The year ended March 31, 2020

ANNUAL REPORT 2020

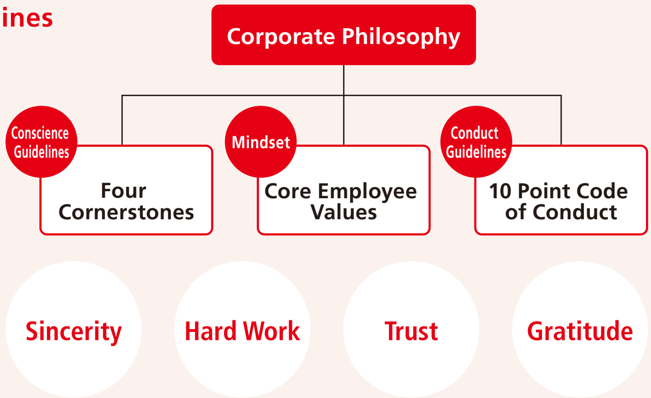
AIFUL CORPORATION

Corporate Philosophy

Earn the trust of society through corporate activity based in integrity

Conscience Guidelines, Mindset, Conduct Guidelines

The Management Philosophy is at the pinnacle of and supported by three other elements: the Four Cornerstones, which serve as guidelines for conscience; 10 Point Code of Conduct, which are guidelines for conduct; and the Core Employee Values, which are concrete points that make up the appropriate employee mindset.



Conscience Guidelines Four Cornerstones

The Four Cornerstones serve as guidelines that underpin the Corporate Philosophy. They represent the mindset and attitudes that employees should assume in order to embody the Corporate Philosophy.

Mindset Core Employee Values

The employees of the AIFUL Group shall be guided by the basic principles of "independence" and "discipline," and the following set core values shall be shared by all employees.

Independence	Discipline
Ambition	Creativity
Cooperative Spirit	Numerical Awareness

The Core Employee Values define the mindset employees must always adopt in performing their duties. The six mindset principles have been stipulated to encourage employees to act and think independently and to always be aware of the discipline required of members of the organization.

Conduct Guidelines 10 Point Code of Conduct

AIFUL pledges that all of its employees shall be required to engage in strict self-discipline based on the following Code of Conduct and to devote all of their energy to earning the trust of society.

(1) Customer first policy
(2) Accountability to customers
(3) Respect views both inside and outside the Company
(4) Legal compliance
(5) Contribution to society
(6) Information disclosure
(7) Building a fulfilling workplace
(8) Commitment to shareholders
(9) Sound corporate activities
(10) Group compliance

The 10 Point Code of Conduct stipulates guidelines for conduct as concrete employee commitments to our customers, society, shareholders and employees themselves in order to realize the Corporate Philosophy. The Code of Conduct specifies standards of conduct and behavior that all employees must always observe as members of a socially responsible corporation.

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Forward-Looking Statements
The figures contained in this Annual Report with respect to AIFUL's plans and strategies and other statements that are not historical facts are forward-looking statements about the future performance of AIFUL, which are based on management's assumptions and beliefs in light of the information currently available to it and involve risks and uncertainties and actual results may differ from those in the forward-looking statements as a result of various factors.

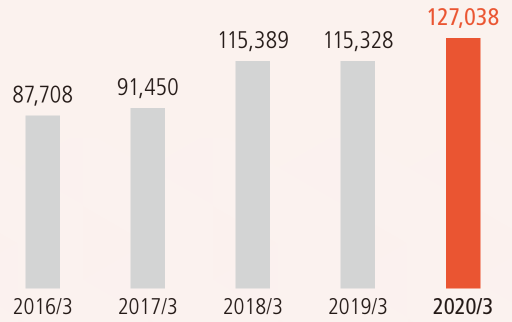
Potential risks and uncertainties include, without limitation, general economic conditions in AIFUL's market and changes in the overall market for consumer loans, the rate of default by customers, and the level of interest rates charged by AIFUL.

Five-Year Summary

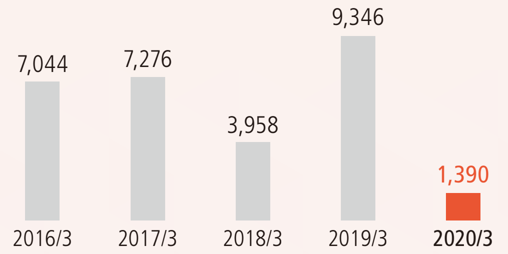
AIFUL CORPORATION and Consolidated Subsidiaries
Years Ended March 31, 2016, 2017, 2018, 2019 and 2020

	Millions of yen					%
	2016/3	2017/3	2018/3	2019/3	2020/3	YOY
For the Year:						
Operating revenue	87,708	91,450	115,389	115,328	127,038	10.2
Operating expenses	81,032	84,440	112,897	112,297	125,358	11.6
Provision for doubtful accounts	16,126	20,744	20,497	30,628	35,277	15.2
Expenses for interest repayment	2,897	—	12,384	11,501	16,927	47.2
Operating profit	6,676	7,009	2,492	3,031	1,679	(44.6)
Ordinary profit	6,860	7,399	2,823	4,110	1,716	(58.2)
Profit attributable to owners of parent	7,044	7,276	3,958	9,346	1,390	(85.1)
At Year-End:						
Total receivable outstanding	545,569	591,528	665,669	735,219	820,430	11.6
Loans outstanding	376,224	412,649	472,018	521,823	573,080	9.8
Installment receivables	90,166	97,134	100,460	104,645	111,473	6.5
Guarantee	73,411	75,747	86,465	101,007	127,018	25.8
Other	5,767	5,997	6,725	7,744	8,858	14.4
Total assets	567,514	616,651	682,645	760,587	860,507	13.1
Net assets	104,250	111,649	119,407	128,016	128,931	0.7
ROA (%)	1.2	1.2	0.4	0.6	0.2	(0.4)
ROE (%)	7.0	6.8	3.5	7.8	1.1	(6.7)
Number of shares issued	483,794,536	484,619,136	484,620,136	484,620,136	484,620,136	0.0
Total equity	103,414	110,738	114,214	124,045	126,017	1.6

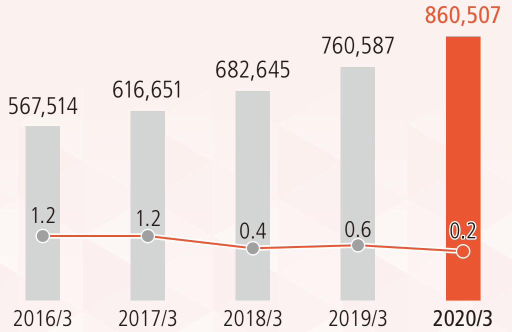
Operating revenue (Millions of yen)



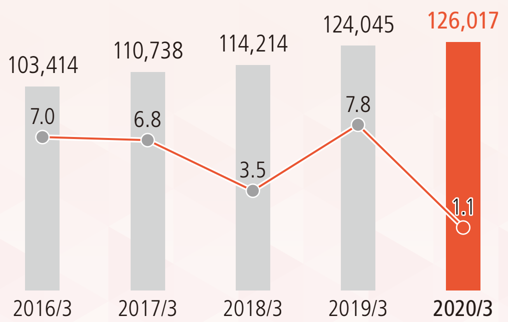
Profit attributable to owners of parent (Millions of yen)



Total assets (Millions of yen) / ROA (%)



Total equity (Millions of yen) / ROE (%)



To Our Investors and Shareholders

The AIFUL Group aims to become a global financial group that provides products and services surpassing customer expectations, and is trusted and needed in Japan and around the world.

Summary of financial results for fiscal 2019

During fiscal 2019, the AIFUL Group posted operating revenue of 127.0 billion yen (up 10.2% year on year) and ordinary profit of 1.7 billion yen (down 58.2% year on year). Meanwhile, profit attributable to owners of parent came to 1.3 billion yen (a drop of 85.1% year on year).

The financial services business in Japan, including the loan business for consumers and business operators, and the credit card business; and its overseas business, primarily in the ASEAN region, are in an expansion phase both domestically and internationally. The balance of receivables is solidly growing in the loan business, credit card business, and credit card guarantee business, the three core businesses of the Group.

Meanwhile, operating profit totaled 1.6 billion yen (down 44.6% year on year). Although financial expenses decreased owing to a decline in procurement costs in tandem with an improvement to its rating by a third-party rating agency and to its earnings performance, the drop is mainly attributable to 17.0 billion yen in provisions to reserves related to interest repayments (breakdown: 16.9 billion yen in provisions for losses on interest repayment and 90 million yen in allowance for doubtful accounts from debt forgiveness due to loss on interest repayment), given that the drop in interest repayment claims was shallower than expected, and an increase in bad debt-related expenses, including a rise in operating assets.

Current business environment

In fiscal 2019, the economy in Japan modestly expanded, mainly underpinned by an improvement in the employment and income environments. However, there are concerns of an economic slowdown in tandem with the drop-off in consumer activities due to the spread of COVID-19. Accordingly, the health of the economy is currently "touch-and-go."

In the unsecured loan market, although market scale continues to recover owing to a rapid growth in bank card loans, growth has recently been flat given in part the movement by Japanese banks to institute voluntary restraints on advertising for bank card loans and on the total volume control for loans. Against this backdrop, in the consumer financing industry, the number of new loans continues to trend steadily upwards, mainly among major consumer financing-dedicated lenders. Consequently, the balance of loans is gradually expanding in line with this trend. Meanwhile, although interest repayment claims, the largest risk in this industry, have substantially decreased since their peak, given recent trends, it is necessary for us to continue to closely monitor these claims.

In light of this environment, we undertook business operations that emphasized the balance between safety, profitability and growth potential. In the AIFUL Group as a whole, we endeavored to expand our operating assets and diversify the finance business while addressing the all-important management issue of interest repayment claims. In addition, during fiscal 2019, we did not see a major impact to operations from the spread of COVID-19. Nonetheless, there is a possibility of a negative impact to group performance reflecting the economic downturn caused by the spread of COVID-19.

The AIFUL Group's long-term vision

The long-term vision of the AIFUL Group is to become a global financial group that provides products and services surpassing customer expectations, and is trusted and needed in Japan and around the world. In accordance with this, we aim to establish management based on robust Group unity by practicing management that is based on both our corporate philosophy and the essence of the finance business.

Vision to stakeholders

Customer	We will continue to provide customers in Japan and overseas with products and services that exceed their expectations, earning "trust" and "need," and attaining the No. 1 customer satisfaction in the industry.
Society	As a receptacle of consumption and funding demands, we will fulfill our mission as a financial system that supports the consumption and economic activities of individuals and the self-employed.
Business Partners	Through fair and honest trade with all business partners, we will build a relationship conducive to prosperous coexistence.
Shareholders & Investors	We will achieve sustainable profit growth and shareholder return, and strive to enhance corporate value.
Employees	We will achieve a workplace in which employees experience both company and personal growth and can experience a purpose in life through their day-to-day work.

The AIFUL Group's management strategy

A key factor toward realizing our long-term vision is to perpetually pursue the practice of management that is based on our corporate philosophy and the essence of the finance business. We aim to achieve further growth by prioritizing management that emphasizes a keen balance between safety, profitability and growth potential. These three factors are the essence of management.

In the areas of safety and growth potential, we are moving forward with the diversification of our finance business and business portfolio by enhancing shares in other businesses, including the credit guarantee and overseas businesses, while aiming to boost the balance in the mainstay loan business. In addition, we are aiming for a capital adequacy ratio, one indicator of soundness, of 20%. As initiatives for profitability, we plan to bolster our top line by increasing operating assets and are also working to shrink costs by reducing our procurement costs and streamlining and boosting efficiency through the introduction of business process reengineering (BPR) and robotic process automation (RPA).

As a guideline for conduct to realize our corporate philosophy, we are implementing all-out efforts to win the trust of society by placing utmost priority on a customer-first policy and compliance.

We define our customer-first policy as "putting customers first, addressing customer needs with integrity and constantly gaining their lasting support and trust." We plan to capitalize on the AIFUL Group's signature creativity to support the sound economic activities of our customers and provide products and services that are dedicated to serving their needs in an effort to gain their long-lasting support and trust.

In addition to fulfilling the expectations of all our stakeholders including customers that utilize our services, we have set forth our basic approach to compliance, which is to contribute to society through our business activities. To this end, we aim to go about our daily operations while adhering to correct moral and ethical values and naturally complying with the law.

Plan for fiscal 2020

At the AIFUL Group, retail finance, which includes the loan business, is in an expansion phase in Japan and abroad. On the flip side, the impact from the spread of COVID-19 and the related uncertainty going forward are making it difficult to forecast earnings performance.

Accordingly, in fiscal 2020, after stripping out the potential impact of COVID-19, we forecast operating revenue of 139.1 billion yen (a rise of 9.5% year on year), operating profit of 19.9 billion yen, ordinary profit of 20.3 billion yen, and profit attributable to owners of the parent of 17.9 billion yen.

Looking forward

In the current business environment, we anticipate ongoing steady growth in the finance business in Japan, which includes the loan business for consumers and business operators and the credit card business, and the overseas business mainly in the ASEAN region.

In addition, fast-paced reforms are a must given the growing diversification of customer needs. We plan to pour all our energies into addressing the expectations of all our stakeholders.

We hope that all our stakeholders and investors continue to look forward to our transformation and we ask for your continued support and encouragement as we move forward.

September 2020
President and CEO Representative Director **Mitsuhide Fukuda**

Strategies for Core Businesses

Unsecured loans

In the unsecured consumer loans market, the balance of loans dropped to 8.7 trillion yen in fiscal 2012, from 17 trillion yen in fiscal 2007, reflecting the impact from revisions to the Money Lending Business Act. However, this downward trend bottomed out in 2014 after which the annual growth rate trended at around 4%, mainly for bank card loans. In light of this, the balance of loans recovered to 10.5 trillion yen in fiscal 2017.

Meanwhile, the recent balance for bank-card loans is trending downward due in part to the impact from self-imposed restrictions triggered by the bank-card loan issue. Looking at the market overall, the loan balance stood at 10.4 trillion yen, flat in comparison with the previous fiscal year.

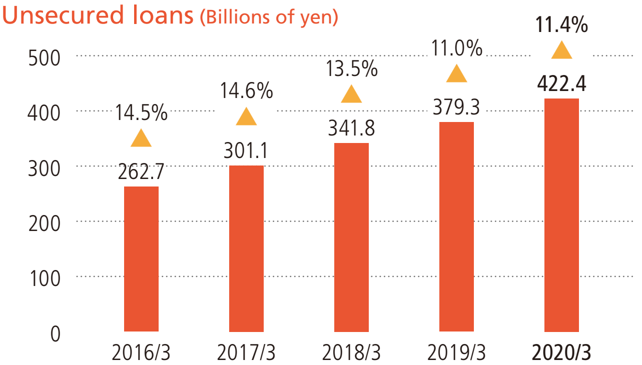
Amid this backdrop, in the consumer finance market, the number of small- and medium-scale consumer finance companies has sharply decreased reflecting revisions to the Money Lending Business Act and the interest repayment claims issue. In fiscal 2013, the balance of loans was 2.1 trillion yen, a drastic drop from the balance of 7.3 trillion yen in fiscal 2007. However, the market is making a modest comeback, having recently recovered to 2.6 trillion yen owing to market restructuring, mainly of major players.

The AIFUL Group is undertaking improvements to customer services. In addition to implementing effective advertising, consisting mainly of TV commercials and online advertisements, we are also expanding the functions we have to offer, including online identity verification (authorization), the introduction of cardless transactions via ATMs of Seven Bank, Ltd. and Lawson Bank, Inc., and an online chat service. In this way, we are achieving a balance growth of 10% annually, reflecting efforts to boost the number of new contracts and our business loan balance.

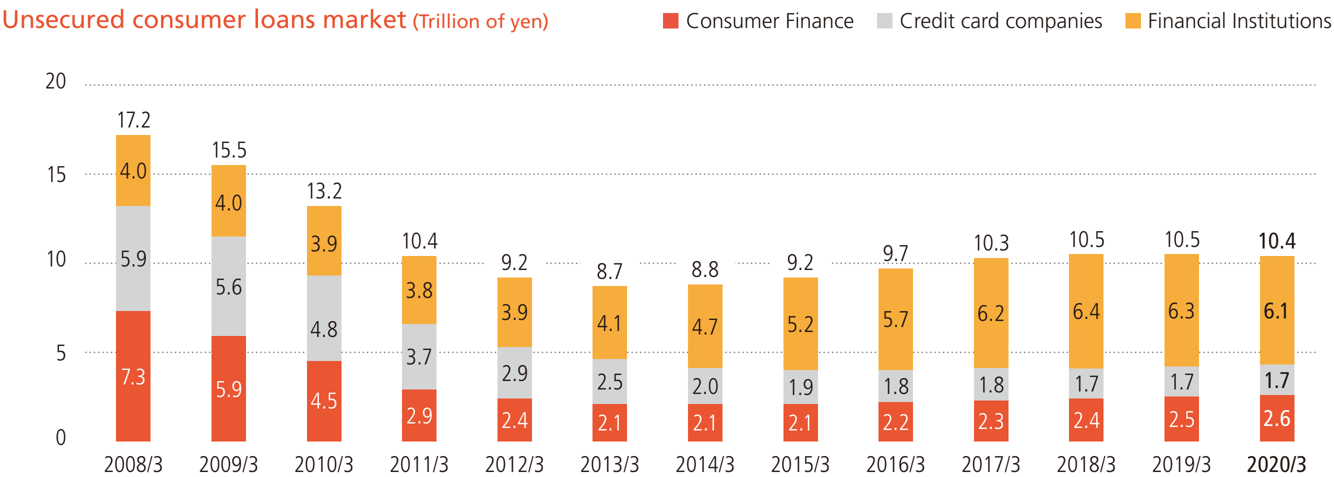
In our branch strategy, in light of the change in the Internet environment in recent years, online applications have gained popularity. We are therefore seeing a shift to non-face-to-face services in the majority of contact points with customers. Taking this into account, we have reduced the number of manned AIFUL branches to 20 branches. We consolidated product sales at our Contact Center, which is our call center, to efficiently secure new contracts in accordance with customer needs. In addition, we set up unmanned branches nationwide, mainly consisting of our "Mujin Keiyaku Denwa BOX Temairazu" (unmanned simple and quick telephone booths for contact applications), which is a simplified model of our branches. Here, customers can work with our Contact Center who will provide them with safe, attentive and speedy services.

Going forward, we plan to offer services that provide ever more convenience for our customers while driving the market as one of its major players.

Unsecured loans (Billions of yen)



Unsecured consumer loans market (Trillion of yen)



Small business loans

The small business loan market shrank sharply due to the negative impacts of issues within the industry that arose in 1999, which led to the termination of revolving credit guarantees, restrictions on co-signers and a drop in the maximum interest rates that can be charged. In recent years, there continues to be an absence of major players in this market. Small business loans target small/medium-scale companies and private business operators. At present, fund demand is not being fully met.

Regardless of growth expectations going forward, we believe there is ample room for growth in the loan balance given the competitive environment, as there are few companies with large business loan balances aside from the AIFUL Group.

The AIFUL Group continued to post double-digit growth from fiscal 2017 to fiscal 2019 by more aggressively conducting sales using the credit knowhow cultivated over many years at AIFUL and its subsidiary AIFUL BUSINESS FINANCE Corporation (formerly BUSINEXT Co., Ltd.).

We plan to pour our energies into this business as one of the main growth drivers for the Group.

Credit card business

The credit card market is rapidly growing, owing in part to the establishment of a settlement environment propelled by an increase in inbound tourists, on top of e-commerce expansion and the widespread adoption of cashless transactions. In the past decade, the market doubled to 73 trillion yen. This expansion mainly reflects: the remarkable growth in credit cards issued by retailers that possess their own group branches or loyalty point malls; the implementation of measures including various campaigns in which card sign-ups and use come as a set and award loyalty points and perks in accordance with the monetary amount spent or number of times used; and the expansion of opportunities for use throughout the industry by deploying promotional measures, including giving incentives for use within the card issuer's group or at designated affiliate stores.

