds	2,372
	*Reversal of all deferred tax assets	2,330

# Balance Sheets (Consolidated)



(Millions of yen)

Assets	2008.3.31	2008.9.30	Liabilities and net assets	2008.3.31	2008.9.30
<b>Total current assets</b>	216,425	125,344	<b>Total current liabilities</b>	128,213	86,319
Cash and deposits	11,652	7,827	Short-term borrowings	115,642	75,072
Notes and loans receivable	124,545	64,039	Accounts payable/Accrued expenses	2,202	3,120
Other loans receivable	2,593	3,093	Accrued income taxes	2,529	1,259
Purchased loans receivable	28,777	24,051	Unearned revenue from installment loans	1,253	1,096
Real estate for sale in the servicing business	19,145	13,596	Accrued bonuses	597	292
Real estate for sale in the real estate business	25,812	17,449	Reserve for guarantee losses	801	3,276
Installment loans	5,522	4,531	Others	5,186	2,199
Differed tax assets	2,252	-	<b>Total long-term liabilities</b>	86,006	54,579
Others	15,024	6,095	Long-term borrowings	68,842	39,831
Allowance for loan losses	(18,901)	(15,338)	Reserve for losses on excess interest repayments	10,766	10,360
<b>Total fixed assets</b>	56,191	44,079	Others	6,398	4,388
Assets held for leases	4,855	4,050	<b>Total liabilities</b>	214,219	140,898
Other tangible and intangible fixed assets	3,544	2,112	Common stock	26,289	26,289
Investment securities	27,752	23,037	Additional paid-in capital	30,180	30,180
Bankrupt and delinquent loans receivable	16,689	26,390	Retained earnings	2,080	(28,827)
Investments in Tokumei-Kumiai relating to loans receivable	3,606	2,440	Treasury stock	(3,892)	(3,893)
Investments in Tokumei-Kumiai relating to real estate	-	-	Unrealized gains on investment securities	72	1,348
Differed tax assets	49	-	Foreign currency translation adjustments	116	274
Others	10,134	4,368	Minority interest	3,814	3,397
Allowance for loan losses	(10,440)	(18,321)	Stock acquisition rights	102	78
<b>Deferred assets</b>	367	323	<b>Total net assets</b>	58,763	28,848
<b>Total assets</b>	272,983	169,746	<b>Total liabilities and net assets</b>	272,983	169,746
※Guaranteed loans outstanding (After deduction of reserve for guarantee losses and reserve for business of affiliated companies)	16,397	34,768	※Total interest-bearing debt	184,484	114,904

	2007.3.31	2008.3.31	2008.9.30
Net worth ratio	20.5%	20.1%	14.9%
	※18.9%		

※Off-balance-sheet securitized loans receivable are included in the basis for the calculation of net worth ratio.

# Breakdown of Operating Revenues and Operating Income by Business Segments



Business segment			Operating revenues				Operating (losses) income*	
			2Q FY2007		2Q FY2008		2Q FY2007	2Q FY2008
			Amount	%	Amount	%	Amount	Amount
Integrated financial services	Interest income from notes and loans receivable	Unsecured loans and notes	9,117	17.6	3,423	17.3	(5,641)	(9,213)
		Secured loans	3,390	6.6	1,617	8.1		
		Total	12,508	24.2	5,040	25.4		
	Fees received	1,453	2.8	112	0.6			
	Guarantee fees received	1,029	2.0	925	4.7			
	Revenue from leases and installment loans	2,931	5.7	1,941	9.8			
	Other	2,989	5.8	1,632	8.2			
	Total	8,404	16.3	4,612	23.3			
Sub-total			20,912	40.5	9,653	48.7	5,069	(3,389)
Servicing business	Revenue from collections of purchased loans		6,085	11.8	4,806	24.3		
	Revenue from sales of real estate		3,520	6.8	2,483	12.5		
	Other		1,318	2.5	1,002	5.1		
Sub-total			10,924	21.1	8,292	41.9	3,795	(9,796)
Real estate business	Revenue from sales of real estate		18,072	35.0	830	4.2		
	Other		945	1.8	690	3.5		
Sub-total			19,018	36.8	1,520	7.7	(114)	(117)
Other businesses	Others		830	1.6	344	1.7		
Total			51,686	100.0	19,811	100.0	1,853	(20,861)

\*The amount of total operating income includes consolidated adjustment

# Progress of Management Reform Program

## 1 Enhancing financial base

- Implemented strategic investment and business alliance with TPG (Feb. 2008)
  - TPG invested ¥20 billion in NIS Group at non-consolidated level, ¥30 billion at consolidated level

## 2 Strengthening liquidity by integration of assts

- Sales of investment securities (consolidated) ... ¥8.2 billion (Oct. 2007-Sep. 2008)
- Sales of headquarter building located in Matsuyama (Mar. 2008)
- Sales of loans receivable ... ¥36.1 billion (Apr. 2008-Sep. 2008)
  - Taking risks of guarantees for loans receivable sold to acquire guarantee fees in return
- Sales of a part of equity stake in Delaware LLC (Nissin China Holdings, LLC) (Oct. 2008)

## 3 Restructuring of the group

- Nissin Leasing (China) Co., Ltd. became an affiliates accounted for under the equity method, due to strategic investment and business alliance with TPG (Feb. 2008)
- Credit Organization of Small and Medium-sized Enterprises (COS), previously known as Aprek Co., Ltd became an affiliates accounted for under the equity method due to issuance of new shares through third party allotment (Mar. 2008)
- Merger with NIS Property Co., Ltd. through approval at the annual shareholders meeting (July. 2008)
- Sale of NIS Securities Co., Ltd.'s shares to C&M Buyout Limited Investment Partnership (Aug. 2008)  
(Shareholder voting rights: 99.48% to 5.68%)

## 4 Trimming down of cost structure

- Implemented voluntary retirement (non-consolidated); 335 employees have taken voluntary retirement (Nov. 2007)

	2Q FY2007	2Q FY2008
Employee costs	¥4.9 billion (¥3.5 billion)	¥2.6 billion (¥1.8 billion)
Number of employees	1,356 (1,008)	725 (593)
Number of branches	25	12

Note: The figures above are on a consolidated basis except those in parentheses which are on a non-consolidated basis

- Reduction of the compensation for directors (Since Nov. 2007)  
(Entire amount of compensation has been reduced for CEO since Feb. 2008)

# Breakdown of Losses on Real Estate Businesses

## ■ Real estate investment business

(Millions of yen except percentages)

	① Book value	② Amount of impairment losses on the real estate	② / ①+②
	2008.9.30	2008.9.30	
*Real estate for sale in the real estate business	17,449	8,702	33.3%
*Real estate for sale in the servicing business	13,596	3,396	20.0%
<b>Total</b>	<b>31,045</b>	<b>12,098</b>	<b>28.0%</b>

## ■ Real estate secured loans receivable (non-consolidated)

(Additional provision for loan losses: ¥4,904 millions)