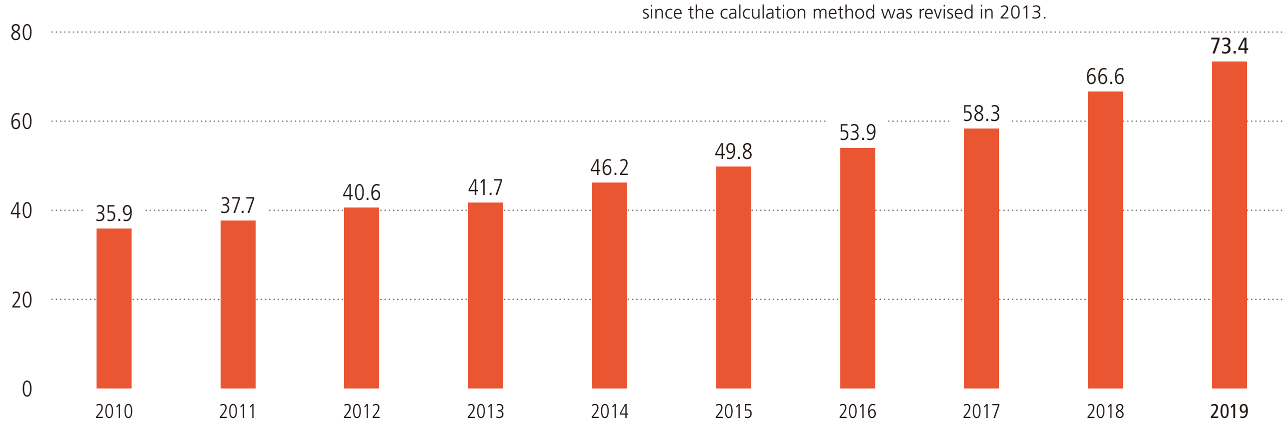
Against this backdrop the AIFUL Group is leveraging knowhow and networks accrued from the past, mainly to acquire LIFECARD users through the active deployment of affiliate advertisements and users of affiliate cards with AOYAMA TRADING Co., Ltd. In recent years, we have worked to expand the number of corporate users by forming affiliations with hospitals and universities, issuing affiliate business cards with financial institutions, Fintech companies and other organizations, and issuing credit cards dedicated to high-end settlements with restricted use at certain shops.

In conjunction with this, we are also issuing proprietary credit cards in tie-ups with famous artists, idol groups and characters.

In addition to the credit card business, from July 2011 we started issuing V-preca, a prepaid Visa card that was jointly developed with Visa. We are providing products that can be used for card settlement transactions online using a prepaid card. Over the past nine years, we have issued a total of around 14 million cards with sales totaling around 80.7

Credit card shopping credit amount (Trillion of yen)

Source: JAPAN CONSUMER CREDIT ASSOCIATION
Note: There is no continuity between the data before 2012 and that on and after 2013 since the calculation method was revised in 2013.



billion yen. The sales methods related to V-preca are diverse, including sales to private individuals, and sales of V-preca gift cards that are used by companies that give them as incentives to their customers.

In the credit card market, the volume for shopping transactions in 2023 is expected to surpass the 100 trillion-yen mark. This forecast is underpinned in part by the potential improvement in user convenience and advantages reflecting the progress in the establishment of a settlement environment reflecting the government-led campaign to go cashless, and the expansion of smartphone settlement services, including contactless settlement using a non-contact IC chip and QR code settlements.

We are adapting the LIFECARD to match the diverse array of settlement methods while leveraging the strengths of proprietary products, including affiliate and corporate cards. We are also working to expand transaction volumes and earnings channels.

› Credit guarantee business

In the credit guarantee market overall, the guarantee balance totaled 6.1 trillion yen in fiscal 2019, in contrast with 3.8 trillion yen in fiscal 2009, a growth of around 1.6 times over the past decade. Amid this backdrop, in an ultra-low interest rate environment, banks are actively engaging in increasing high-margin unsecured loans.

Modest growth is expected in bank credit card loans owing to the adoption of the self-imposed restrictions of the Japanese Bankers Association, and the introduction of advertising regulations and total loan volume regulations.

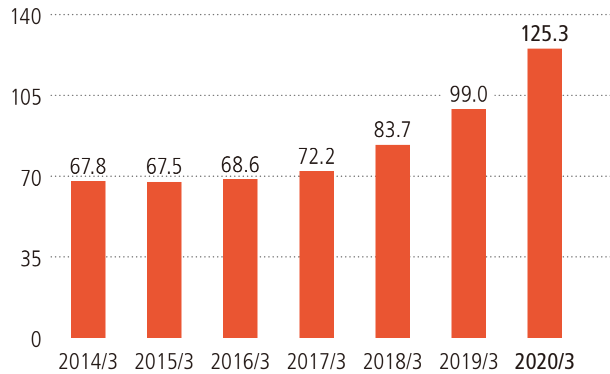
In light of this environment, the AIFUL Group is deploying the credit guarantee business under the AIFUL and LIFECARD brands and utilizing our strength as an independent company to increase the number of our affiliates and our credit guarantee balance.

As mainstay products, we offer a small business loan guarantee and all-in-one (omatome) loan guarantee, which contribute to the handling of financing for local companies by regional financial institutions. We are receiving support from many affiliate financial institutions owing to the strengthening of various support systems related to the introduction, sale, and advertising of new products.

Accordingly, the credit guarantee balance has exhibited double-digital growth for three consecutive fiscal years starting from fiscal 2017. Going forward, we believe this field will contribute to growth in the Group's credit guarantee balance and the diversification of our business portfolio.

Looking ahead, we aim to further increase our balance by using small business loan guarantees and all-in-one loan guarantees as a foothold to obtaining unsecured loan guarantees, which accounted for the largest market in terms of scale.

Credit guarantee business (Billions of yen)



› Overseas business

In the retail finance market in Japan, growth is expected to mature in the long term as the low-birth rate and aging population trends accelerate. As a result, the AIFUL Group entered the overseas market, mainly in the ASEAN region, from 2014 to develop new markets and diversify its business portfolio.

ASEAN countries are in the midst of an economic expansion akin to that of Japan during the postwar period of high economic growth. The Group is aiming to expand its business performance in the region by making the most of the management knowhow it has accumulated over the past 50 years. We call this “reversed time machine management.”

We are entering markets in Thailand and Indonesia based on our fundamental policies of “generating returns on loan interest rates commensurate with loan risks and procurement costs,” “building of a credit and scoring system that uses the Personal Credit Information Center and Big Data,” and “the establishment of a financial environment, including acquiring a finance license and the local procurement of funds.”

We established AIRA & AIFUL Public Company Limited (A&A) jointly with AIRA Capital Public Company Limited, a local entity in Thailand, in December 2014. Since September 2015, A&A has engaged in the consumer finance business under the A Money brand. In fiscal 2017, we converted A&A into a consolidated subsidiary (ownership ratio of 49% as of the end of December 2019). The unsecured loan market in Thailand is expanding. As of December 31, 2019, the operating loan balance stood at 22.4 billion yen, and the company had 51 branches. Going forward, we aim to further expand business operations and improve stability by fortifying our financial foundation through improving debt quality, strengthening debt collection and diversifying fund procurement methods.

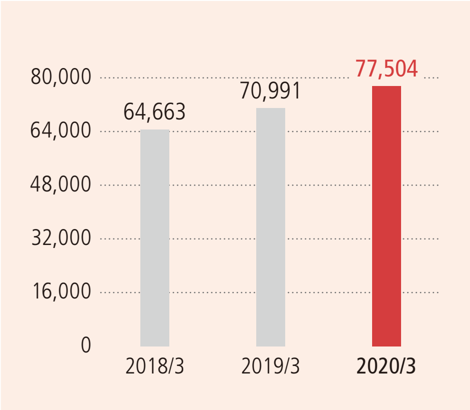
Elsewhere, the AIFUL Group has been participating in the management of REKSA FINANCE, which conducts the used car auto loan business in Indonesia, by acquiring the shares in May 2017. REKSA FINANCE aims to expand its operating assets while striving to have a high-quality loans.

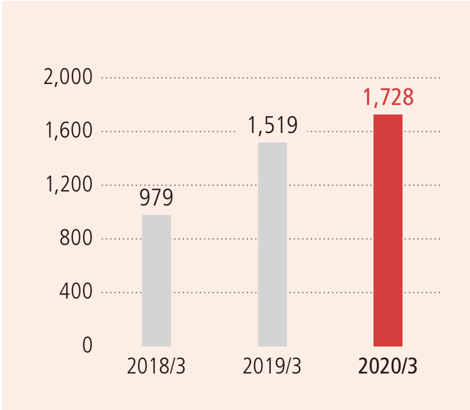
AIFUL Group Business Overview

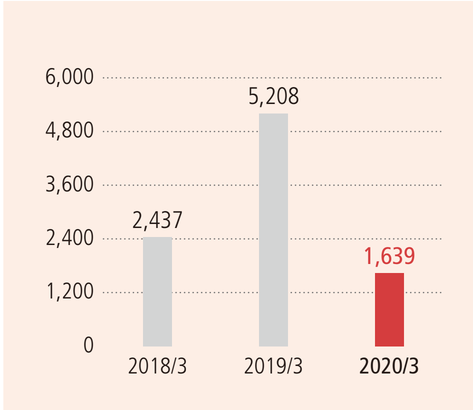
Business Portfolio

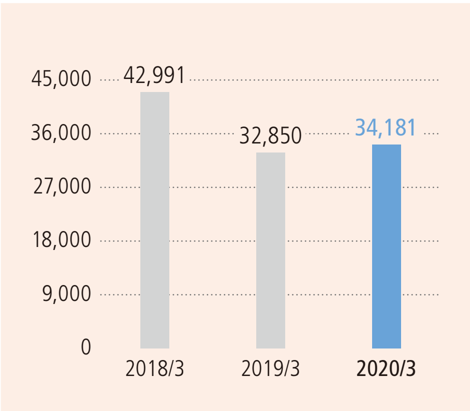
	Share of receivable (as of March 31, 2020)	Business description
AIFUL Corporation アイフル	67%	We mainly provide unsecured loans, business loans and credit guarantees through partnerships with financial institutions. We support a wide range of customers from individual customers to business owners.
LIFECARD Co., Ltd. Life CARD	21%	Under the concept "Be Unique!" we are engaged in businesses such as those for credit cards, prepaid cards and credit guarantees. We are actively working to create new services and added value, with products such as tie-up cards with artists and idol groups, and partner cards with medical institutions.
AIFUL BUSINESS FINANCE Corporation アイフル ビジネスファイナンス	8%	Utilizing the business know-how that the AIFUL Group has realized, we provide products that support individual business owners, small- and medium-sized enterprises, medical institutions, etc., mainly through business loans and secured loans.
AIRA & AIFUL Public Company Limited AIRA & AIFUL	3%	Since September 2015, we have been conducting consumer finance business under the A Money brand as a joint venture with a local subsidiary in Thailand, AIRA Capital. As of the end of December 2019, 51 stores were in operation.

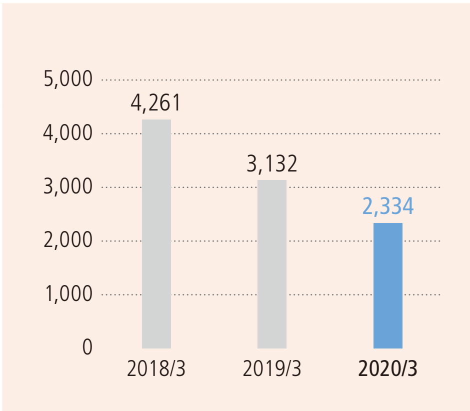
Operating revenue (Millions of yen)	Ordinary profit (Millions of yen)	Profit (Millions of yen)

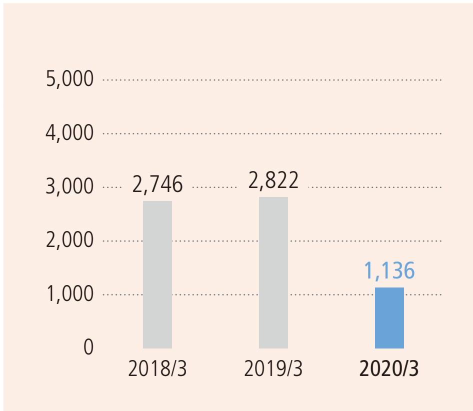


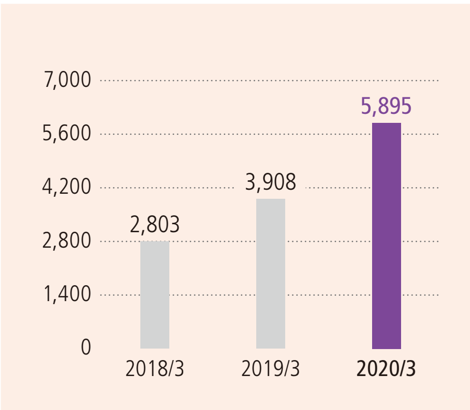


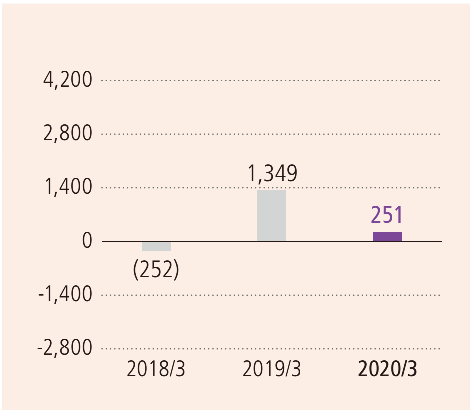


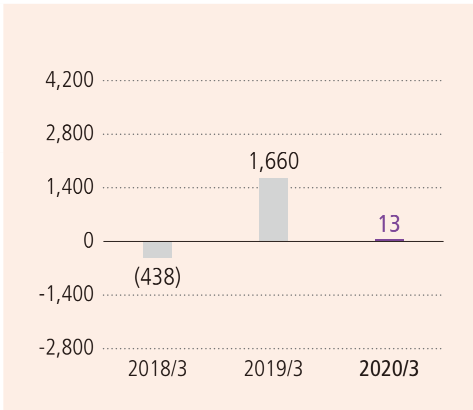


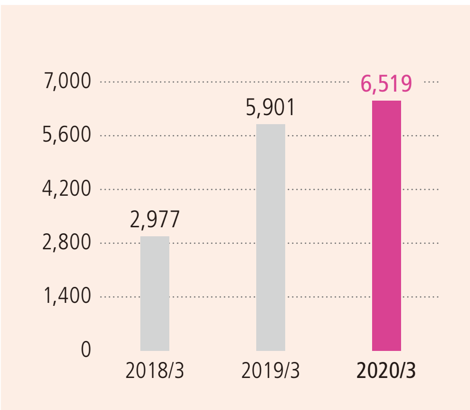


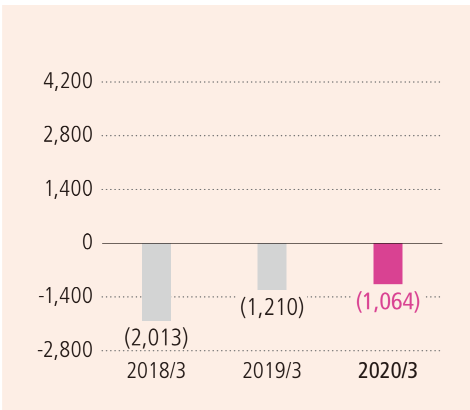


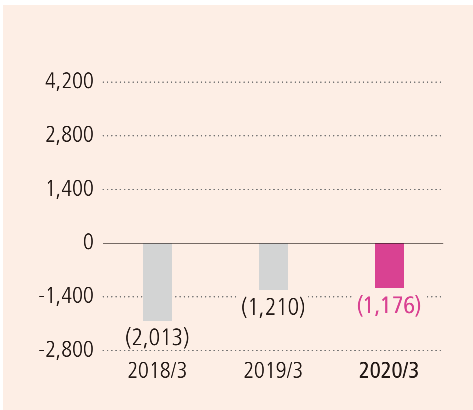












AIFUL Corporation

AIFUL business overview

Two of AIFUL's key businesses are its loan business, which handles unsecured loans and small business loans, and its credit guarantee business.

Unsecured loans, which represent the core of the consumer finance portion of the loan business, account for more than 70% of total operating receivables. As part of our goal to improve our business portfolio by promoting the diversification of products, our small business loan balance is gradually increasing and the credit guarantee business, which is a fee business, has grown to account for around 20% of operating receivables.

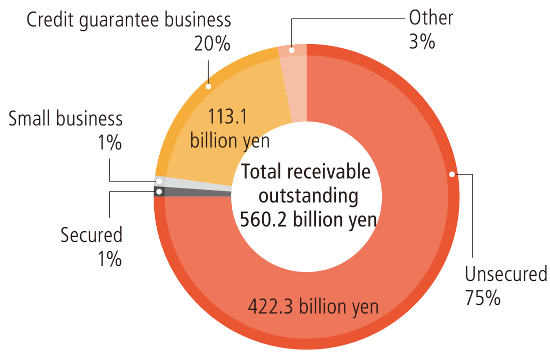
The major trait of AIFUL, in comparison with all major consumer finance companies, is its independent status. Unlike any other bank affiliate, we boast speed, mobility and flexibility owing to the strength of our independent status. We have options for expanding businesses in various fields, including credit cards, small business loans and venture capital. In addition, AIFUL is able to exert a competitive edge, despite participating in a consumer financing-dedicated market with an emerging oligopoly among its major players. This in part is down to cross selling via efficient and effective advertising, by developing a sales organization for the network of manned branches, and by using its knowhow and established credit capabilities related to small business loans, which were accumulated over many years.

In the loan business, as one of our core businesses, we constantly need to make changes and improvements, and are working to gain the support of more customers. This includes initiatives such as setting ceilings in line with customers' needs based on our proprietary credit knowhow, implementing a speedy 30-minute screening system, designing smartphone apps and enhancing convenience by improving operability.

In the course of diversifying our products, we are pouring resources into the credit guarantee business, which we aim to make one of our core businesses. Given that bank affiliates are driving the market, we are leveraging our strength as an independent entity to propel growth in this business. In recent years, we have significantly expanded our guarantee balance by designing flexible guarantee products that match the needs of our affiliates, supporting affiliates by injecting advertising and sales knowhow, and enhancing our relationships.

We plan to diversify our debt portfolio by aggressively expanding the credit guarantee business, including developing new affiliations and releasing new products, while continuing business development, mainly in the unsecured loan business.

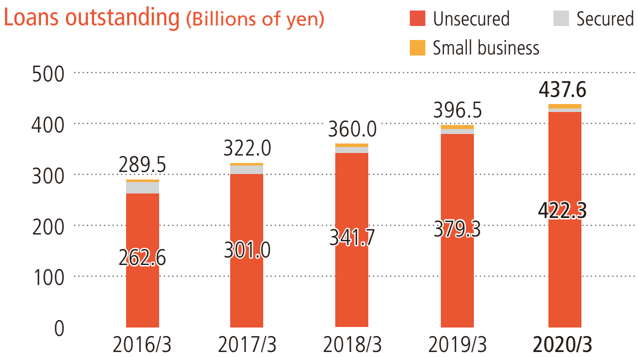
Total receivable outstanding composition



Measures and performance in fiscal 2019

In fiscal 2019, we implemented effective advertising, mainly through TV commercials and online advertising, improved services for customers mainly by expanding functions, including offering chat services, diversified products aiming to increase our guarantee balance, and implemented new guarantee affiliations.