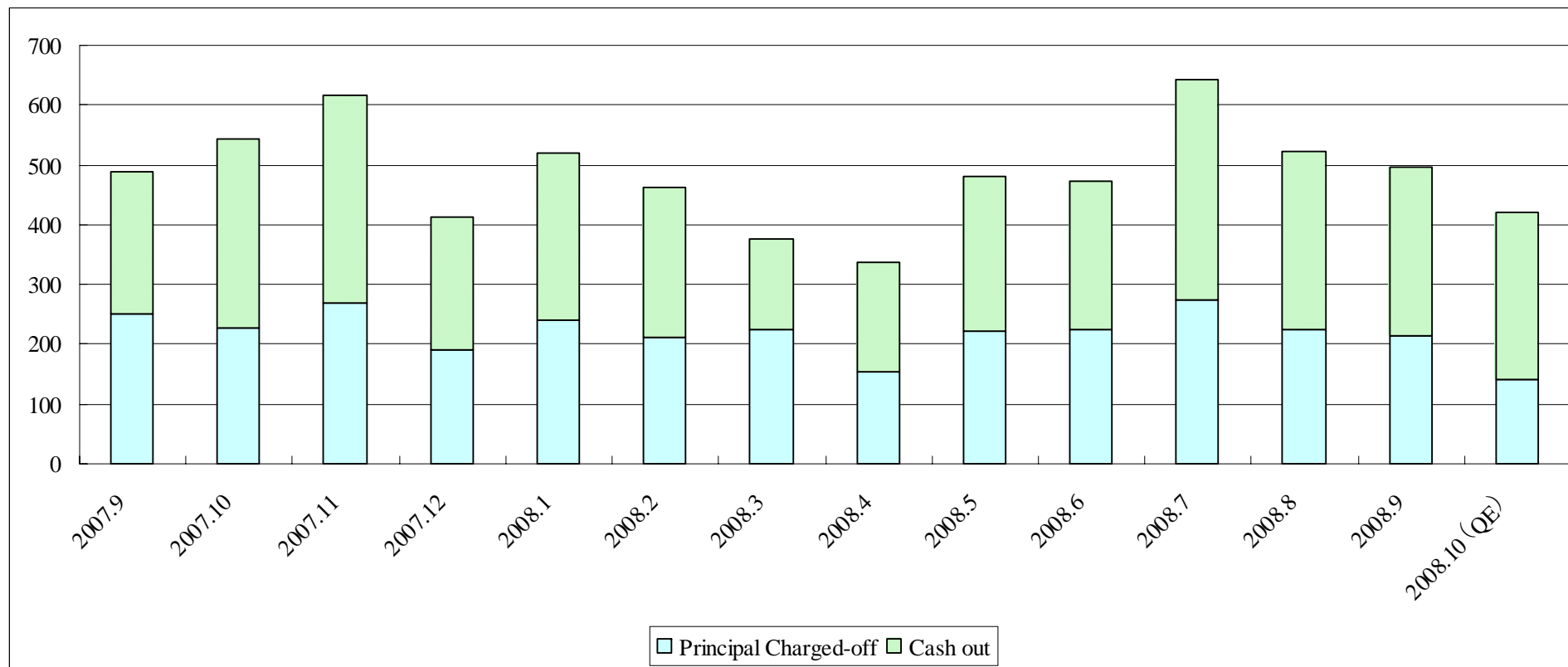
(Millions of yen except percentages)

	2008.3.31	2008.9.30
*Amount of loans receivable (Loans receivable including bankrupt and delinquent loans receivable)	69,790	48,608
*Allowance for loan losses	8,866	13,771
<b>Allowance ratio</b>	<b>12.7%</b>	<b>28.3%</b>

# Trend of Losses on Excess Interest Repayments



(Millions of yen)



(Millions of yen)

	2007.9	2007.10	2007.11	2007.12	2008.1	2008.2	2008.3	2008.4	2008.5	2008.6	2008.7	2008.8	2008.9	2008.10 (QE)
Cash out	237	317	346	222	278	253	153	184	258	247	367	297	281	280
Principal Charged-off	251	227	270	192	241	211	224	154	223	225	275	225	215	141
Total	488	544	616	414	519	463	376	338	481	472	642	522	496	421