Loans outstanding (Billions of yen)



◆ Unsecured loans

In fiscal 2019, the number of new unsecured loan applications for AIFUL rose 7.1% higher year on year, to 471,000, and the number of new contracts climbed to

206,000. The balance of operating receivables for unsecured loans increased 11.4% year on year, to 422.3 billion yen, owing to brisk trends for additional loans to existing customers. In addition, owing in part to the active deployment of online affiliate ads and the expansion of app functions, there was an increase in the acquisition of new contracts over the Internet. This now accounts for more than 70% of all our application channels.

◆ Small business loans

The number of accounts is gradually rising, reflecting the use of credit knowhow built up thus far to satisfy the funding needs of corporations and private business operators by offering diverse products and clear and speedy credit. Sales of card loan products for business operators are favorable. The balance for small business loans totals 8.3 billion yen (a rise of 5.3% year on year).

◆ Credit guarantee business

We position this as a mainstay alongside the loan business. We are undertaking the strengthening of sales, including developing new affiliations with financial institutions. The product lineup in this business includes unsecured loans for private individuals and unsecured loan guarantees for business operators.

At the end of fiscal 2019, the number of affiliates by product is 99 companies for personal unsecured loan guarantees and 101 companies for business operators unsecured loan guarantees. The balance for credit guarantees totaled 113.1 billion yen (a rise of 15.8% year on year).

Credit and screening capabilities

◆ Scoring system

The scoring system is a system whereby credit can be provided to customers promptly and uniformly by using the large amount of credit information that the AIFUL Group has collected over the years. The system has been developed over a long period and is used for all of the Group’s operations, including credit judgment and the establishment of limit amounts and interest rates in the loan business, as well as the credit guarantee business.

◆ Screening expertise

When extending credit under the customer first policy, decisions must be made by accurately assessing the actual situation, looking into personal circumstances and characteristics and taking into account all kinds of information, to ensure the safe and appropriate use of services. For this reason, the AIFUL Group has set a goal of achieving professional credit operations, and is continually providing training to optimally address customer needs.

Developing a manned branch sales organization

Manned branches thus far have played a role mainly in customer service for the sales of AIFUL products and face-to-face customer relations. In recent years, as channels to attract and provide services to customers, the purpose of manned branches is changing owing to the spread of the Internet. In light of this, we aim to maximize group synergies at our sales branches nationwide by conducting sales of diverse products, including credit cards, individual receiving agent services and small business loans as an organization that sells products handled by each of the Group’s companies.

LIFECARD Co., Ltd.

LIFECARD business overview

In the LIFECARD business, we are implementing various settlement businesses, including the prepaid card business and debt collection services, mainly in the credit card business. In this way, we aim to satisfy customer needs by providing unique products and services that break the mold under our "Be Unique!" concept of LIFECARD. In addition, we are gradually expanding the scale of our guarantee balance by enhancing the credit guarantee business under the LIFECARD brand, as we have done with AIFUL.

In recent years, the credit card market has been expanding due to the development of e-commerce and penetration of cashless transactions, as well as the improvement of the settlement environment owing to an increase in the number of inbound tourists and the promotion of cashless transactions led by the government.

Against this backdrop, LIFECARD provides card settlement services for affiliates and the issuing business that offer various advantages to credit card members. The company has focused resources on its prepaid card business with the issuance of its V-preca card, which can be used in the same way as a credit card at Visa affiliates online.

LIFECARD is issuing two types of credit cards—proprietary cards and affiliate cards. Proprietary cards include tie-ups with idol groups, artists, and famous characters, social contribution-type cards and corporate cards for corporations. Affiliate cards are issued in collaboration with mass retailers, financial institutions, hospitals, and universities. Proprietary cards are issued to efficiently secure new users, mainly via affiliate ads. Affiliate cards are regarded as a tool to expand the customer services of our affiliates and to secure customers by offering perks unique to the affiliate.

V-preca was launched in July 2011 as Japan's first Visa prepaid card. Around 14 million V-preca cards have been issued thus far with sales charges totaling about 80.7 billion yen, indicating its strong support by many customers.

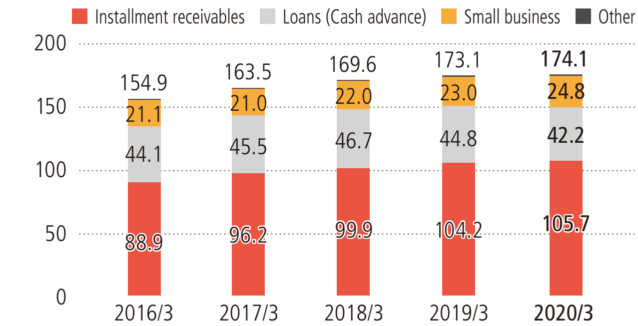
The company is utilizing a number of diverse settlement methods, including Apple Pay and Google Pay. Going forward, we will aim to continue to expand revenue channels.

Measures and performance in fiscal 2019

The business is investing in various campaigns that focus on expanding applications by aggressively implementing affiliate ads and issuing cards in affiliation with entities such as hospitals and universities, expanding the corporate business by issuing corporate cards in affiliation with financial institutions, and improving the operating rate.

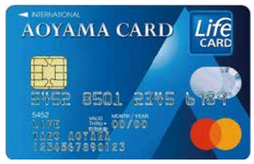
Consequently, total purchases from credit card shopping amounted to 669.5 billion yen (a rise of 1.8% year on year).

Total receivable outstanding (Billions of yen)



◆ Credit Card Business

In the credit card business, regardless of whether it be a private individual or corporation, we are implementing product design in line with the needs of affiliates and customers, providing services, developing new affiliates and fortifying ties with existing affiliates by leveraging knowhow in affiliate cards, which is a strength of LIFECARD.



Proprietary card

We implemented measures focused on improving operations. These included new acquisitions and the promotion of utilization of proprietary card tie-ups with artists and characters through investments in various campaigns, and affiliate ads that reflect user trends.

Accordingly, in fiscal 2019, the number of proprietary cards newly issued was around 109,000 for a total of 1.68 million effective members.

Affiliate card

In addition to the AOYAMA card, a key product, we actively promoted an affiliate card that reduces waiting times at hospital cash registers in tie-ups with hospitals including academic medical centers.

Accordingly, in fiscal 2019, the number of affiliate cards newly issued was around 35,000 for a total of 4.07 million effective members.

Corporate card

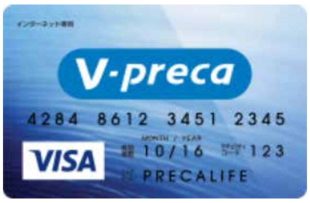
The company strives to promote new alliances and the issuance of corporate cards for corporations leveraging the AIFUL Group's extensive knowledge of credit decisions for business operators. We are also creating a new business model, as part of which we are teaming up with Fintech companies to issue affiliate cards linked with accounting software, as well as issuing cards dedicated to making high-end purchases at specific stores.

Acquiring business

In addition to installing proprietary settlement terminals in brick-and-mortar stores as the trend to go cashless gathers pace, we are developing affiliate stores in various industries. These are mainly focused in the e-commerce sector (in cooperation with settlement agencies) and are aimed at increasing card shopping and the volume of Mastercard and Visa acquiring services.

Accordingly, sales for acquiring services in fiscal 2019 were 575.4 billion yen (up 40.1% year on year), including transactions at Sumishin Life Card, a group company that possesses a Visa license.

◆ Prepaid card business



The V-preca launched in July 2011, nine years ago, as a new revenue channel. It is a Visa prepaid card dedicated for online shopping and can be used in the same way as a credit card at online Visa affiliates. While there is a benefit for being first to market, sales are growing and have risen to around 80.7 billion yen. The prepaid card market is expanding mainly as a result of the spread of online games and online shopping. In addition, with companies from other industries entering the market, this is rapidly becoming a mainstream method of settlement.

◆ Credit guarantee business

As a core business of the AIFUL Group, we are pushing ahead with affiliations with financial institutions under the AIFUL and LIFECARD brands. The product lineup in this business includes unsecured loans for private individuals and unsecured loan products for business operators.

At the end of fiscal 2019, the number of affiliates by product totaled 160 companies for personal unsecured loan guarantees and 39 companies for unsecured loan guarantees for business operators. The balance for credit guarantees totaled 24.8 billion yen (a rise of 7.7% year on year).

◆ Postpay settlement business

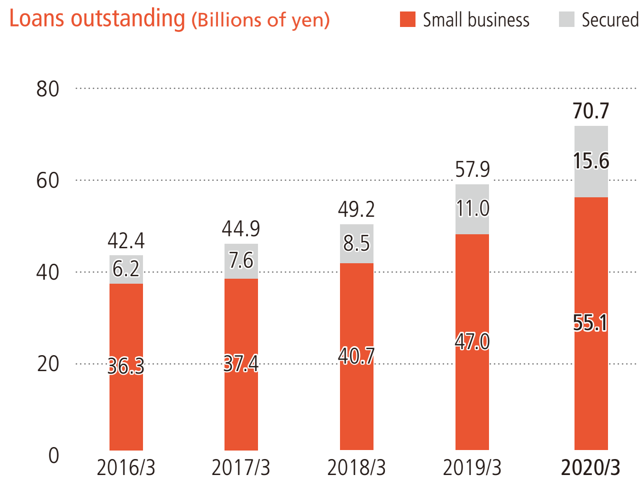
In 2015, we commercialized the Miraibarai service to meet the settlement needs for a diverse range of customers. This settlement service allows users to pay later without using a credit card. In April 2018, we launched the postpay settlement department at LIFECARD and are developing affiliates that will use the network of LIFECARD affiliates. The current number of affiliates has risen to around 150,000 companies. On June 1, 2020, the postpay settlement business was spun off and AG MIRAIBARAI CO., LTD. was established. The postpay settlement market is expected to grow going forward. We aim to expand the scale of this new company while leveraging synergies with LIFECARD.

AIFUL BUSINESS FINANCE CORPORATION (formerly BUSINEXT CORPORATION)

AIFUL BUSINESS FINANCE CORPORATION (formerly BUSINEXT CORPORATION) was established in 2001. In July 2020, the company changed its name. In addition to business operator loans, which utilize AIFUL's considerable knowhow in terms of providing business operators with credit, the company is expanding its loan balance by actively increasing medical fee-type secured loans, which are secured loans targeting hospitals, clinics, and nursing practitioners.

Small business loans are a market that is attracting a high level of interest from regional financial institutions, from a regional revitalization perspective, and there is plenty of demand for funds that is not being fully addressed. There continues to be an absence of major players in this market and as a result AIFUL BUSINESS FINANCE continues to post double-digit growth. The company's small business loan balance at the end of fiscal 2019 totaled 55.1 billion yen (up 17.4% year on year) owing to continued proactive sales tactics that utilized knowhow on providing financing to business operators, which the company accrued over many years.

Demand is also rising for medical fee-type secured loans, the balance for which at the end of fiscal 2019 was 10.2 billion yen (a sharp rise of 50% year on year).



AG Loan Services Corporation (formerly AsTry Loan Services Corporation)

AG Loan Services Corporation was established in 2001. The company offers a wide range of servicer businesses from private individuals to corporate revitalization.

The company changed its name from AsTry Loan Services Corporation to AG Loan Services Corporation in July 2020.

The company purchases receivables from its customers, including financial institutions, by leveraging the unique knowhow that has been accumulated thus far. In fiscal 2019, the balance for the collection from purchased receivables totaled 1.6 billion yen (a decline of 2.5% year on year) and the balance of purchased receivables was 3.5 billion yen (an increase of 17.7% year on year).

AG Capital Co., Ltd.

AG Capital Co., Ltd. is a wholly owned subsidiary of AIFUL and engages in the venture capital business.

In 2005, New Frontier Partners Co., Ltd., previously KOKUSAI Capital Corporation an affiliate of former Kokusai Securities, was taken under the umbrella of the AIFUL Group. The company uncovers and invests in projects that generate synergies with the AIFUL Group, including the credit card business of LIFECARD. In fiscal 2019, the company invested 400 million yen in 17 projects. The company's portfolio, which at present contains 39 deals worth around 1.11 billion yen, focuses on mainly on e-commerce and Fintech.

AIFUL GUARANTEE CO., LTD. (formerly LIFE GUARANTEE CO., LTD.)

The company was established in 2013 and provides the individual receiving agent service and the credit guarantee business for customers that conduct installment credit sales, including beauty-treatment clinics. As individual receiving agent services were previously a major business area for LIFE Co., Ltd., a predecessor of LIFECARD Co., Ltd., knowhow on the management of affiliates as well as screening and credit management was accumulated.

The balance of receivables at the end of fiscal 2019, the seventh year since the company was established, has grown to 5.5 billion yen.

In July 2020, the company changed its corporate name from LIFE GUARANTEE CO., LTD. to AIFUL GUARANTEE CO., LTD. to strengthen the unity of the AIFUL Group as a single entity.

Moving forward, in addition to proprietary sales activities, the company plans to develop affiliates that utilize AIFUL's sales network of manned branches by developing a sales organization.

アイフルパートナーズ AIFUL Partners Corporation (formerly AsTry Partners Corporation)

The company was established in 2018 to utilize business revitalization knowhow accumulated by AG Loan Services Corporation (formerly AsTry Loan Services Corporation), which engages in the servicer business. The company changed its name from AsTry Partners Corporation to AIFUL Partners Corporation in July 2020.

Business operations include hotel revitalization, leaseback of real estates and revitalization consulting. Since the start of operations, the company has embarked on three hotel revitalization projects. The hotels are owned by AIFUL Partners Corporation.

SUMISHIN Life CARD Sumishin Life Card Company, Limited

In October 2004, Sumishin Life Card, a credit card company, was established as a joint venture with Sumitomo Mitsui Trust Bank, Limited (formerly Sumitomo Trust & Banking Co., Ltd.). The company operates the Visa card issuance service and acquiring business by integrating knowhow from the bank brand and LIFECARD credit card business.

As a result of having supported the LIFECARD business as a Visa principal member, Sumishin Life Card expanded its Visa-brand sales and enhanced its quantitative importance. In light of this, we converted Sumishin Life Card into a consolidated subsidiary in fiscal 2019.

AG MIRAIBARAI CO., LTD.

In April 2018, the postpay settlement business was launched in LIFECARD and was spun off into a company in June 2020. In the e-commerce market in recent years, settlement methods without a credit card are taking hold. Around 10 companies, mainly from different industries, such as the mail order, Internet or logistic industries, which leverage their own businesses, are entering the postpay settlement business. The postpay settlement business has an affinity with the acquiring business of LIFECARD, which conducts transactions with many e-commerce affiliates. We believe this covers an even wider range of customer needs.

Anshin Guarantor Service Co., Ltd.

Anshin Guarantor Service Co., Ltd. was established in December 2002. The company operates the rent guarantee business. In December 2003, a business affiliation was forged with LIFE Co., Ltd. (present-day LIFECARD Co., Ltd.) and LIFE embarked on issuing a rent settlement-dedicated card.

In November 2015, the company listed on the Mothers market of the Tokyo Stock Exchange, further improving its corporate value and expanding its scale.

AIRA & AIFUL Public Company Limited

AIFUL established AIRA & AIFUL Public Company Limited (A&A) jointly with AIRA Capital, a local entity in Thailand, in December 2014. Since September 2015, A&A has engaged in the consumer finance business. As of December 31, 2019, the operating loan balance stood at 22.4 billion yen, and the company had 51 branches. This reflects aggressive expansion since the commencement of business operations, including the deployment of branches in shopping centers and advertising through TV commercials. Going forward, we continue to aim to further expand business operations and improve stability by utilizing the knowhow cultivated in Japan in the consumer finance business.

Corporate Governance (As of June 30, 2020)

Basic views and basic policy on corporate governance

The AIFUL Group understands that a key objective of corporate governance is to achieve corporate management with transparency, impartiality and efficiency by conducting corporate activities premised on compliance in accordance with its management philosophy of "Earn the trust of society through corporate activity based in integrity" to contribute to the development of the economy and society and thereby to gain the trust of society.

In line with the basic views on corporate governance, AIFUL undertakes enhancements to upgrade its corporate governance in accordance with the Basic Policy on Corporate Governance set out below in a bid to achieve continued growth and a medium- and long-term increase in corporate value through transparent, impartial, prompt and bold decision making.

(1) We respect the rights of shareholders and ensure their equality.
(2) We work on appropriate collaboration with all stakeholders including shareholders.
(3) We appropriately disclose our financial, non-financial and other corporate information to ensure transparency.
(4) The Board of Directors recognizes its fiduciary responsibility to shareholders and fulfills its role and duties including creating and maintaining its function of supervising business execution effective.
(5) We hold constructive dialogue with shareholders for the sake of achieving continued growth and a medium- and long-term increase in corporate value.

Corporate governance structure

In order to strengthen the supervisory function of the Board of Directors and to enhance corporate governance, we have made the change from a company with a Board of Auditors to a company with an Audit and Supervisory Committee. This change went into effect on June 23, 2015.

Audit and Supervisory Committee and Directors Who Are Members of the Audit and Supervisory Committee

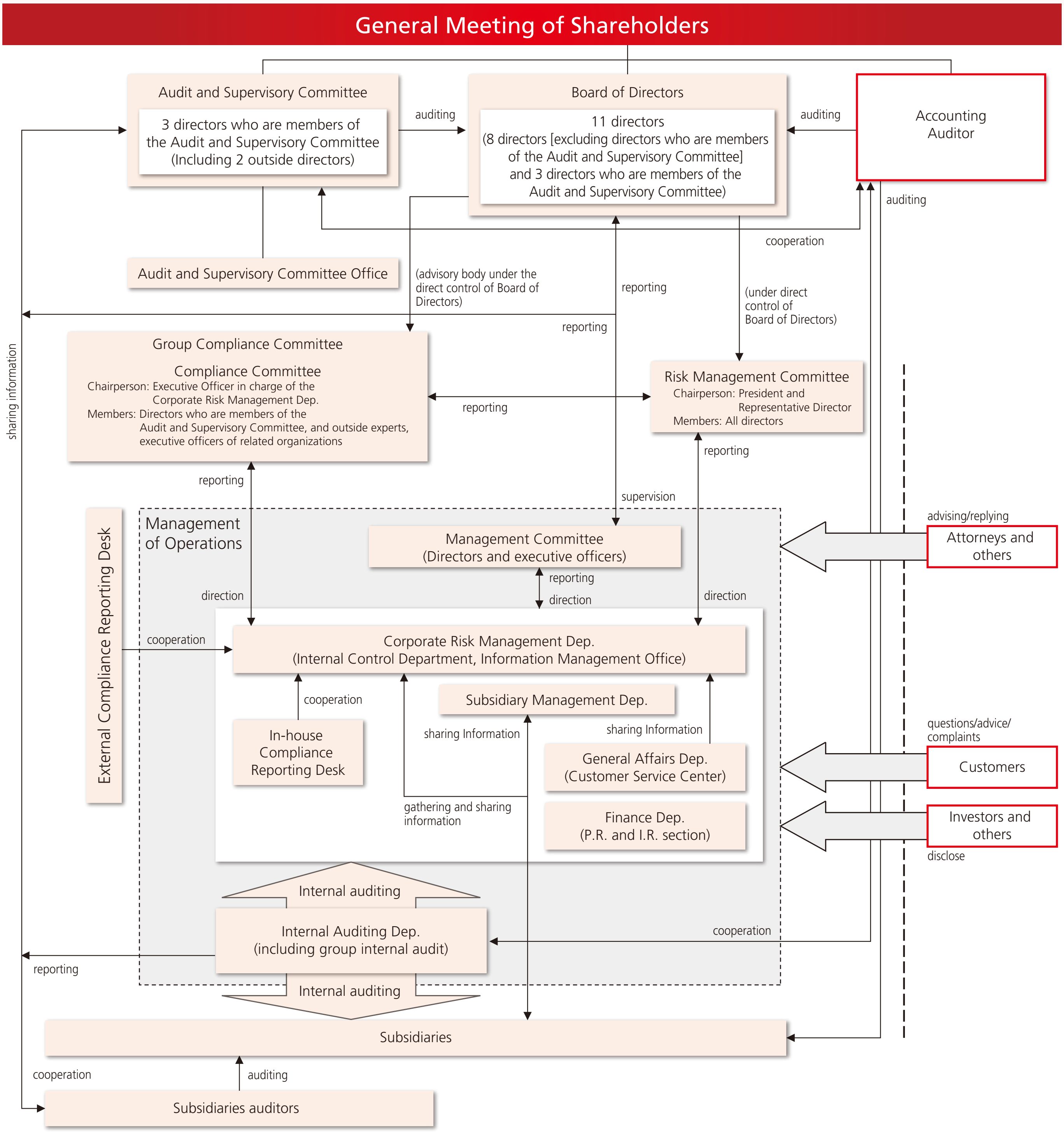
The Audit and Supervisory Committee consists of three directors (including two directors who are outside members). It determines items such as the audit policy and plan, and discusses and decides on important audit matters based on the reports it receives. In addition to performing these duties, it also audits legitimacy and appropriateness through the use of the internal control system. The meeting is generally held every month, with extraordinary meetings held when necessary.

The directors who are members of the Audit and Supervisory Committee cooperate with the Internal Auditing Department and the accounting auditor to enhance management's supervisory functions. They also share information with the auditors of affiliated companies in an effort to strengthen the auditing structure for the operations of the entire Group.

To improve these audit functions, the Group has established the Audit and Supervisory Committee Office as the exclusive body for supporting the duties of directors who are members of the Audit and Supervisory Committee. It also takes the necessary steps to secure independence, such as by requiring that the Audit and Supervisory Committee Office does not follow any directions or orders from directors (other than directors who are members of the Audit and Supervisory Committee) when carrying out their duties.

Board of Directors and Directors

The Board of Directors consists of 11 directors in total (as of the date of submission of the Annual Securities Report), with eight directors (excluding directors who are members of the Audit and Supervisory Committee) and three directors who are members of the Audit and Supervisory Committee. It deliberates and decides on matters that cannot be delegated to directors pursuant to the provisions of laws, regulations, and the Articles of Incorporation, as well as important matters such as management strategies, and monitors these matters regularly. The Board of Directors delegates authority over the execution of operations in line with the policies on which the Board of Directors has made resolutions, and the disposal of property worth less than a specified amount to executive officers and others within an appropriate range in accordance with regulations for administrative authority and other rules. In addition to delegating this authority, it supervises the execution of operations. It generally holds semimonthly meetings and extraordinary meetings when necessary. The Company's Articles of Incorporation also stipulate that there be no more than 15 directors (excluding directors who are members of the Audit and Supervisory


General Meeting of Shareholders
Audit and Supervisory Committee
3 directors who are members of the Audit and Supervisory Committee (Including 2 outside directors)
auditing
Board of Directors
11 directors
(8 directors [excluding directors who are members of the Audit and Supervisory Committee] and 3 directors who are members of the Audit and Supervisory Committee)
auditing
Accounting Auditor
auditing
cooperation
Audit and Supervisory Committee Office
(advisory body under the direct control of Board of Directors)
reporting
(under direct control of Board of Directors)
reporting
sharing information
Group Compliance Committee
Compliance Committee
Chairperson: Executive Officer in charge of the Corporate Risk Management Dep.
Members: Directors who are members of the Audit and Supervisory Committee, and outside experts, executive officers of related organizations
reporting
Risk Management Committee
Chairperson: President and Representative Director
Members: All directors
reporting
reporting
supervision
advising/replying
Attorneys and others
External Compliance Reporting Desk
Management of Operations
Management Committee
(Directors and executive officers)
reporting
direction
direction
direction
cooperation
Corporate Risk Management Dep.
(Internal Control Department, Information Management Office)
cooperation
Subsidiary Management Dep.
In-house Compliance Reporting Desk
sharing Information
sharing Information
questions/advice/complaints
Customers
General Affairs Dep.
(Customer Service Center)
gathering and sharing information
Finance Dep.
(P.R. and I.R. section)
Investors and others
disclose
Internal auditing
Internal Auditing Dep.
(including group internal audit)
cooperation
reporting
Internal auditing
Subsidiaries
cooperation
auditing
Subsidiaries auditors

Committee) and no more than five directors who are members of the Audit and Supervisory Committee.

Outside Directors

Two of the three directors who are members of the Audit and Supervisory Committee are outside directors (as of the date of the Annual Securities Report was submitted). We have developed a structure in which they can attend management meetings and other important meetings and committees to express their views.

Executive Officers

The Company introduced an executive officer system in June 2007 to speed up the decision-making process and the performance of duties, and enhance the separation of supervisory and executive functions. The Board of Directors appoints executive officers and delegates its business by establishing the division of duties and authority.

Management Committee

The Management Committee is comprised of all directors and executive officers. It strives to promote information sharing and mutual verification of matters to be submitted to the Board of Directors, and issues and strategies, etc. based on the policies resolved at Board of Directors meetings, so that disagreements do not arise regarding decisions or the performance of duties. It holds meetings on a weekly basis, in general.

Compliance Committee

The Compliance Committee is placed as an advisory body under the direct control of the Board of Directors. The head of this committee is the executive officer in charge of the Corporate Risk Management Department and approved by the Board of Directors, and it is composed of outside experts, directors who are members of the Audit and Supervisory Committee and executive officers of related organizations. Its objectives are to create a corporate culture in which compliance is emphasized, to establish corporate ethics, and to promote compliance programs. It makes deliberations and recommendations regarding compliance-related important matters and delivers reports to the Board of Directors as required. In addition to generally meeting every other month, it holds extraordinary meetings as necessary.

Risk Management Committee

AIFUL has the Risk Management Committee under the direct control of the Board of Directors. Headed by the president and representative director, it is composed of all the directors. For the purposes of preventing risks and mitigating losses in the event of a crisis by constructing a reasonable risk management structure, it regularly receives risk status reports to enable it to be constantly aware of risks and continuously review the risk management system to submit reports to directors. In addition to generally holding meetings on a quarterly basis, it holds extraordinary meetings as necessary.

› Reasons for the current structure

As a company with an Audit and Supervisory Committee, we appoint two outside directors for our three directors who are members of the Audit and Supervisory Committee. We have ensured independent audits by developing a system where all directors who are members of the Audit and Supervisory Committee attend Board of Directors meetings and other important meetings and committee meetings, including Management Committee meetings, to express their opinions. We have also ensured audits by establishing the Audit and Supervisory Committee Office as the exclusive body for supporting the duties of the Audit and Supervisory Committee.

Further, we separate management's supervisory functions and business execution functions by implementing an executive officer system and strengthening supervisory functions by establishing a Compliance Committee including outside experts and a Risk Management Committee, etc.

We have adopted our current system to achieve corporate management that is transparent, fair, and efficient.

Details of executive compensation

Compensations for directors and directors who are members of the Audit and Supervisory Committee in fiscal 2019 are as shown in the table on the right.

Compensation paid to directors excluding members of the Audit and Supervisory Committee (seven persons):	145 million yen
Compensation paid to directors who are members of the Audit and Supervisory Committee (two persons):	10 million yen
Compensation paid to outside directors (two persons):	16 million yen
Total	171 million yen

Note: The annual compensation for directors is not more than 500 million yen. The annual compensation for directors who are members of the Audit and Supervisory Committee is not more than 80 million yen.

Compliance

Promoting the compliance system

Prioritizing a customer first policy and thorough compliance, AIFUL promotes various initiatives to enhance its compliance system so that it can satisfy the expectations of its stakeholders and earn the support of society.

Organizational system

As an internal system for promoting compliance, AIFUL has established a corporate philosophy, conduct guidelines, and rules related to the thorough enforcement of compliance. It also issues the AIFUL Group Handbook as well as developing and managing compliance programs including a hotline and the Compliance Committee, which includes external members. It also considers various measures to improve the internal control system and carries out preventive measures.

To reinforce these activities, the Group has installed three lines of defense. The first line of defense is on-site monitoring through self-inspection and the establishment of a Compliance Office in business divisions. The second line of defense is internal control such as awareness-raising, education, and follow-ups by the Corporate Risk Management Department, the division in charge of controlling compliance. The third line of defense is corrective measures determined based on appropriateness and effectiveness as evaluated in periodic audits of the entire Group, including group companies and overseas subsidiaries, by the independent Group Internal Auditing Department.

Approaches to antisocial forces

AIFUL strives to sever ties with antisocial forces, to partner with specialist organizations, and to respond to unreasonable demands in a resolute manner, based on its Basic Policy on Antisocial Forces. To prevent money laundering and the financing of terrorism, AIFUL also carries out KYC (know your customer) in response to the requests of international organizations such as the FATF (Financial Action Task Force), law enforcement, and supervisory authorities.

CSR Activities of the AIFUL Group

“Earn the trust of society through corporate activity based in integrity.” This is the corporate philosophy of the AIFUL Group. Our corporate philosophy and the AIFUL Compliance Code of Conduct together constitute our conduct guidelines, which state the following as the “Basic Approach”: “We will make it our mission to meet the expectations of customers who use our services, the society that supports us, our co-workers, our clients, and the shareholders who invest in us, and will contribute to society through all of our business activities. To fulfill these missions, we will conduct our business activities as a good member of society.”

We believe that in earning the trust of all stakeholders by engaging in sustainable practices and contributing to the development of a sustainable society—that is, by making continuous efforts for “initiatives for environmental issues,” “social contribution/coexistence with the community,” “workplace and work environment,” “empowerment of women in the workplace,” “our customers,” and our “management system”—to achieve our mission and improve our corporate value, we are embodying both our corporate philosophy and our CSR.

Sponsoring Hackathons for university students—aihack

Since March 2019, we have begun sponsoring hackathons to enhance the relationship with society and local communities, which is one of the activities that embody our management philosophy, “Earn the trust of society through corporate activity based in integrity.”

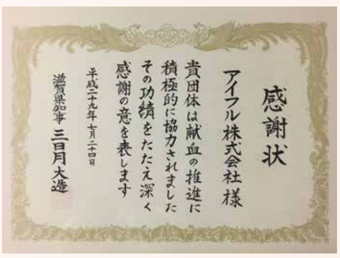
The “a i” of “a i h a c k” has two meanings: “show interest = love” for students who will lead the future and human resources in various specialized fields, and “AI” that reminds us of technology.

We sponsored a hackathon program for Kyoto University students in March 2019 and December 2019.

“Hackathon” is a term coined from “hack” and “marathon.” In one event, teams of computer programmers compete with each other by intensively devising programs and services over a given period of time on a given theme.

Blood donation drives

AIFUL regularly conducts blood donation drives for employees in response to requests from the Japanese Red Cross Society to cooperate with efforts to secure a stable blood supply. In fiscal 2019, four blood donation drives in total were conducted at AIFUL Headquarters and the Contact Center. In 2017, we received a letter of appreciation from the governor of Shiga Prefecture in recognition of our continued activities.


感謝状
アイフル株式会社 様
貴団体は献血の推進に積極的に協力されました
その功績をたたえ深く感謝の意を表します
平成二十九年七月二十四日
滋賀県知事 三日月大造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その功績をたたえ深く感謝の意を表します
平成二十九年七月二十四日
滋賀県知事 三日月大造

Cool Biz and Warm Biz initiatives

Since 2006, AIFUL has been working on "Cool Biz and Warm Biz" activities to prevent global warming. We have made it a companywide activity, where we share the same regulations on dress codes and temperature-setting when using air conditioning.

Eco Cap Program

Through the "Eco Cap Program," we collect PET bottle caps for recycling. The money earned through sales of the caps is donated to send polio vaccines to developing countries. After starting activities in May 2007, in fiscal 2019, we donated approximately 58 kilograms of caps to Iki Corporation, which supports the activities of the Japan Committee, Vaccines for the World's Children (JCV), an NPO.

Introduction of RECOLO

For the purpose of recycling paper and ensuring the security of confidential or sensitive information, AIFUL has introduced RECOLO, the recycling-type document disposal box made by Wanbishi Archives Co., Ltd., at its head office and large offices since 2001.

Adoption of PETG cards

For AIFUL Cards that we issue to customers, we use PETG resin, an environmentally friendly material that does not emit dioxins when incinerated.

Donation Initiatives

AIFUL makes donations to the Japanese Red Cross Society to support victims of disasters and assist in the restoration of affected areas such as those hit by heavy rains in July 2018 and 2020, the 2016 Kumamoto Earthquakes and the Great East Japan Earthquake. We are also making donations to the Japan Red Cross Society to support medical personnel and patients affected by the COVID-19 outbreak.

Management

Directors

Mitsuhide Fukuda
President and Representative Director
Chief Executive Officer
(Chairman and Representative Director of LIFECARD Co., Ltd.)

Yoshitaka Fukuda
Chairman and Representative Director
(Director and Advisor of LIFECARD Co., Ltd.)

Masayuki Sato
Representative Director, Senior Managing Executive Officer

Akira Kamiyo
Director, Senior Managing Executive Officer

Kazumitsu Oishi
Director, Senior Managing Executive Officer

Tsuguo Nakagawa
Director, Senior Managing Executive Officer

Hiroshi Uemura
Director, Executive Officer

Keiji Masui
Director, Executive Officer
(Representative Director and President of Sumishin Life Card Company, Limited)
(Representative Director and President of AIFUL GUARANTEE CO., LTD.)

Directors who are Members of the Audit and Supervisory Committee

Satoru Toda
Outside Director, Audit and Supervisory Committee Member

Yoshiaki Tanaka
Director, Audit and Supervisory Committee Member

Haruichi Suzuki
Outside Director, Audit and Supervisory Committee Member

Executive Officers

Mitsuhide Fukuda
President and Representative Director
Chief Executive Officer

Chairperson of Risk Management Committee, In charge of Administrative Information Office and Internal Auditing Department
(Chairman and Representative Director of LIFECARD Co., Ltd.)

Masayuki Sato
Representative Director
Senior Managing Executive Officer

Senior General Manager of Management Planning Division

Akira Kamiyo
Director
Senior Managing Executive Officer

Chairperson of Compliance Committee, Senior General Manager of Loan Business Division, Credit Management Division and Guarantee Business Division, In charge of Credit Governance Department and Corporate Risk Management Department

Kazumitsu Oishi
Director, Senior Managing Executive Officer

In charge of Subsidiary Management Department, Corporate Sales Promotion Department, Eastern Japan Business Department and Western Japan Business Department

Tsuguo Nakagawa
Director, Senior Managing Executive Officer

In charge of Accounting Department, General Affairs Department and Personnel Department

Hiroshi Uemura
Director, Executive Officer

Senior General Manager of Finance Division

Keiji Masui
Director, Executive Officer

(Director and Senior Managing Executive Officer of LIFECARD Co., Ltd.)
(Representative Director and President of Sumishin Life Card Company, Limited)
(Representative Director and President of AIFUL GUARANTEE CO., LTD.)

Katsumi Amano
Senior Managing Executive Officer

In charge of Group Digital Promotion Department, Senior Advisor attached to Group Systems Division

Shinichiro Okuyama
Managing Executive Officer

Responsible for Credit Governance Department, Senior Advisor attached to Group Systems Division

Kazuhiko Tsuda
Managing Executive Officer

Responsible for Accounting Department and Administrative Information Office, General Manager of Accounting Department

Katsuhiko Nagasue
Executive Officer

Senior General Manager of Group Systems Division

Atsushi Suda
Executive Officer

Assistant Senior General Manager of Guarantee Business Division, Responsible for Corporate Risk Management Department

Hideaki Minamizawa
Executive Officer

Responsible for Personnel Department and General Affairs Department
(President of AIFUL BUSINESS FINANCE CORPORATION)

Akitaka Domoto
Executive Officer

Assistant Senior General Manager of Loan Business Division, Responsible for Credit Management Promotion Department and Credit Management Compliance Promotion Office

Toshiaki Ando
Executive Officer

Assistant Senior General Manager of Finance Division, General Manager of Finance Department and Group Finance Department

Ikuo Yamauchi
Executive Officer

Responsible for Overseas Business Department, General Manager of Overseas Business Department

Takayuki Nakata
Executive Officer

Assistant Senior General Manager of Group Systems Division, General Manager of Systems 1

Hiroshi Azuma
Executive Officer

Responsible for Counseling Center, Assistance Center
(President of AG Loan Services Corporation)

Financial Report

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Six-Year Summary

	2015/3	2016/3
For the Year (Millions of yen):		
Operating revenue	86,352	87,708
Operating expenses	125,914	81,032
Financial expenses	8,606	7,780
Provision for doubtful accounts	2,234	16,126
Operating profit (loss)	(39,562)	6,676
Ordinary profit (loss)	(36,498)	6,860
Profit (loss) before income taxes	(35,853)	6,860
Profit (loss)	(36,499)	7,044
Profit (loss) attributable to owners of parent	(36,499)	7,044
At Year-End (Millions of yen):		
Loans outstanding	350,017	376,224
Non-performing loans	70,418	66,158
Loans in legal bankruptcy	32,908	31,105
Nonaccrual loans	23,819	22,263
Accruing loans contractually past due three months or more as to principal or interest payments	2,829	3,349
Restructured loans	10,861	9,439
Total assets	560,323	567,514
Allowance for doubtful accounts	79,708	72,643
Total liabilities	462,848	463,263
Interest-bearing debt	226,955	249,059
Net assets	97,475	104,250
Per Share Data (Yen):		
Basic profit (loss) (EPS)	(75.74)	14.59
Net assets (BPS)	200.45	214.16
Ratios (%):		
Equity ratio	17.3	18.2
ROE	(31.8)	7.0
ROA	(6.4)	1.2
Other Data:		
Number of shares issued at year-end	483,506,536	483,794,536
Number of employees at year-end	1,350	1,433

2017/3	2018/3	2019/3	2020/3
91,450	115,389	115,328	127,038
84,440	112,897	112,297	125,358
8,030	7,560	7,949	7,522
20,744	20,497	30,628	35,277
7,009	2,492	3,031	1,679
7,399	2,823	4,110	1,716
7,399	3,527	3,420	1,569
7,276	2,945	8,183	300
7,276	3,958	9,346	1,390
412,649	472,018	521,823	573,080
66,401	71,515	79,294	86,422
28,712	27,147	26,167	22,127
25,530	28,314	33,118	39,156
4,407	5,792	7,043	8,035
7,750	10,261	12,965	17,102
616,651	682,645	760,587	860,507
70,172	66,959	70,469	72,294
505,002	563,238	632,570	731,576
300,222	365,836	418,708	475,893
111,649	119,407	128,016	128,931
15.05	8.18	19.32	2.88
228.94	236.13	256.45	260.53
18.0	16.7	16.3	14.3
6.8	3.5	7.8	1.1
1.2	0.4	0.6	0.2
484,619,136	484,620,136	484,620,136	484,620,136
1,473	2,503	2,273	2,113

Business Data

AIFUL GROUP

TOTAL RECEIVABLE OUTSTANDING

(Millions of yen)

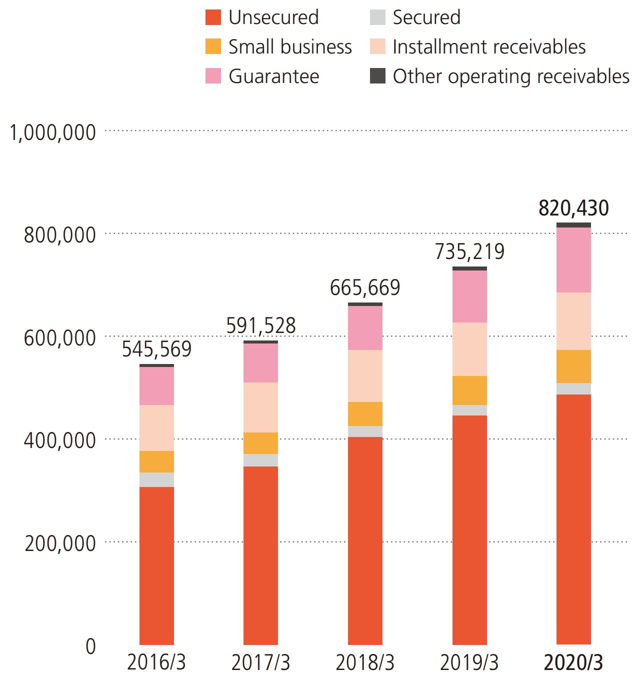
	2016/3	2017/3	2018/3	2019/3	2020/3
Total receivable outstanding	545,569	591,528	665,669	735,219	**820,430**
Loans outstanding	376,224	412,649	472,018	521,823	**573,080**
Unsecured	306,601	346,411	404,056	445,866	**486,119**
Secured	28,139	24,044	20,923	20,285	**22,533**
Small business	41,483	42,192	47,037	55,670	**64,427**
Installment receivables	90,166	97,134	100,460	104,645	**111,473**
Guarantee	73,411	75,747	86,465	101,007	**127,018**
Other operating receivables	5,767	5,997	6,725	7,744	**8,858**