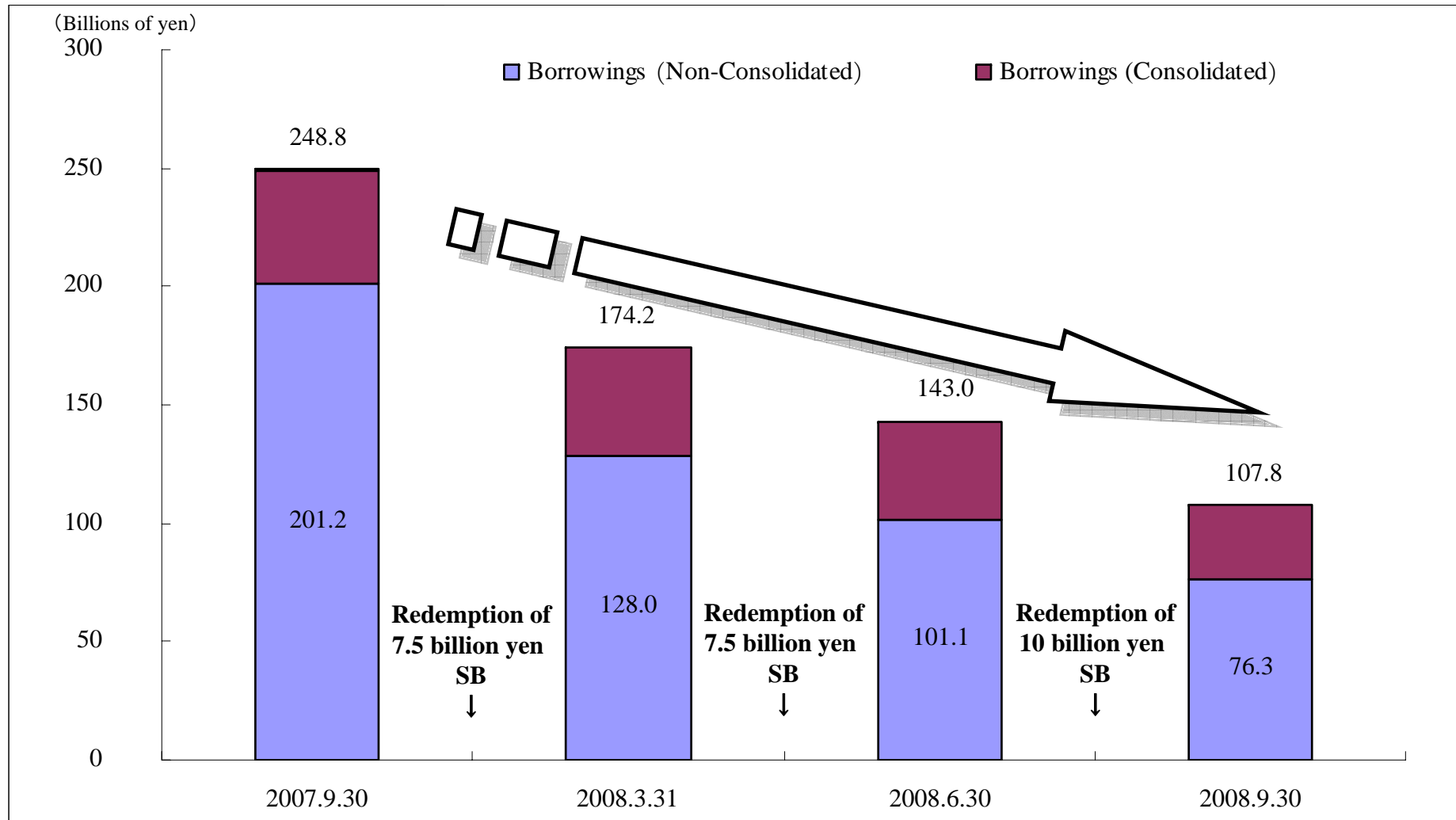
# Funding Situation (Non-consolidated)

(Millions of yen except percentages)

	2007.3.31		2008.3.31		2008.9.30		YTD
	Amount	%	Amount	%	Amount	%	
<b>Indirect</b>	143,124	52.6%	71,162	51.5%	40,715	53.3%	(30,447)
Banks	86,021	31.6%	39,691	28.7%	25,465	33.3%	(14,226)
Insurance companies	2,199	0.8%	2,062	1.5%	1,370	1.8%	(692)
Other financial institutions	2,684	1.0%	1,372	1.0%	919	1.2%	(453)
Non-bank financial companies (including securities companies)	52,220	19.2%	28,036	20.3%	12,959	17.0%	(15,077)
<b>Direct</b>	129,057	47.4%	67,065	48.5%	35,664	46.7%	(31,401)
SB	41,200	15.1%	56,880	41.1%	35,664	46.7%	(21,216)
CP	27,100	10.0%	-	-	-	-	-
Securitization	60,757	22.3%	10,185	7.4%	-	-	(10,185)
<b>Total</b>	272,182	100.0%	138,228	100.0%	76,379	100.0%	(61,849)
Weighted average borrowing rates		1.7%		2.6%		4.5%	

\*The Company entered into currency swap contracts in association with the U.S. dollar-denominated unsecured straight bonds issued in Jun. 2007 and other transaction; however, it decided to terminate these contracts in Sep. 2008. As a result, weighted average borrowing rates for SB and others are calculated based on the US dollar-denominated rate.

# Decrease of Borrowings



Note: The figures above represent the aggregate amounts of debt borrowings respectively.

# Rehabilitation Plan

**Implement rehabilitation plan through cooperation with TPG, the major shareholder, and reorganize the business structure in order to stabilize the Company's financial bases.**

## **1 Reorganization of the Group's business structure**

### **○ Strengthen guarantee businesses**

- Further enhancement of the guarantee business with the Incubator Bank of Japan Limited, and the Saikyo Bank. Ltd.
- Developing new partnerships

### **○ Utilize credit management and loan servicing know-how and shift to business earning fee income**

- Development of business by fully utilizing expertise in credit management of retail and short-term lending
- Expansion of fee income through a shift to businesses centered on the guarantee and agent business

## **2 Stabilization of financial base**

### **○ Stabilize capital base**

- Further request for financial support from TPG
- Request for financial support from correspondent financial institutions under TPG's cooperation

### **○ Accelerate asset divestiture and group reorganization**

- Acceleration of disposal of equity shares and real estate holdings
- Acceleration of group reorganization

## **3 Increasing business efficiency**

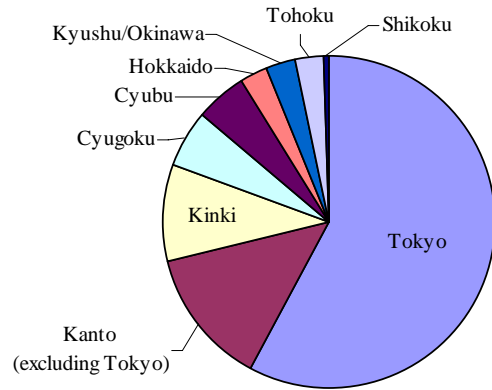
### **○ Cut costs by fixed cost reduction**

- Establishment of a lean organizational structure with personnel commensurate with the business scale of the Group

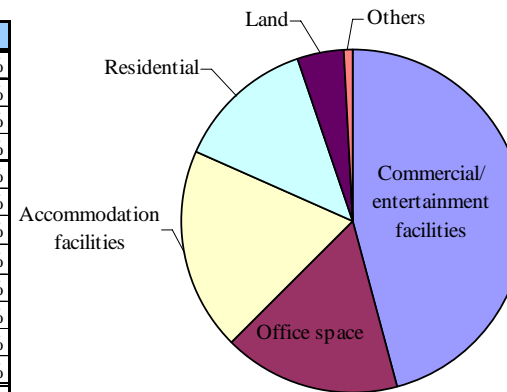
## II. Reference

# Real Estate Related Business

## Loans secured by real estate (Non-consolidated) : Loans outstanding ¥48,608 million (Sept. 30, 2008)



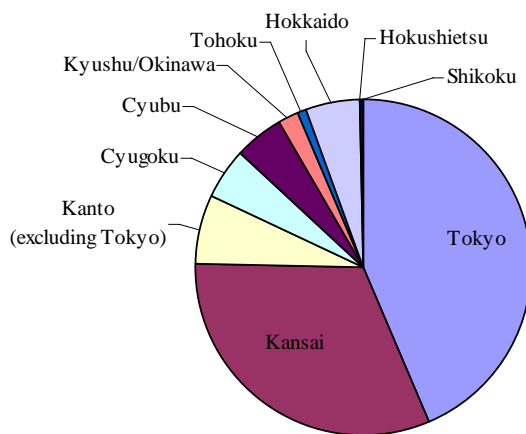
Region	%
Tokyo	57.9%
Central Tokyo (5 wards)	50.1%
Other 18 wards	7.7%
Others	0.2%
Kanto (excluding Tokyo)	13.1%
Kinki	9.5%
Cyugoku	5.6%
Cyubu	5.0%
Hokkaido	2.9%
Kyushu/Okinawa	2.7%
Tohoku	2.8%
Shikoku	0.5%
Total	100.0%