OPERATING REVENUE/PROFIT

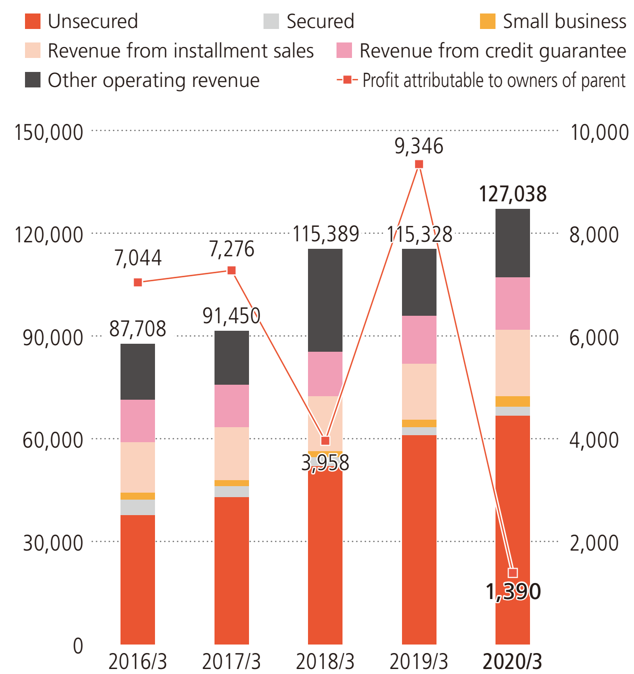
(Millions of yen)

	2016/3	2017/3	2018/3	2019/3	2020/3
Operating revenue	87,708	91,450	115,389	115,328	**127,038**
Interest on operating loans	44,255	47,869	56,305	65,456	**72,444**
Unsecured	37,705	42,892	51,949	61,058	**66,707**
Secured	4,483	3,206	2,597	2,285	**2,557**
Small business	2,066	1,769	1,758	2,112	**3,179**
Revenue from installment sales	14,608	15,436	16,038	16,472	**19,391**
Revenue from credit guarantee	12,491	12,494	12,992	13,953	**15,203**
Other operating revenue	16,352	15,650	30,052	19,446	**19,998**
Operating expenses	81,032	84,440	112,897	112,297	**125,358**
Profit attributable to owners of parent	7,044	7,276	3,958	9,346	**1,390**

TOTAL RECEIVABLE OUTSTANDING (Millions of yen)



OPERATING REVENUE (Millions of yen) (Left axis)/PROFIT (Millions of yen) (Right axis)



TOTAL ASSETS/ROA

(Millions of yen)

	2016/3	2017/3	2018/3	2019/3	2020/3
Total assets	567,514	616,651	682,645	760,587	**860,507**
ROA (%)	1.2	1.2	0.4	0.6	**0.2**

TOTAL EQUITY/ROE

(Millions of yen)

	2016/3	2017/3	2018/3	2019/3	2020/3
Total equity	103,414	110,738	114,214	124,045	**126,017**
ROE (%)	7.0	6.8	3.5	7.8	**1.1**

AVERAGE FUNDING COST

(%)

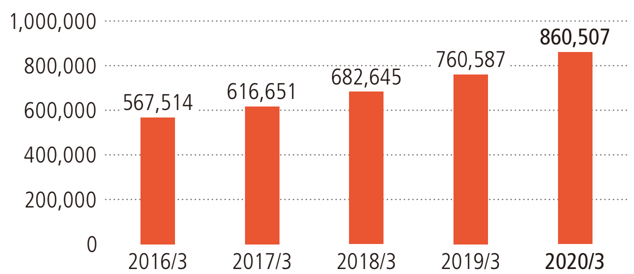
	2016/3	2017/3	2018/3	2019/3	2020/3
Average funding cost	2.77	2.37	1.87	1.64	**1.45**
Indirect	2.19	2.08	2.17	1.90	**1.63**
Direct	3.54	2.69	1.50	1.39	**1.23**
Long-term prime rate (reference)	0.95	0.95	1.00	1.00	**0.95**
Share of indirect	57.0	52.1	55.3	49.6	**55.0**
Share of direct	43.0	47.9	44.7	50.4	**45.0**

NUMBER OF CUSTOMER ACCOUNTS

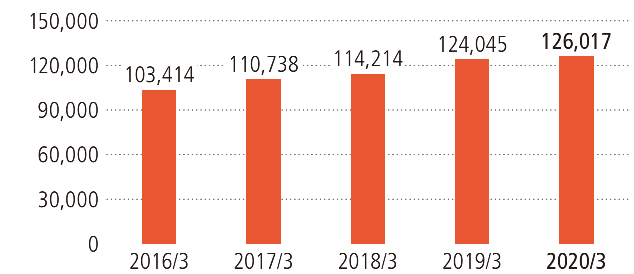
(Thousands)

	2016/3	2017/3	2018/3	2019/3	2020/3
Number of customer accounts	861	916	1,299	1,437	**1,486**
Unsecured	821	879	1,259	1,394	**1,441**
Secured	11	9	7	6	**5**
Small business	28	28	32	36	**40**
Credit card holders	6,291	5,883	5,771	5,777	**5,758**

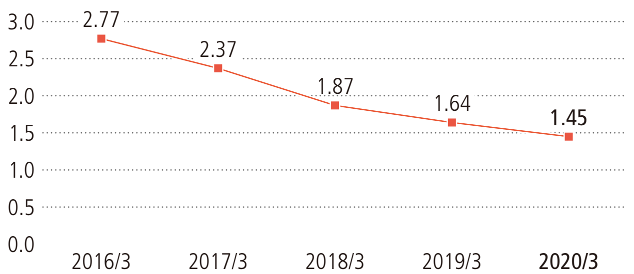
TOTAL ASSETS (Millions of yen)



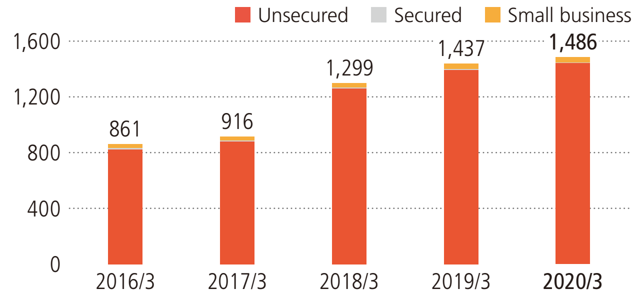
TOTAL EQUITY (Millions of yen)



AVERAGE FUNDING COST (%)



NUMBER OF CUSTOMER ACCOUNTS (Thousands)



AIFUL CORPORATION

TOTAL RECEIVABLE OUTSTANDING

(Millions of yen)

	2016/3	2017/3	2018/3	2019/3	2020/3
Total receivable outstanding	374,362	408,259	454,316	503,382	560,267
Loans outstanding	289,565	322,087	360,031	396,540	437,679
Unsecured	262,655	301,063	341,777	379,317	422,382
Secured	21,839	16,447	12,403	9,306	6,958
Small business	5,070	4,575	5,850	7,915	8,338
Guarantee	78,466	80,039	87,970	99,694	114,629
Credit guarantee	73,628	76,495	85,239	97,658	113,130
Other	4,838	3,543	2,730	2,036	1,499
Installment receivables	1,194	857	503	402	325
Other	5,136	5,275	5,811	6,745	7,633

OPERATING REVENUE/PROFIT

(Millions of yen)

	2016/3	2017/3	2018/3	2019/3	2020/3
Operating revenue	55,120	58,339	64,663	70,991	77,504
Interest on operating loans	36,856	40,292	45,881	51,960	57,682
Unsecured	32,086	37,318	43,510	50,026	55,695
Secured	3,918	2,547	1,862	1,325	1,296
Small business	852	426	507	608	690
Revenue from credit guarantee	11,221	11,106	10,976	11,246	11,610
Revenue from installment sales	17	20	19	13	8
Other operating revenue	7,024	6,919	7,785	7,770	8,202
Profit	5,281	4,823	2,437	5,208	1,639

TOTAL ASSETS/ROA

(Millions of yen)

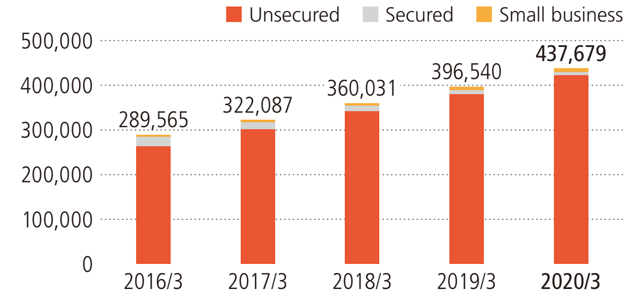
	2016/3	2017/3	2018/3	2019/3	2020/3
Total assets	407,139	439,840	500,262	556,450	635,683
ROA (%)	1.2	1.0	0.2	0.3	0.3

TOTAL EQUITY/ROE

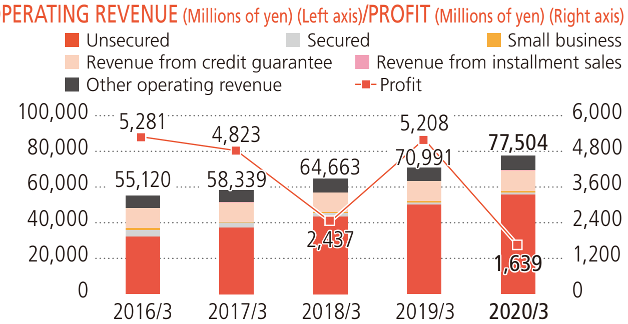
(Millions of yen)

	2016/3	2017/3	2018/3	2019/3	2020/3
Total equity	78,047	83,009	85,313	90,970	92,609
ROE (%)	7.0	6.0	2.9	5.9	1.8

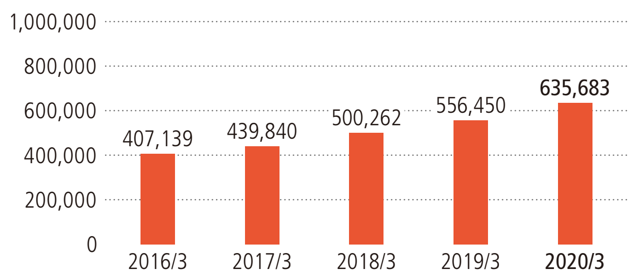
LOANS OUTSTANDING (Millions of yen)



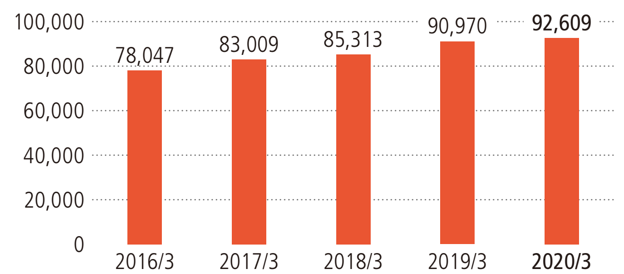
OPERATING REVENUE (Millions of yen) (Left axis)/PROFIT (Millions of yen) (Right axis)



TOTAL ASSETS (Millions of yen)



TOTAL EQUITY (Millions of yen)



AVERAGE YIELD

(%)

	2016/3	2017/3	2018/3	2019/3	2020/3
Average yield	15.2	14.7	14.7	14.8	**14.7**
Unsecured	15.1	14.9	14.8	14.9	**14.7**
Secured	15.3	13.3	12.9	12.2	**15.9**
Small business	15.5	10.2	12.6	12.7	**13.3**

NUMBER OF CUSTOMER ACCOUNTS

(Thousands)

	2016/3	2017/3	2018/3	2019/3	2020/3
Number of customer accounts	664	721	802	876	**950**
Unsecured	647	707	788	861	**937**
Secured	10	8	6	5	**4**
Small business	5	5	6	9	**9**

NEW ACCOUNTS

(Accounts)

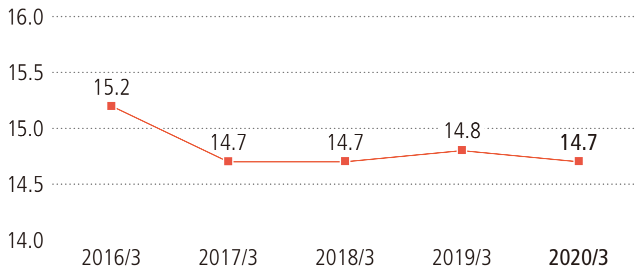
	2016/3	2017/3	2018/3	2019/3	2020/3
New accounts	180,805	182,778	197,826	199,637	**206,337**
Unsecured loans	180,666	182,604	197,565	199,353	**206,155**

AMOUNT OF WRITE-OFFS/RATIO OF WRITE-OFFS

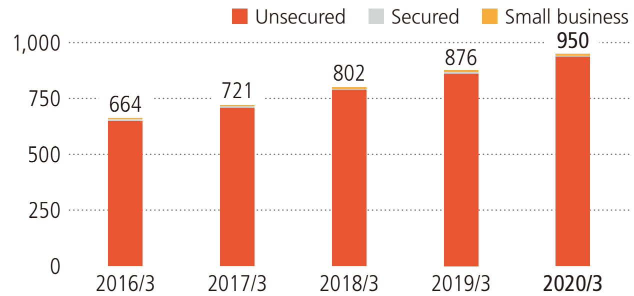
(Millions of yen)

	2016/3	2017/3	2018/3	2019/3	2020/3
Amount of write-offs	18,224	17,574	18,012	18,947	**20,182**
Ratio of write-offs (%)	4.9	4.3	4.0	3.8	**3.6**

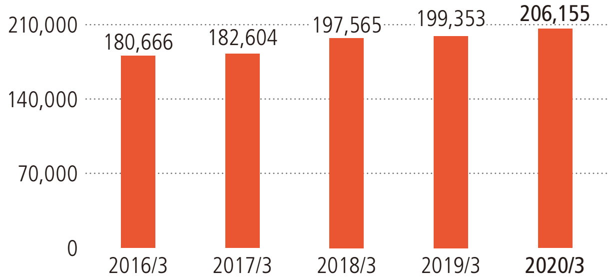
AVERAGE YIELD (%)



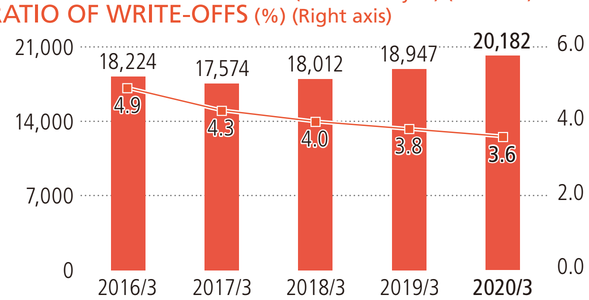
NUMBER OF CUSTOMER ACCOUNTS (Thousands)



NEW CONTRACTS FOR UNSECURED LOANS (Accounts)



AMOUNT OF WRITE-OFFS (Millions of yen) (Left axis)/ RATIO OF WRITE-OFFS (%) (Right axis)



LIFECARD CO., LTD.

TOTAL RECEIVABLE OUTSTANDING

(Millions of yen)

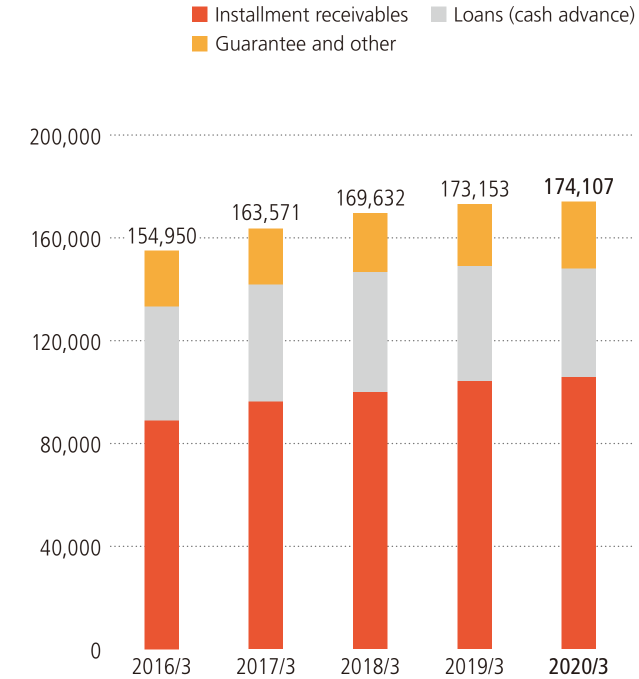
	2016/3	2017/3	2018/3	2019/3	2020/3
Total receivable outstanding	154,950	163,571	169,632	173,153	**174,107**
Installment receivables	88,971	96,276	99,956	104,242	**105,773**
Loans (cash advance)	44,169	45,564	46,728	44,849	**42,272**
Guarantee and other	21,809	21,730	22,947	24,061	**26,062**

OPERATING REVENUE

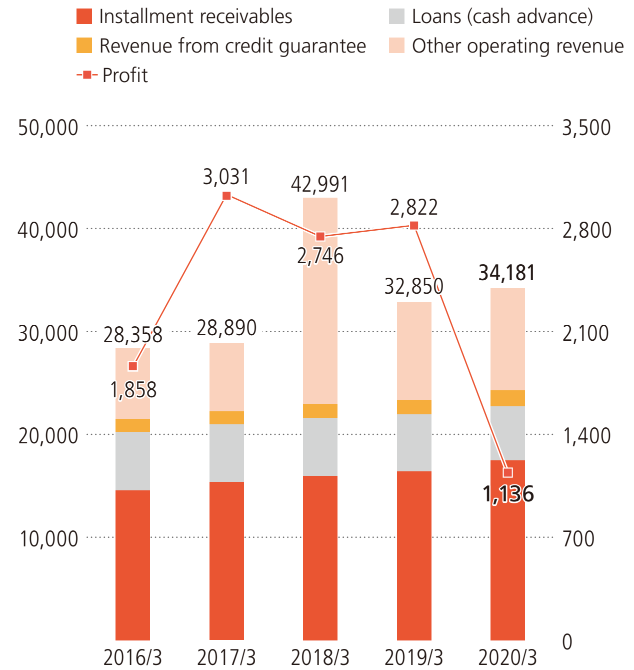
(Millions of yen)

	2016/3	2017/3	2018/3	2019/3	2020/3
Operating revenue	28,358	28,890	42,991	32,850	**34,181**
Installment receivables	14,559	15,361	15,960	16,391	**17,479**
Loans (cash advance)	5,645	5,603	5,649	5,556	**5,243**
Revenue from credit guarantee	1,270	1,272	1,348	1,398	**1,521**
Other operating revenue	6,884	6,653	20,033	9,504	**9,937**

TOTAL RECEIVABLE OUTSTANDING (Millions of yen)



OPERATING REVENUE (Millions of yen) (Left axis)/PROFIT (Millions of yen) (Right axis)



TOTAL ASSETS/ROA

(Millions of yen)

	2016/3	2017/3	2018/3	2019/3	2020/3
Total assets	173,085	188,889	179,419	196,005	**197,237**
ROA (%)	0.7	1.8	2.3	1.7	**1.2**

TOTAL EQUITY/ROE

(Millions of yen)

	2016/3	2017/3	2018/3	2019/3	2020/3
Total equity	37,992	40,824	43,571	46,394	**47,994**
ROE (%)	0.5	7.7	6.5	6.3	**2.4**

NUMBER OF CARDHOLDERS

(Thousands)

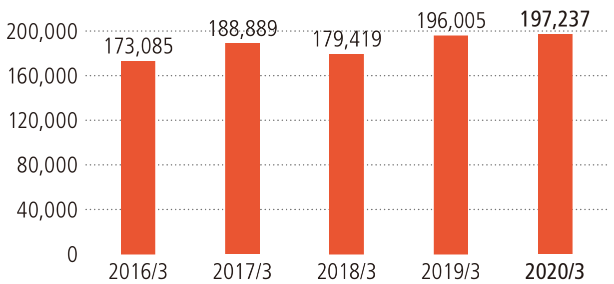
	2016/3	2017/3	2018/3	2019/3	2020/3
Number of cardholders	6,291	5,883	5,771	5,777	**5,758**
Proper card	1,813	1,795	1,739	1,700	**1,680**
Affinity cards	4,477	4,088	4,032	4,077	**4,077**

TRANSACTION VOLUME

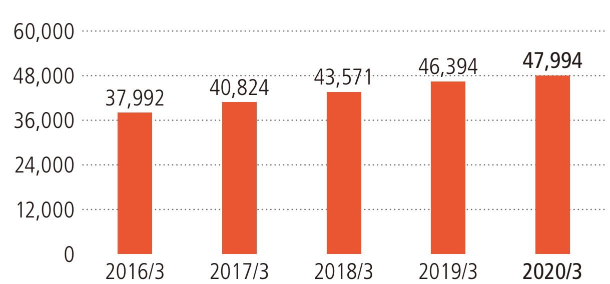
(Millions of yen)

	2016/3	2017/3	2018/3	2019/3	2020/3
Transaction volume	636,901	681,362	696,435	697,854	**707,851**
Card shopping	595,922	640,598	655,990	657,509	**669,559**
Cashing	40,979	40,763	40,444	40,345	**38,291**

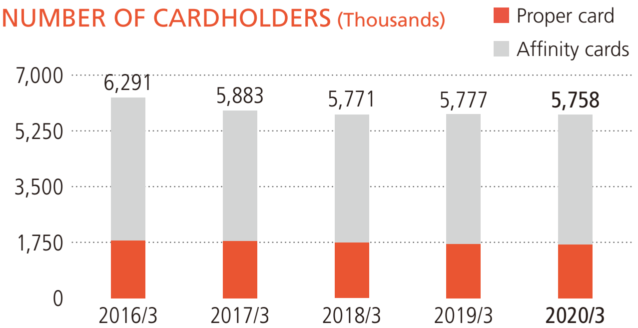
TOTAL ASSETS (Millions of yen)



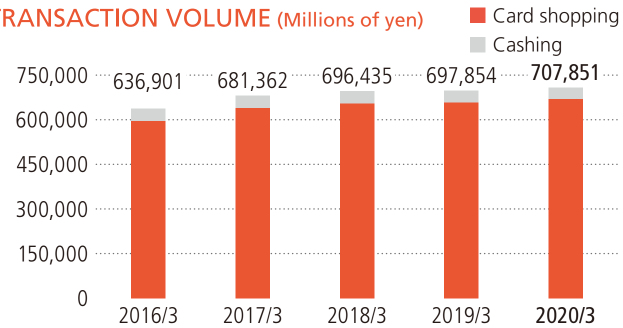
TOTAL EQUITY (Millions of yen)



NUMBER OF CARDHOLDERS (Thousands)



TRANSACTION VOLUME (Millions of yen)

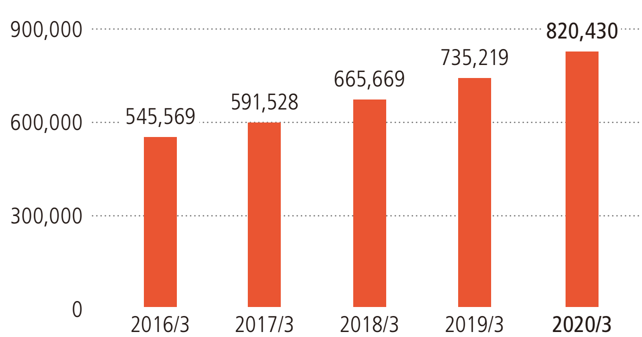


Financial Report by the Management Team

Consolidated business results

In fiscal 2019, although the employment and income environment was improving, there was concern of a slip in consumer spending and an economic slowdown due to the spread of COVID-19. However, major consumer financing companies, including AIFUL, saw a modest increase in the balance of operating receivables, a reflection of growth in new contracts. Consequently, at the end of fiscal 2019, the volume of operating receivables at the AIFUL Group totaled 820,430 million yen, a rise of 85,211 million yen or 11.6% year on year. That said, owing to the securitization of receivables, operating loans stood at 56,119 million yen, and installment receivables amounted to 8,530 million yen, for a total of 64,649 million yen.

Total receivable outstanding (Millions of yen)



Segment information by product

Total receivable outstanding	2019/3	2020/3	YOY (%)
	(Millions of yen)		
Unsecured loans	445,866	486,119	9.0
Secured loans	20,285	22,533	11.1
Small business loans	55,670	64,427	15.7
Credit card business	104,474	105,961	1.4
Installment sales finance business	170	5,511	—
Guarantee	101,007	127,018	25.8

Operating revenue	2019/3	2020/3	YOY (%)
	(Millions of yen)		
Unsecured loans	61,058	66,707	9.3
Secured loans	2,285	2,557	11.9
Small business loans	2,112	3,179	50.5
Credit card business	16,466	18,862	14.6
Installment sales finance business	6	529	—
Credit guarantee	13,953	15,203	9.0

◆ Loan business

At the end of fiscal 2019, the balance of operating loans (on an operating receivable basis) in the loan business, a core business of the AIFUL Group, came to 573,080 million yen, growth of 51,257 million yen or 9.8% year on year. This accounted for around 70% of the balance of total operating receivables.

(Unsecured loans)

In fiscal 2019, the number of new contracts for unsecured loans, a mainstay product, was 206,000, an increase of 3.4% year on year. The number of new contracts and the rise in the balance of unsecured loans reflect effective advertising, mainly through television commercials and online ads, improved customer services, including the expansion of chat services and other functions, a revision of the scoring system and the fortification of screening expertise. In light of these factors, the balance of unsecured loan operating receivables totaled 486,119 million yen, growth of 40,253 million yen or 9.0% year on year.

(Secured loans)

At the end of fiscal 2019, the balance of operating receivables for secured loans totaled 22,533 million yen, an improvement of 2,248 million yen or 11.1% year on year. On one side, in line with our corporate policy, we curtailed the balance of secured loans for real estate handled by AIFUL BUSINESS FINANCE CORPORATION (formerly BUSINEXT CORPORATION) and AIFUL. Meanwhile, at AIFUL BUSINESS FINANCE, the balance for medical fee-type secured loans, which the company is actively selling, trended briskly.

(Small business loans)

AIFUL BUSINESS FINANCE conducts sales of loans for business operators, primarily products for the middle-risk market to finance private business operators. The user unit selling price was 1.61 million yen per account in fiscal 2019. In business loans to small businesses, there are few competitors from the perspective of risk tolerance, and the balance for small business loans was 64,427 million yen, growth of 8,757 million yen or 15.7% year on year, a reflection of the rising need for flexible business capital.

◆ Credit card business

In the credit card business, given that this is the most important business for LIFECARD, we continued to actively carry out measures in fiscal 2019, including the high utilization and effective acquisition of proprietary cards and new affiliations, and the development of card affiliate stores through settlement agency companies. For proprietary credit cards, we secured customers through the aggressive deployment of affiliate ads and use of tie-ups with famous musicians and characters from popular culture. The number of new cards issued totaled 109,000, and the number of valid card members was 1,680,000. In addition to the AOYAMA card, issued in affiliation with key business partner Aoyama Trading Co., Ltd., we are issuing affiliate cards, mainly in connection with major university hospitals that have an "Express Accounts" function to reduce waiting time at hospital payment points. As a result of an expansion in newly acquired channels, the number of cards issued was 359,000, and the number of valid card members was 4,077,000. In addition, despite measures to improve the operating rate and the implementation of revolving/installment payments, the number of valid cardholders remained nearly flat year on year. However, reflecting a rise in the utilization rate after a customer signs up for a card and a boost in the share of the balance for revolving/installment payments, profitability in the credit card business is gradually improving.

In fiscal 2019, by fortifying sales, including strengthening ties with new and existing partners in the corporate card business, AIFUL is acquiring holders of corporate credit cards issued in affiliation with Fintech companies that use the cloud and is rolling out credit cards for high-end purchases that can be made only at specific locations.

As a result of these contributing factors, credit card shopping totaled 669,559 million yen (up 1.8% year on year), and the balance of installment receivables came to 111,473 million yen (a rise of 6.5% year on year).

◆ Credit guarantee business

AIFUL and LIFECARD, undertake the credit guarantee business to address the needs of affiliate financial institutions. The Group is endeavoring to diversify its product line to address the expansion of the guarantee balance and to implement new guarantee partnerships by leveraging its credit knowhow for extending loans to individuals and business operators and its strength as an independent entity. AIFUL launched sales of new products to three new partners and 17 existing partners in fiscal 2019, to strengthen its support system, including sales and advertising methods that target financial institutions nationwide, provide business credit, a strength of the AIFUL Group, supply all-in-one (omatome) loan guarantee products to individuals and offer other products that meet the needs of financial institutions. The credit guarantee business is a core business of the AIFUL Group, alongside the loan and credit card businesses. The Group aims to improve its business portfolio by increasing its balances. As an extension of this policy, the balance of credit guarantees at the end of fiscal 2019 came to 125,332 million yen, an increase of 26,361 million yen or 26.6% year on year.

◆ Overseas business

In light of forecasts that the retail finance market in Japan is expected to mature in tandem with the acceleration of the low birthrate and aging population, we are securing operating assets and diversifying our business portfolio by developing new markets. In December 2014, AIRA & AIFUL Public Company Limited (A&A) was established jointly with AIRA Capital, a local entity in Thailand. As of December 31, 2019, the operating loan balance stood at 22,414 million yen, reflecting the launch of the consumer finance business in October 2015 and ensuing smooth growth in the balance of operating assets.

Elsewhere overseas, the AIFUL Group has been involved in the capital of REKSA FINANCE, which manages the used car auto loan business in Indonesia, since acquiring shares in May 2017.

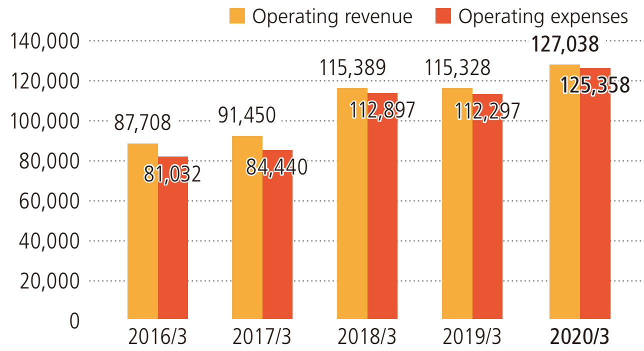
› Earnings trends

Operating revenue in fiscal 2019, totaled 127,038 million yen, an increase of 11,710 million yen or 10.2% year on year.

Of this, operating loan interest stood at 72,444 million yen, a rise of 6,988 million yen or 10.7% year on year. This accounted for 57.0% of total operating revenue. Revenue from installment sales was 19,391 million yen, up 17.7%, credit guarantee revenue was 15,203 million yen, an increase of 9.0% year on year, and other revenue came to 19,998 million yen, growth of 2.8% year on year. The balance of operating loans, including unsecured loans, achieved double-digit growth, mainly attributable to substantial increases in the number of guarantee partners and the guarantee balance. In addition, operating loan interest, which previously accounted for more than 80% of operating revenue, is declining. This reflects benefits arising from measures to improve the business portfolio.

Meanwhile, operating expense came to 125,358 million yen, up 13,061 million yen or 11.6% year on year. This mainly breaks down to expense of 35,277 million yen, a rise of 4,649 million yen or 15.2% year on year, in tandem with a rise in the balance for operating liabilities, and interest repayment-related expense of 16,927 million yen, an increase of 5,426 million yen or 47.2% year on year. The latter reflects additional allowance transfers and takes into account the fact that interest repayment claims are declining more slowly than expected. Although the amount of fund procurement is expanding in tandem with growth in balances, financial expense stood at 7,522 million yen, a decline of 427 million yen or 5.4% year on year, owing to a decline in interest rates on fund procurement, including the issuance of publicly offered corporate bonds.

Operating revenue/Operating expenses (Millions of yen)



Consequently, at the end of fiscal 2019, consolidated operating profit came to 1,679 million yen, a decrease of 1,352 million yen or 44.6% year on year. Non-operating income, including interest revenue from loans to non-consolidated Group companies, was 529 million yen. Meanwhile, non-operating expense was 493 million yen due to losses on foreign translations for loans to overseas Group companies. Accordingly, ordinary profit totaled 1,716 million yen, a decrease of 2,394 million yen or 58.2% year on year.

Net profit was 300 million yen, owing to 230 million yen in extraordinary gain from reversal profit on warrants and 376 million yen in extraordinary loss due to the closure of branches of A&A, an overseas consolidated subsidiary. Consequently, with the addition of gains on non-controlling interest, net profit came to 1,089 million yen, and profit attributable to owners of parent totaled 1,390 million yen.

Balance sheet trends

Total assets on a consolidated basis at the end of fiscal 2019 were 860,507 million yen, an increase of 99,920 million yen or 13.1%, compared with the end of the previous fiscal year. This increase was primarily attributable to growth of 59,175 million yen in operating loans.

Total liabilities on a consolidated basis at the end of fiscal 2019 totaled 731,576 million yen, an increase of 99,006 million yen or 15.6%, compared with the end of the previous fiscal year. This increase is mainly attributable to a rise of 49,556 million yen in borrowing and growth of 16,079 million yen in notes and accounts payable.

Net assets on a consolidated basis at the end of fiscal 2019 totaled 128,931 million yen, an increase of 915 million yen or 0.7%, compared with the end of the previous fiscal year. This increase is primarily attributable to a rise in retained earnings.

Overview of cash flows

Cash and cash equivalents ("funds") increased 7,412 million yen or 20.5%, compared with the end of the previous fiscal year, to 43,520 million yen.

The situation of each category of cash flow for the current fiscal year and the contributing factors are as follows.

Net cash used for operating activities amounted to 51,133 million yen, an increase of 22.4%, compared with previous fiscal year. This was mainly attributable to a decline in funds, reflecting an increase in operating loans.

Net cash used for investing activities stood at 2,718 million yen, a decrease of 35.6%, compared with the previous fiscal year. This was mainly attributable to a purchase of intangible assets.

Net cash provided by financing activities amounted to 55,356 million yen, an increase of 5.1%, compared with the previous fiscal year. This was mainly attributable to an increase in funds, reflecting an increase in borrowings and bond issuance.

Non-performing loan trends

According to judicial statistics released by the Supreme Court, the number of bankruptcies, after bottoming out in and after 2015, has gradually risen. However, in contrast with the early 2000s, when bankruptcy was an issue due to people accumulating multiple debts, the level of bankruptcies is still low.

In fiscal 2019, the Group's total non-performing loans stood at 86,422 million yen, a rise of 7,128 million yen year on year. Of this, the amount of non-performing unsecured loans, a mainstay product, was 55,656 million yen, an increase of 9,081 million yen or 19.5% year on year. However, the amount of non-performing loans, consisting mainly of real estate-secured loans and other than unsecured loans, totaled 30,766 million yen, a decline of 1,953 million yen or 6.0% year on year. One factor behind the increase in non-performing unsecured loans reflects a rise in loans with relaxed lending terms of 3,468 million yen or 29.2%, versus the end of the previous fiscal year. This is likely attributable to customers who lost financing due to the impact of voluntary restrictions implemented by banks on card loans. However, given that this is recoverable debt and due to the increase in settlements, we believe this is not directly related to bad debt.

Status of non-performing loans (NPL)

(Millions of yen)

	2018/3		2019/3		2020/3	
	Unsecured loans	Other than unsecured loans	Unsecured loans	Other than unsecured loans	Unsecured loans	Other than unsecured loans
Total non-performing loans	37,904	33,611	46,575	32,719	55,656	30,766
Loans in legal bankruptcy	531	26,616	711	25,456	768	21,359
Nonaccrual loans	22,409	5,904	27,194	5,923	31,794	7,361
Loans in 3-months or more in arrears	5,589	203	6,798	244	7,754	281
Restructured loans	9,374	887	11,870	1,095	15,338	1,764

Write-off trends

In fiscal 2019, the amount of write-offs, including debt waived in tandem with interest repayment claims, totaled 29,101 million yen, a rise of 3,178 million yen or 12.3%, in comparison with a year earlier.

Write-off debt waived in tandem with interest repayment claims was 1,211 million yen, a decline of 230 million yen or 16.0% year on year. Write-off waived debt is continuing to trend downward. Meanwhile, the balance of operating receivables is continuing double-digit growth each fiscal year. In light of this, other ordinary debt rose 3,409 million yen or 13.9%, versus the previous fiscal year. The write-off ratio (general bad debt excluding debt forgiveness arising from interest repayment claims) accounted for 3.4% of total operating receivables, which is nearly flat, versus the previous fiscal year, an indication that the write-off ratio remains stable and low.

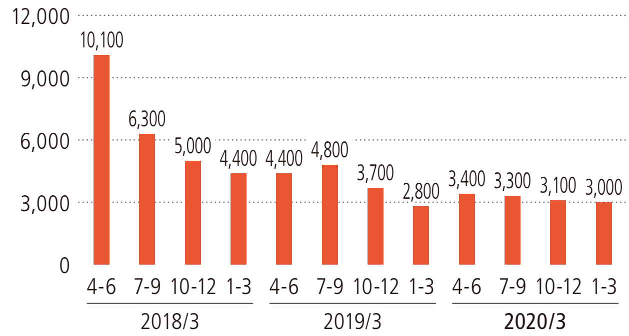
Accordingly, provisions to the allowance for doubtful accounts in fiscal 2019 totaled 35,277 million yen, a rise of 4,649 million yen or 15.2%, in contrast with the previous fiscal year. At the end of fiscal 2019, the balance for the allowance for doubtful accounts came to 72,294 million yen, growth of 1,827 million yen or 2.6% (including 1,415 million yen in allowance for debt waived in tandem with interest repayment claims).

Interest repayment claim trends

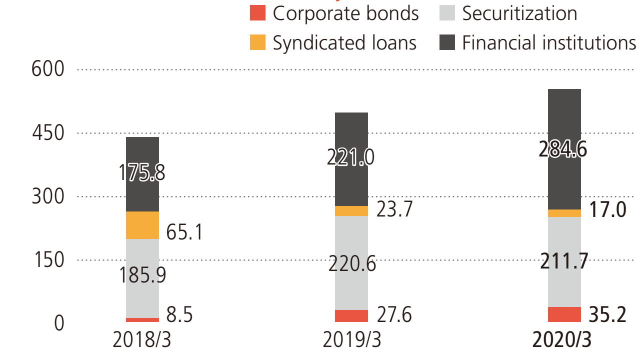
Interest repayment claims during fiscal 2019, stood at 12,000 (down 14.5% year on year). Although this was a steady decline from the peak, the recent rate of decline in claims is trending modestly. Continued close monitoring will be necessary.