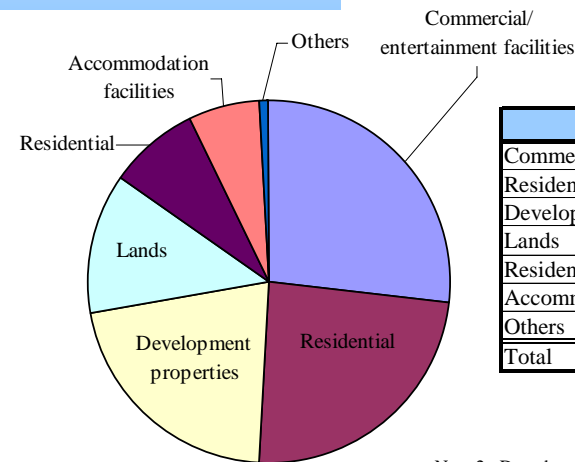
Property type	%
Commercial/entertainment facilities	45.8%
Office space	19.2%
Accommodation facilities	16.8%
Residential	13.0%
Land	4.3%
Others	0.9%
Total	100.0%

Note 1: The balance of loans receivables includes bankrupt and delinquent loans receivable.

## Real estate investment : Real estate for sale in the servicing business ¥13,596 million Real estate for sale in the real estate business ¥17,449 million Total ¥31,045 million



Region	%
Tokyo	43.6%
Central Tokyo (5 wards)	17.2%
Other 18 wards	13.7%
Others	12.7%
Kansai	31.6%
Kanto (excluding Tokyo)	6.8%
Hokkaido	5.3%
Cyugoku	5.0%
Cyubu	4.7%
Kyushu/Okinawa	1.8%
Tohoku	0.7%
Hokushietsu	0.3%
Shikoku	0.1%
Total	100.0%



Property type	%
Commercial/entertainment facilities	27.0%
Residential	23.8%
Development properties	21.3%
Lands	12.7%
Residential	8.1%
Accommodation facilities	6.2%
Others	0.9%
Total	100.0%

Note 2: Data based on investment amounts as of Sept. 30, 2008.

# Loan Business (Non-consolidated)

## ■ Total loans outstanding

(Millions of yen except percentages)

	2008.3.31	2008.6.30	2008.9.30	YTD %
<b>Secured loans</b>	71,308	53,373	50,018	(29.9)
<b>SME loans</b>	45,503	33,495	19,491	(57.2)
<b>Discount notes receivable</b>	86	64	56	(34.4)
<b>Consumer loans</b>	23,448	20,943	16,257	(30.7)
<b>Total</b>	140,346	107,876	85,825	(38.8)
<b>Amount of guarantee of loans receivable</b>	19,490	31,315	37,551	92.7
Guarantee of loans receivable related to secured loans	4,795	11,153	12,411	158.8

Note: Loans receivable above include bankrupt and delinquent loans receivable.

## ■ Total loans outstanding by interest rate

(Millions of yen except percentages)

Interest rate	2008.3.31		2008.6.30		2008.9.30	
	Amount	%	Amount	%	Amount	%
Less than 5.0%	1,291	0.9%	1,192	1.1%	1,748	2.0%
5.0% to less than 10.0%	70,198	50.0%	52,803	48.9%	48,293	56.3%
10.0% to less than 15.0%	7,215	5.1%	6,345	5.9%	4,259	5.0%
15.0% to less than 20.0%	16,941	12.1%	12,872	11.9%	8,081	9.4%
20.0% to less than 25.0%	32,775	23.4%	23,737	22.0%	18,670	21.8%
25.0% and above	11,924	8.5%	10,925	10.1%	4,772	5.6%
<b>Total</b>	140,346	100.0%	107,876	100.0%	85,825	100.0%
Average contractual interest rate (%)	14.4%	-	14.6%	-	13.3%	-

Notes 1: Loans receivable above include bankrupt and delinquent loans receivable.

2: The average contractual interest rate is weighted-average interest rate and does not include fees, etc.