The reversal to the allowance for losses on interest repayment and the allowance for doubtful accounts related to interest repayment claims totaled 16,069 million yen (up 12.3% year on year). This breaks down to 14,704 million yen (up 15.7% year on year) for interest repayment and 1,364 million yen (down 15.1% year on year) for debt forgiveness. In addition, preparing for future interest repayment claims and taking into account factors including recent interest repayment trends, the Company posted 16,927 million yen in provisions for losses on interest repayment and 92 million yen in provisions to the allowance for doubtful accounts. The balance for allowances related to interest repayment amounted to 26,448 million yen. This breaks down to 25,033 million yen in provisions for losses on interest payments and 1,415 million yen in allowance for doubtful accounts.

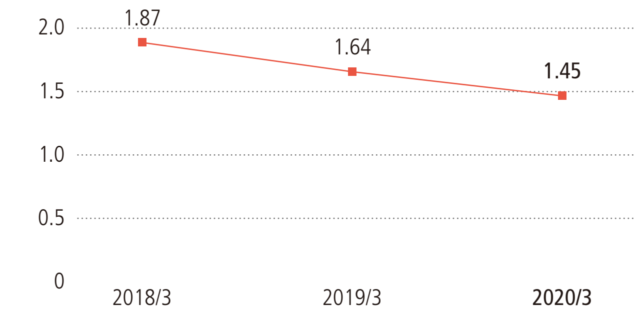
Number of interest repayment claims



Procurement funds (Billions of yen)



Funding interest rate (%)



Fund procurement trends

The AIFUL Group procures funds required for business expansion from outside the Group. The Group aims to procure funding both indirectly from financial institutions and directly through corporate bonds, to build a safe and robust procurement platform.

In fiscal 2019, to improve earnings and, in line with this, improve its external rating, the Group is reducing fund procurement and funding interest rates, in line with growth in the balance of operating receivables. Consequently, at the end of fiscal 2019, the balance of loans, including off-balance sheet borrowings, was 548,717 million yen, a rise of 55,583 million yen or 11.3% year on year, owing to securitization carried out by the Group.

The balance of loans via indirect procurement stood at 301,689 million yen, up 56,865 million yen or 23.2% year on year. This accounted for 55.0% of total borrowings. The interest rate on indirect financing was 1.63%, down 0.27 point year on year.

The balance of loans via direct procurement, accounting for 45.0% of total borrowings, was 247,028 million yen, down 1,282 million yen or 0.5% year on year. This breaks down to 35,245 million yen in regular corporate bonds (6.4% of total borrowings) and securitization of 211,783 million yen (38.6% of total borrowings). The interest rate on direct financing was 1.23%, down 0.16 point year on year.

At the end of fiscal 2019, short-term borrowings amounted to 110,819 million yen, and long-term borrowings stood at 437,898 million yen.

Dividend policy

The return of profits to shareholders is a management priority for the AIFUL Group. The Group's basic policy calls for the return of profits in line with business results, while aiming to maximize shareholder value through medium- to long-term profit growth.

However, there is still a heavy financial burden associated with claims for interest repayment. As such, while it is truly regrettable, we will not pay out a dividend for fiscal 2019.

The Articles of Incorporation stipulate that reserves can be used to pay dividends or interim dividends in accordance with a resolution passed by the Board of Directors.

Risk factors

Among matters relating mainly to the Group's business conditions and accounting situation, below are the major risks that management recognizes as likely to have a significant impact on the Group's financial position, business performance and cash flows. The policy of the AIFUL Group is to recognize the possibility that these risks may arise, work to avoid them and address them if they occur. In addition, the following describes but does not include all the risks to the AIFUL Group's business activities. New business risks and other risks may arise due to uncertainties in the future.

That being said, the matters relating to the future included in this document are those assessed by the AIFUL Group as of the Securities Report (issued on June 24, 2020).

(Risks due to business environment factors)

The financial position and operating results of the AIFUL Group reflect a plethora of factors, of which the following are expected to be the main factors. AIFUL established the Risk Management Committee under the direct control of the Board of Directors in April 2007. The Company has established systems to prevent the rise of risks in advance and during emergencies to control and handle risks arising in each department and risks threatening corporate activities across the organization. Despite these actions, however, due to changes in the management environment, including the strengthening or easing of legal regulations, competitive conditions, changes in the economy and other causes, the financial position and business performance of the AIFUL Group may be impacted. In addition, there is a possibility that the AIFUL Group may be forced to review its strategies.

(1) Economic and market trends
(2) Intensified competition
(3) Changes in the number of multiple debtors
(4) Legal regulations
(5) Funding
(6) Financial soundness
(7) Losses carried forward
(8) Marketable securities
(9) Information network system, Internet services and technical systems
(10) Credit guarantee business
(11) Overseas business
(12) Holding and disposing of Company shares by representative directors and their family members
(13) Disasters, infectious diseases, etc.
(14) Fluctuation in costs including fees, advertising and personnel expenses, and losses (e.g., increases in partner ATM fees, payments to contractors related to affiliate advertising, advertising costs due to a rise in the unit cost of television or other media, increases in ad placements and personnel expenses due to an increase in personnel following the expansion of operations)
(15) Negative press and the occurrence of scandals at the AIFUL Group and in the consumer finance industry (risk of damage from harmful rumors due to negative press related to bank card loans and risk of substantial damage to the brand image of the AIFUL Group from the release of Internet footage showing inappropriate actions by some employees)

(Economic and market trends)

The AIFUL Group operates its businesses not only in Japan but also in Southeast Asia. In the lending business for individuals, the Group faces the following risks: a decrease in the amount of operating loans due to the deterioration of economic situations in each country and the difficulties of customers repaying loans due to distressed financing in tandem with a downturn in the economy reflecting the spread of COVID-19. There is a possibility that these will contribute to a decline in interest revenue and an increase in loan-related expenses. In addition, there is a risk of a decline in operating loans, reflecting a drop in fund demand due to a slump in consumer spending accompanying the deteriorating economy. There is a possibility that this will contribute to a decline in interest revenue.

(Intensified competition)

The AIFUL Group mainly engages in the consumer finance business and the business operator loan business. The Group is likely to face competition in both markets with banks, credit card companies, credit sales companies and other finance companies. There is a risk that an increase in NPLs may occur in the future if the intensification of this competition puts downward pressure on lending rates in the consumer finance business and the business operator loan business, and a risk of an increase in lending to high-risk borrowers. There is a possibility that these will contribute to an increase in loan-related expenses.

(Changes in the number of multiple debtors)

The AIFUL Group plans to carry out stricter surveys on repayment capabilities (including credit limit monitoring during transactions with customers) and credit requirements, using data from consumer credit information institutions and a proprietary credit system.

However, despite these measures, there is a risk of an increase in uncollected loans due to deterioration in financing among many customers mainly because of worsening economic conditions going forward. There is a possibility that this will contribute to an increase in loan-related expenses. Moreover, there is a possibility of a decrease in interest income due to a drop in operating loans in tandem with a decline in eligible loan applicants, mainly attributable to a rise in borrowers with multiple debts.

(Legal regulations)

1. Legal compliance platform

AIFUL has adopted "full-fledged compliance" as a priority policy. Although it aims to prevent legal violations related to the money lending business, stop information leaks and avert other incidents, intentional action or culpable negligence by employees cannot be fully prevented. AIFUL established the compliance committee as an advisory body under the direct control of the Board of Directors to prevent the violation of laws and regulations related to the money lending business, information leaks and other scandals. The committee verifies and maintains the compliance system Companywide by gathering information regarding compliance and takes measures to prevent violations of laws and regulations. In addition, the AIFUL Group compliance committee was set up with the goals of sharing the unified corporate ethics of the entire Group and establishing a compliance system for the whole Group. Moreover, in April 2007, internal control functions were strengthened, including centralizing the hotline (internal reporting system), reinforcing the information-gathering function for compliance and centralizing functions related to rewards and punishment.

AIFUL is effectively enhancing internal audits and implementing other measures, including establishing business rules with compliance awareness functions, offering internal training about laws and ordinances, fortifying the instilling of compliance awareness, implementing call monitoring and preparing a system to properly review these measures.

However, there is a possibility of impact on the Group's financial position and business performance, should there occur an incident of fraud or a scandal including violation of laws or ordinances by an employee or employees of the Group.

2. Business regulations

(1) Business regulations owing to the Money Lending Business Act and the Installment Sales Act

With respect to legal regulations pertaining to business operations, Money Lending Business Act is applied to the loan business, including the consumer finance business, which is the main business of the AIFUL Group. The Money Lending Business Act imposes various types of regulations (prohibited acts, restrictions related to interest/guarantee fees, etc., investigation of repayment ability, prohibition of excessive loans, etc., posting of notices of loan conditions, etc., prohibition of advertisement of loan conditions and other extravagant advertising, delivery of documents before the conclusion of an agreement, delivery of documents at the time of concluding an agreement, delivery of evidence of receipt, maintenance of books, inspection of books, regulations on acts of collection, return of claim deeds, posting of signs, regulations on transfer of receivables, etc., duty of disclosure of the record of transactions, placement of heads of money lending operations, regulations on carrying certificates, etc.).

In addition, the credit card business and the installment sales finance business of the AIFUL Group are subject to various business regulations owing to the application of the Installment Sales Act (presentation of transaction conditions, delivery of documents, restriction on the amount of damages, etc., due to cancellation of an agreement or other causes, defense against providers of installment sales finance, investigation of an estimated amount that can be paid, prohibition of credit exceeding the estimated amount that can be paid, prevention of consumer issues related to continued service, etc.).

Amid this backdrop, the Group aims to enhance organizations and systems as an internal control function based on the aforementioned laws, ordinances and regulations as well as address operational risks. The Group also plans to carry out inspections and ongoing improvements by implementing three lines of defense.

However, there is a possibility of impact on the Group's financial position and business performance, in the event an employee or employees of the Group violate laws or ordinances, or in the case of stricter business regulations, due in part to legal measures, including administrative actions or revisions to new laws and ordinances.

(2) Self-regulation by the Japan Financial Service Association

The Japan Financial Service Association was established in December 2007 as the self-regulatory organization described in the Money Lending Business Act, which set the basic rules for self-regulation and stipulated the rules relating to the prevention of excessive loans, etc., and the rules relating to advertisements and solicitation. In addition, in the rules for operations relating to audits by the Japan Financial Service Association, to enhance effectiveness, the association is granted sanction rights, including the right to impose fines or expel association members who do not comply with investigation/audit rights or self-regulation. AIFUL, as a member of the Japan Financial Service Association, is subject to these regulations.

The AIFUL Group has endeavored to strengthen its compliance system by establishing internal rules and offering comprehensive training to employees in accordance with items stipulated in regulations set forth by the Japan Financial Service Association and in related laws and ordinances.

However, the strengthening of business regulations by administrative action due to an employee's violation of laws and regulations or the enactment of new laws and regulatory revisions could impact the financial position and business performance of the AIFUL Group.

3. Loan interest rate

On June 18, 2010, the revised Money Lending Business Act went into full force, and the ceiling for the interest rate under the Act Regulating the Receipt of Contributions, the Receipt of Deposits and Interest Rates (capital subscription law) was thereby lowered from 29.2% per annum to 20.0% per annum, and the repayment system deemed under the Money Lending Business Act described below was abolished. Ahead of the full enforcement of the act, AIFUL lowered the ceiling on its interest rate on new loan contracts to customers in Japan and customers who enter into a loan contract based on new standards on or after August 1, 2007. The current ceiling for interest rates is 18.0% or less per annum.

However, should the ceiling on the interest rate in the Interest Rate Restriction Act or the Act Regulating the Receipt of Contributions, the Receipt of Deposits and Interest Rates (capital subscription law) be further lowered, reflecting revisions to laws and regulations in the future, and should the interest rate with respect to the interest rate agreement with customers who have already entered into an agreement be further lowered due to economic and social conditions that boost the number of consumers demanding legal protection, there is a possibility of impact on the financial position and business performance of the AIFUL Group.

4. Loss on interest repayment

In accordance with Article 1, Paragraph 1 of the Interest Rate Restriction Act, the agreement relating to interest payable on a consumer finance loan will be considered invalid with respect to a portion that exceeds certain prescribed limits (20% when the principal is less than ¥100,000, 18% when the principal is ¥100,000 or more but less than ¥1,000,000 and 15% when the principal is ¥1,000,000 or more). However, under the Interest Rate Restriction Act prior to the aforementioned full enforcement of revisions, a debtor will not be able to issue a claim for repayment if the debtor has paid the relevant excess portion voluntarily.

In addition, in accordance with Article 43 of the Money Lending Business Act prior to the aforementioned full enforcement of revisions, when a document provided for under Article 17 of the act has been issued to a borrower when a loan is made and the borrower has voluntarily paid the excess portion of interest, and when the document specified under Article 18 of the law has been issued immediately at the time of payment and the payment is based on an agreement specified under Article 17 of the law, this payment is regarded as the repayment of valid interest on the debt, notwithstanding provisions set forth in Paragraph 1, Article 1 of the Interest Rate Restriction Act (with payments under the relevant provision referred to as "deemed payments" hereafter).

Nevertheless, a Supreme Court ruling on January 13, 2006 decreed that the payment of the portion exceeding the ceiling on interest set forth in Paragraph 1, Article 1 of the Interest Rate Restriction Act under a covenant requiring a lump sum payment of the outstanding loan in the event that the payment of a loan installment is late is effectively compulsory and cannot be deemed a voluntary payment by a borrower. In addition, the court ruled that Paragraph 2, Article 15 of the Money Lending Business Act for which the entry of the contract date on the receipt can be substituted with the contract number, exceeds the scope of legal authorization and is invalid.

The AIFUL Group sincerely accepts these judicial decisions and intends to respond by implementing measures such as revising contracts to reflect the decisions. At present, the contracted interest rate for the loan products provided by the AIFUL Group includes the excess portion on the interest ceiling stipulated by the Interest Rate Restriction Act. That being said, a number of lawsuits have been brought for the repayment of the excess portion on the interest ceilings stipulated by the Interest Rate Restriction Act due to the industry's lack of preparation of items to be entered into contracted documents specified under the Money Lending Business Act. As such, a number of rulings in favor of these suits have been passed down.

A number of lawsuits for the repayment of excess interest have also been lodged against the AIFUL Group, including cases in which it was acknowledged that the Group did not fulfill its obligation as a loan business operator to issue the documents required for the payment to be regarded as "deemed payments" under the Money Lending Business Act. There are also cases in which the Group has repaid excess interest based on settlements (interest repayment). More than a decade has passed since the Supreme Court's ruling, and interest repayment claims have declined to one-tenth of the peak level in February 2011, in part as the statute of limitations has run out for many borrowers with the right to make an interest repayment claim. Going forward, AIFUL expects the number of interest repayment claims to decline. However, as some law offices and judicial scrivener offices continue to actively advertise to assist borrowers with their interest repayment claims, the number of claims remains at a certain level. There is a possibility of impact on the AIFUL Group's financial position and business performance, given that law offices and judicial scrivener offices will continue their advertising and owing to cases where judicial rulings put money lenders at a disadvantage.

On October 13, 2006, the Japanese Institute of Certified Public Accountants (JICPA) released the Accounting Treatment for Calculation of Reserves Relating to Losses at Consumer Finance Companies, etc., resulting from Interest Repayment Claims (Industry Audit Committee Report No. 37, "Report No. 37") with applicability to audits of consolidated and non-consolidated accounts in and after the interim accounting period ending on or after September 1, 2006 (including audits related to the consolidated and non-consolidated accounts for the fiscal year of which the relevant consolidated and non-consolidated accounts for the interim accounting period are each a part). In accordance with Report No. 37, the AIFUL Group is posting provisions to an allowance for losses on interest repayment claims (including projected repayments involving loan loss reserves from estimates that prioritize the coverage of operating loans).

However, accounting estimates were made based on actual records of repayment in the past and recent repayment trends. Therefore, if repayment beyond the level of the assumptions for said estimates is claimed or if accounting standards are changed, there is a possibility of impact on the financial position and business performance of the AIFUL Group.

5. Restrictions on total lending

On June 18, 2010, the revised Money Lending Business Act went into full force, introducing what is referred to as restrictions on total lending. As a reflection of this, money lenders are prohibited from extending loans beyond a borrower's repayment capability, including loans whose total loan balance would exceed one-third of the borrower's annual income.

To alleviate this risk, in preparation for the introduction of total lending restrictions prior to the complete enactment of related revised laws, the AIFUL Group is conducting surveys for each period stipulated by the Cabinet Office Ordinance under Article 13-2 of the Money Lending Business Act, in addition to restricting lending based on stricter lending standards and by using a system to ensure the total loan balance does not exceed one-third of the borrower's annual income.

However, going forward, should there be a larger-than-expected decline in interest revenue or the loan balance, there is a possibility of impact on the AIFUL Group's financial position and business performance.

6. Other related laws

(1) Act on the Protection of Personal Information and the treatment of personal information

According to the Act on the Protection of Personal Information, businesses that handle personal information are obligated to provide certain reports should they be deemed necessary. The cabinet minister in charge should recommend or order a business to take necessary measures when deemed necessary to protect the rights and interests of individuals in cases where the business operator violates a certain obligation under the act. In addition, under the guidelines of this act, a company is required to make notification of, specify or disclose the purpose of the use of personal information, obtain consent relating to the handling, etc., of personal information from debtors should it be deemed necessary, supervise a subcontractor handling personal information should this be contracted out, establish a system as a safety control measure from organizational, human and technological perspectives, and publicly announce the basic policy related to the handling of personal information.

In accordance with these measures, the AIFUL Group conducted a review, etc., of the conditions surrounding the handling of personal information and established a privacy policy. The Group also created and is implementing information management regulations and administrative procedures. The Group is taking measures to prevent the leak of personal information by training directors and employees, conducting physical security at data centers, setting access authorization for personal data, supervising logs and taking system security measures against illegal access and threats from outside the Group.

However, should a leak of personal information occur for some reason and should the Company receive a recommendation or order from the cabinet minister in charge, there is a possibility that the financial position and business performance of the AIFUL Group will be impacted.

(2) Impact from revisions to other laws

In the event of revisions to various laws and ordinances, including the Bankruptcy Act the Civil Rehabilitation Act, and the Act on Special Conciliation for Expediting Arrangement of Specified Debts, depending on the details of said revisions, they could possibly have an impact on the financial position and business performance of the AIFUL Group.

(Funding)

The Group procures capital through borrowings and syndicated loans from financial institutions, the securitization of bonds and receivables, and funding operations. The market environment, a decrease in the Company's creditability or a change in its rating could possibly hinder the Group's procurement capabilities.

To alleviate these risks, the AIFUL Group is diversifying, devising new procurement methods and undertaking measures to boost its rating.

However, in the event of a substantial change to the Group's financial position, business performance or the content of its receivables, owing to financial covenants or early redemption clauses related to fund procurement, including the spread of COVID-19, there is a risk the Group will forfeit the benefit of time, and its financing, financial position and business performance could be impacted.

In addition, the procurement interest rate on financing could fluctuate owing in part to the market environment. The Group aims to alleviate this interest rate volatility. Depending on the degree to which interest rates rise going forward, the Group's financing could possibly be affected, and this could potentially impact the Group's financial position and business performance.

(Financial soundness)

The consumer finance industry has faced an increase in interest repayment claims owing to the Supreme Court decision on January 13, 2006 and revisions to laws that have had substantial impact on the Group's financial position and business performance. Management indicators, including the shareholders' equity ratio and net assets, signs of the Group's financial soundness, have not yet recovered to the level before the Supreme Court's decision.

Consequently, going forward, should risk events or other issues arise in the Group and impact its financial position and business performance, there is a possibility the Group's financial position may not be adequate enough to address these impacts, a situation that could hinder the continuity of the Group's business activities.

(Losses carried forward)

The Group has mitigated its corporate tax since it presently maintains tax loss carryforwards.

However, if tax losses are eliminated due to expiry of the tax loss carryforward period, the Group will face a corporate tax burden, which may affect the Group's financial state, business results, and cash flows.