# Trend of Loan Charge-Offs and Excess Interest Repayments (Non-consolidated)

## 【Ratio of charged-offs of loans receivable】 (Annual)

	FY2007	1Q FY2008	2Q FY2008
Secured loans	0.21%	0.06%	0.10%
SME loans	15.54%	22.47%	27.90%
Consumer loans	9.86%	9.24%	11.10%
Total	7.33%	8.89%	9.23%

## 【Loan charged-offs】 (Quarterly)

(Millions of yen)

	2Q FY2007	3Q FY2007	4Q FY2007	1Q FY2008	2Q FY2008
Charge-offs of loans receivable	3,394	2,593	2,281	2,414	1,735
Of which charge-offs related to excess interest repayments	871	688	674	601	714

## 【Allowance】 (Total of general and specific allowance)

(Millions of yen)

	FY2006	FY2007	2Q FY2008
	All Products	All Products	All Products
Allowance	15,806	23,359	24,241
General allowance	4,470	3,340	1,512
Specific allowance	6,536	16,159	20,185
Allowance for excess interest repayments-related losses	4,800	3,859	2,543

## 【Reserve for losses on excess interest repayments (cash out)】

(Millions of yen)

	FY2006	FY2007	2Q FY2008
Reserve for losses on excess interest repayments	4,600	10,766	10,360

Allowance related to losses on excess interest repayments  
¥ 12,903 million

# Breakdown of Investments in Securities

As of September 30, 2008

(Millions of yen except unit price and stock price)

Listed Companies: Brand	Number of shares	Unit (¥)	Book value	Stock price (¥)	Market Value	Difference
Raccoon	500	17,205	8	148,100	74	65
Info Mart	330	120,000	39	147,000	48	8
The Bank of Kochi	60,000	83	4	83	4	0
Xinhua Finance	114,717	1,480	169	1,480	169	0
Tosei	1,500	32,550	48	32,550	48	0
Aeria	90	50,550	4	50,500	4	0
Venture Link	12,285,400	31	380	31	380	0
Soft Bank	400	2,445	0	1,343	0	(0)
Fujitsu Business System	17,300	1,401	24	1,368	23	(0)
Shinsei Bank	100,000	329	32	312	31	(1)
Tenpos Busters	496	50,700	25	31,000	15	(9)
Riskmonster	2,500	40,550	101	35,600	89	(12)
The Tokushima Bank	122,971	593	72	387	47	(25)
Total	12,706,204		914		938	24

Non-listed Companies and Others	Book value
Non-listed Companies (155 brands)	5,953
Bonds (9 brands)	105
Tokumei-Kumiai Investment, etc. (22 brands)	6,351
Others (4 brands)	0
190 Investees	12,410

\*Deemed securities are included.

\*Tokumei-Kumiai Investment, etc includes investments in Tokumei-Kumiai relating to loans receivable.

Affiliated Companies (Equity methods)	Book value
Delaware LLC (Nissin Leasing (China))	11,894
Araigumi	21
COS	115
Nippon Real Estate Rating Services	19
Others (7 Investees)	76
Total	12,128

Total	Book value
214 Investees	25,478

# Special Notice Regarding Forward Looking Statements

## Special Note Regarding Forward-Looking Statements

Our business results and these forward-looking statements are subject to various risks and uncertainties. Known and unknown risks, uncertainties and other factors could cause our actual results to differ materially from and be worse than those contained in or suggested by any forward-looking statement. We cannot promise that our expectations, projections, anticipated results or other information expressed in or underlying these forward-looking statements will turn out to be correct.

### I. Risks related to the business environment

- (a) Weak economic conditions
- (b) Misconduct by an employee or director, or negative publicity for our industry or the Group

### II. Risks related to Laws and Regulations

#### Regulations under Japanese law

- i) Regulations concerning the loan business
  - Regulation concerning interest rates
  - Regulation concerning excessive lending
  - Regulation concerning loan operations
- ii) The Special Measures Law concerning the Claims Servicing Business
- iii) Installment Sales Law
- iv) Financial Instruments and Exchange Law
- v) Other related regulations

### III. Business Risks

- (a) Funding and market interest rates
- (b) Claims for excess interest repayments
- (c) Reliability of our information or technological systems and networks
- (d) Influence on important decisions by TPG and its group companies
- (e) Ability to pursue and maintain successful strategic investment and business alliance with TPG
- (f) Risks in our operating assets portfolio
- (g) Condition and liquidity in stock markets
- (h) Ability to pursue and maintain successful strategic alliances and joint ventures
- (i) Economic trends and liquidity in real estate markets