(Marketable securities)

To provide products and services that meet customers' demands, the Group is aiming to diversify its business operations, including those in the loan business (consumer finance and business operator loan businesses), credit card business, credit guarantee business and overseas business, by holding investment securities in subsidiaries and affiliates. However, due to the risk of asset impairment to investment securities from unprofitability at subsidiaries and affiliates extending beyond expectations, there is a possibility of impact on the financial position and business performance of the Group.

In addition, the AIFUL Group holds investment securities in listed and unlisted entities. The value of these assets will be eroded by deterioration in profitability, resulting in the risk of asset impairment. In this situation, there is a possibility of impact on the financial position and business performance of the AIFUL Group.

(Information network system, Internet services and technical systems)

The AIFUL Group relies on information and technological systems internally and externally to conduct sales operations. Managing the variety of information making up the Group's businesses, including business branch networks and loan data, requires that dependence on software, systems and networks be increased. The hardware and software that the AIFUL Group uses are susceptible to impact from human error, natural disasters, blackouts, computer viruses, damage and interruptions of operations from cyber-attacks from outside the Group, as well as the termination of support services from third parties, including the telephone company and Internet service provider.

To alleviate these risks, the Group is duplicating core systems, establishing back-up systems for data and power sources, eliminating computer viruses by installing CSIRT to fortify security, monitoring the possibility of cyber-threats from outside the Group and implementing measures to diagnose and address vulnerabilities.

Nonetheless, disruptions, malfunctions, delays and other impediments can trigger a decline in the number of account openings, spark delays in the repayment of unpaid balances and decrease consumer trust in the AIFUL Group's businesses. These factors could potentially impact the financial position and business performance of the Group.

(Credit guarantee business)

The AIFUL Group is engaged in the credit guarantee business, whose revenues consistently account for more than 10% of consolidated operating revenue, as a result of carrying out sales activities to increase the number of guarantee partners, proposing new products and providing support for marketing promotion. In addition to the risks to the AIFUL Group mentioned above, some other situations could hinder the expansion of the credit guarantee business, including risks to the businesses of financial institutions that are our guarantee partners. This, for instance, includes industry restructuring and legal revisions that impact partner financial institutions, risks to guarantee partners and legal violations.

Consequently, should these situations occur and impede the expansion of the credit guarantee business, there is a possibility of impact on the AIFUL Group's financial position and business performance.

(Overseas business)

The AIFUL Group does business not only in Japan but also in Southeast Asia. Business expansion into overseas markets carries the following inherent risks: economic deterioration or peer competition in Southeast Asia, including Thailand and Indonesia, political instability and unstable social conditions, natural disasters, including flooding, terrorism or disputes, financial system or legal restraints, volatility in interest rates, exchange rates, share prices and the commodities market, earnings at companies that invest or enter these regions, the economic sentiment, financial systems, laws and financial markets in countries where these companies are located, losses in tandem with lawsuits, corporate bankruptcies, personal loans that have turned bad and expenses incurred due to insufficient internal control and legal compliance systems at overseas subsidiaries.

In addition to grasping conditions, including trends in overseas markets, social circumstances and financial systems, the AIFUL Group is enhancing its internal control and audit functions by organizational and system improvements at overseas subsidiaries.

However, should a risk surface, there is a possibility of impact on the AIFUL Group's financial position and business performance.

(Holding and disposing of Company shares by representative directors and their family members)

As of the end of fiscal 2019, Yoshitaka Fukuda, a representative director of AIFUL, members of the founding family and affiliated companies combined owned around 40% of AIFUL's outstanding shares. As a result, they are able to exercise a controlling influence over important decisions with an impact on the Company's business activities that involve important corporate transactions such as the transfer of the Company's right of control, reorganization and restructuring of business, investments in other businesses and assets, and terms of future capital procurement.

Moreover, these shareholders have thus far stably maintained their shares. However, disposing of a portion of shares in the future could have an impact on the Company's share price in view of the increase in the Company's stock in the market.

(Disasters, infectious diseases, etc.)

There is concern of an impact on the AIFUL Group's business continuity from emergencies triggered by external factors, including, in part, large-scale natural disasters such as earthquakes, tsunamis and wind/flood damage, the spread of infections and conflicts.

If an accident or disaster occurs in the AIFUL Group, to resolve risks and minimize the impact on our stakeholders, we plan to create an overlapping basic system, set up back-ups for data and power sources, and establish a disaster reserve system. In addition, we are introducing a communication tool for safety confirmation and emergencies and implementing regular training to formulate a business continuity plan that outlines rapid responses.

We established the COVID-19 Group Response Headquarters, which comprises all directors, with the president and representative director serving as the chair. We conducted hearings with related municipalities and public health centers to establish a concrete contingency plan, including an internal disinfectant system and the procurement of protective clothing. We are working to prevent and curb the expansion of COVID-19 by cutting back on operations, mainly through telework and notifications.

In addition, we conducted surveys of related laws, including the Infectious Disease Law, and collected information in accordance with findings by the World Health Organization (WHO), the National Institute of Infectious Diseases (NID) and the Japan Epidemiological Association. We confirmed our stockpiles of masks and disinfectant solutions, and regularly distribute masks to all employees. We are also quickly establishing internal systems, including implementing off-peak work attendance, dispersing employees to separate sites, introducing apps related to telework, curbing operations and ensuring social distancing inside facilities.

However, there is a possibility that the Group's financial position and business performance will be negatively impacted in the event that customer demand cannot be sufficiently addressed as facilities cannot be used normally because of substantial retrenchment or suspension of business activities caused by stagnating business activities globally from a worse-than-expected disaster or pandemic, or in the event of an increase in costs, including the write-off of bad debt due to the deteriorating performance of customers harmed in tandem with a disaster or pandemic.

Consolidated Balance Sheets

AIFUL CORPORATION and Consolidated Subsidiaries
As of March 31

(Millions of yen)

	2019	2020
Assets		
Current assets		
Cash and deposits	¥ 36,112	¥ 43,524
Operating loans (Notes 2, 3, 7, 9 and 10)	457,785	516,960
Accounts receivable—installment (Notes 2, 5 and 7)	101,584	102,942
Operational investment securities	1,209	1,451
Customers' liabilities for acceptances and guarantees	140,343	157,858
Other operating receivables	7,744	8,858
Purchased receivables	2,472	3,121
Other	16,889	30,612
Allowance for doubtful accounts (Note 11)	(46,135)	(51,608)
Total current assets	718,006	813,722
Non-current assets		
Property, plant and equipment		
Buildings and structures (Note 2)	24,147	24,252
Accumulated depreciation	(18,260)	(18,359)
Buildings and structures, net (Note 2)	5,887	5,893
Machinery, equipment and vehicles (Note 2)	416	407
Accumulated depreciation	(322)	(330)
Machinery, equipment and vehicles, net (Note 2)	94	76
Furniture and fixtures (Note 2)	6,724	6,425
Accumulated depreciation	(5,560)	(5,438)
Furniture and fixtures, net (Note 2)	1,163	987
Land (Note 2)	8,899	8,899
Leased assets	1,399	5,920
Accumulated depreciation	(787)	(2,342)
Leased assets, net	611	3,578
Construction in progress	102	262
Total property, plant and equipment	16,758	19,698
Intangible assets		
Software	3,192	4,182
Other	105	102
Total intangible assets	3,297	4,285
Investments and other assets		
Investment securities (Note 4)	5,643	5,960
Claims provable in bankruptcy (Note 9)	26,981	23,609
Deferred tax assets	6,054	6,712
Lease and guarantee deposits	1,744	1,805
Other	6,433	5,398
Allowance for doubtful accounts	(24,332)	(20,686)
Total investments and other assets	22,524	22,800
Total non-current assets	42,581	46,784
Total assets	¥ 760,587	¥ 860,507

(Millions of yen)

	2019	2020
Liabilities		
Current liabilities		
Notes and accounts payable—trade	¥ 21,076	¥ 37,156
Acceptances and guarantees	140,343	157,858
Short-term borrowings (Note 2)	86,562	103,119
Current portion of bonds	7,370	20,170
Current portion of long-term borrowings (Note 2)	98,728	121,928
Income taxes payable	1,116	2,026
Allowance for bonuses	1,320	1,356
Provision for point card certificates	2,950	2,840
Deferred installment income (Note 6)	508	1,344
Other	20,300	21,581
Total current liabilities	380,277	469,381
Non-current liabilities		
Bonds payable	20,245	15,075
Long-term borrowings (Note 2)	205,803	215,601
Deferred tax liabilities	7	49
Provision for loss on interest repayment	22,963	25,033
Other	3,273	6,435
Total non-current liabilities	252,292	262,194
Total liabilities	632,570	731,576
Net assets		
Shareholders' equity		
Capital stock	143,454	94,028
Capital surplus (Note 1)	13,948	13,948
Retained earnings	(30,485)	20,232
Treasury shares	(3,110)	(3,110)
Total shareholders' equity	123,807	125,098
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(23)	459
Foreign currency translation adjustment	261	459
Total accumulated other comprehensive income	238	918
Share acquisition rights	230	—
Non-controlling interests	3,741	2,914
Total net assets	128,016	128,931
Total liabilities and net assets	¥ 760,587	¥ 860,507

Consolidated Statements of Income

AIFUL CORPORATION and Consolidated Subsidiaries
Years ended March 31

(Millions of yen)

	2019	2020
Operating revenue		
Interest on operating loans	¥ 65,456	¥ 72,444
Revenue from credit card business	16,466	18,862
Revenue from credit guarantee	13,953	15,203
Other financial revenue	9	7
Other operating revenue		
Collection from purchased receivables	1,709	1,662
Recoveries of written off claims	6,320	6,896
Other	11,412	11,961
Total other operating revenue	19,443	20,520
Total operating revenue	115,328	127,038
Operating expenses		
Financial expenses		
Interest expenses	6,630	6,100
Interest on bonds	377	623
Other	940	797
Total financial expenses	7,949	7,522
Cost of sales		
Cost of purchased receivables	1,166	1,120
Other	131	169
Total cost of sales	1,298	1,289
Other operating expenses		
Provision for point card certificates	2,950	2,707
Commissions	14,644	15,722
Provision of allowance for doubtful accounts	29,340	33,796
Provision for loss on interest repayment	11,501	16,927
Employees' salaries and bonuses	11,711	11,964
Provision for bonuses	1,279	1,311
Retirement benefit expenses	484	497
Sales promotion expenses	7,719	8,102
Other	23,418	25,517
Total other operating expenses	103,049	116,547
Total operating expenses	112,297	125,358
Operating profit	3,031	1,679
Non-operating income		
Interest on loans receivable	155	193
Share of profit of entities accounted for using equity method	81	110
Foreign exchange gains	214	—
Rental income from real estate	82	84
Gain on sales of investment securities	458	—
Other	153	141
Total non-operating income	1,145	529
Non-operating expenses		
Interest expenses	6	5
Foreign exchange loss	—	479
Provision of allowance for doubtful accounts	14	—
Loss on withdrawal of guarantee deposits received	31	—
Other	13	8
Total non-operating expenses	66	493
Ordinary profit	4,110	1,716
Extraordinary income		
Gain on reversal of share acquisition rights	—	230
Total extraordinary income	—	230
Extraordinary losses		
Loss on retirement of fixed assets	—	112
Loss on valuation of investment securities	690	264
Total extraordinary losses	690	376
Profit before income taxes	3,420	1,569
Income taxes—current	858	2,155
Income taxes—deferred	(5,621)	(886)
Total income taxes	(4,763)	1,269
Profit	8,183	300
Profit (loss) attributable to non-controlling interests	(1,162)	(1,089)
Profit attributable to owners of parent	¥ 9,346	¥ 1,390

Consolidated Statements of Comprehensive Income

AIFUL CORPORATION and Consolidated Subsidiaries
Years ended March 31

(Millions of yen)

	2019	2020
Profit	¥ 8,183	¥ 300
Other comprehensive income		
Valuation difference on available-for-sale securities	160	522
Foreign currency translation adjustment	(107)	396
Share of other comprehensive income of entities accounted for using equity method	(0)	(0)
Total other comprehensive income (Note 1)	53	919
Comprehensive income	8,237	1,220
Comprehensive income attributable to		
Owners of parent	9,453	2,070
Non-controlling interests	¥ (1,216)	¥ (850)

Consolidated Statements of Change in Shareholders' Equity

AIFUL CORPORATION and Consolidated Subsidiaries
Years ended March 31

(Millions of yen)

2019	Shareholders' equity: Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at April 1, 2018	¥ 143,454	¥ 13,948	¥ (40,208)	¥ (3,110)	¥ 114,083
Cumulative effects of changes in accounting policies					—
Restated balance	143,454	13,948	(40,208)	(3,110)	114,083
Changes during period					
Profit attributable to owners of parent			9,346		9,346
Transfer from share capital to other capital surplus					—
Deficit disposition					—
Purchase of treasury shares				(0)	(0)
Change in scope of consolidation					—
Change in scope of equity method			377		377
Net changes in items other than shareholders' equity					
Total changes during period	—	—	9,723	(0)	9,723
Balance at March 31, 2019	¥ 143,454	¥ 13,948	¥ (30,485)	¥ (3,110)	¥ 123,807

(Millions of yen)

	Accumulated other comprehensive income: Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income	Share acquisition rights	Non-controlling interests	Total net assets
Balance at April 1, 2018	¥ (184)	¥ 315	¥ 130	¥ 234	¥ 4,957	¥ 119,407
Cumulative effects of changes in accounting policies						—
Restated balance	(184)	315	130	234	4,957	119,407
Changes during period						
Profit attributable to owners of parent						9,346
Transfer from share capital to other capital surplus						—
Deficit disposition						—
Purchase of treasury shares						(0)
Change in scope of consolidation						—
Change in scope of equity method						377
Net changes in items other than shareholders' equity	160	(53)	107	(4)	(1,216)	(1,113)
Total changes during period	160	(53)	107	(4)	(1,216)	8,609
Balance at March 31, 2019	¥ (23)	¥ 261	¥ 238	¥ 230	¥ 3,741	¥ 128,016

(Millions of yen)

2020	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at April 1, 2019	¥ 143,454	¥ 13,948	¥ (30,485)	¥ (3,110)	¥ 123,807
Cumulative effects of changes in accounting policies			(121)		(121)
Restated balance	143,454	13,948	(30,607)	(3,110)	123,685
Changes during period					
Profit attributable to owners of parent			1,390		1,390
Transfer from share capital to other capital surplus	(49,426)	49,426			—
Deficit disposition		(49,426)	49,426		—
Purchase of treasury shares				(0)	(0)
Change in scope of consolidation			22		22
Change in scope of equity method					—
Net changes in items other than shareholders' equity					
Total changes during period	(49,426)	—	50,839	(0)	1,413
Balance at March 31, 2020	¥ 94,028	¥ 13,948	¥ 20,232	¥ (3,110)	¥ 125,098

(Millions of yen)

	Accumulated other comprehensive income					
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income	Share acquisition rights	Non-controlling interests	Total net assets
Balance at April 1, 2019	¥ (23)	¥ 261	¥ 238	¥ 230	¥ 3,741	¥ 128,016
Cumulative effects of changes in accounting policies					(123)	(245)
Restated balance	(23)	261	238	230	3,617	127,771
Changes during period						
Profit attributable to owners of parent						1,390
Transfer from share capital to other capital surplus						—
Deficit disposition						—
Purchase of treasury shares						(0)
Change in scope of consolidation						22
Change in scope of equity method						—
Net changes in items other than shareholders' equity	482	197	680	(230)	(703)	(253)
Total changes during period	482	197	680	(230)	(703)	1,159
Balance at March 31, 2020	¥ 459	¥ 459	¥ 918	¥ —	¥ 2,914	¥ 128,931

Consolidated Statements of Cash Flows

AIFUL CORPORATION and Consolidated Subsidiaries
Years ended March 31

(Millions of yen)

	2019	2020
Cash flows from operating activities		
Profit before income taxes	¥ 3,420	¥ 1,569
Depreciation	2,653	3,017
Increase (decrease) in allowance for doubtful accounts	3,531	1,497
Increase (decrease) in allowance for bonuses	328	35
Increase (decrease) in provision for point card certificates	143	(110)
Increase (decrease) in allowance for loss on interest repayment	(1,367)	2,069
Interest and dividend income	(179)	(224)
Interest expenses	6	5
Loss (gain) on sales of investment securities	(458)	—
Loss (gain) on valuation of investment securities	690	264
Share of loss (profit) of entities accounted for using equity method	(81)	(110)
Gain on reversal of share acquisition rights	—	(230)
Loss on retirement of fixed assets	—	112
Decrease (increase) in operating loans receivable	(45,284)	(57,770)
Decrease (increase) in accounts receivable—installment	(4,332)	2,400
Decrease (increase) in other operating receivables	(1,018)	(1,110)
Decrease (increase) in purchased receivables	401	(648)
Decrease (increase) in claims provable in bankruptcy	806	3,371
Decrease (increase) in other current assets	(2,487)	(3,626)
Increase (decrease) in other current liabilities	1,865	(411)
Other	(139)	(339)
Subtotal	(41,500)	(50,238)
Interest and dividend income	192	246
Interest expenses paid	(6)	(6)
Income taxes refund	10	0
Income taxes paid	(462)	(1,135)
Cash flows from operating activities	(41,765)	(51,133)
Cash flows from investing activities		
Purchase of property, plant and equipment	(201)	(502)
Purchase of intangible assets	(959)	(1,756)
Purchase of investment securities	(1,085)	—
Proceeds from sales of investment securities	506	—
Other	(2,478)	(459)
Cash flows from investing activities	(4,219)	(2,718)
Cash flows from financing activities		
Proceeds from short-term borrowings	874,947	1,353,270
Repayments of short-term borrowings	(871,631)	(1,337,105)
Proceeds from long-term borrowings	132,470	187,087
Repayments of long-term borrowings	(101,940)	(154,703)
Proceeds from issuance of bonds	20,500	15,000
Redemption of bonds	(1,385)	(7,370)
Purchase of treasury shares	(0)	(0)
Other	(303)	(823)
Cash flows from financing activities	52,657	55,356
Effect of exchange rate change on cash and cash equivalents	111	(718)
Net increase (decrease) in cash and cash equivalents	6,784	784
Cash and cash equivalents at beginning of period	29,323	36,108
Increase in cash and cash equivalents resulting from new consolidation	—	6,627
Cash and cash equivalents at end of period (Note 1)	¥ 36,108	¥ 43,520

Notes to Consolidated Financial Statements

AIFUL CORPORATION and Consolidated Subsidiaries

Significant items forming the basis for the preparation of consolidated financial statements

1. Matters concerning the scope of consolidation

(1) Number of consolidated subsidiaries: Seven

Names of consolidated subsidiaries

LIFECARD Co., Ltd., BUSINEXT CORPORATION, AsTry Loan Services Corporation, LIFE GUARANTEE Co., Ltd., Sumishin Life Card Company, Limited, AIRA & AIFUL Public Company Limited and one other company

LIFE GUARANTEE Co., Ltd. and Sumishin Life Card Company, Limited, which were non-consolidated subsidiaries in the fiscal year ended March 31, 2019, have been included in the scope of consolidation from the fiscal year ended March 31, 2020 due to increased materiality.

(2) Name, etc., of non-consolidated subsidiaries

AsTry Partners Corporation and 10 other companies

(Reason for exclusion from the scope of consolidation)

Each non-consolidated subsidiary is small in scale, and the total assets, operating revenue, profit or loss (corresponding to equity) and retained earnings (corresponding to equity) of those 11 companies in aggregate have an insignificant impact on the consolidated financial statements. Therefore, they have been excluded from the scope of consolidation.

2. Matters concerning application of the equity method

(1) Number of affiliated companies accounted for using the equity method: One

Name of company

Anshin Guarantor Service Co., Ltd.

(2) Name of major non-consolidated subsidiary or affiliated company not accounted for using the equity method

AsTry Partners Corporation and 10 other companies

(Reason for not applying the equity method)

Each of the 11 non-consolidated subsidiaries not accounted for using the equity method is small in scale, and the profit or loss (corresponding to equity), retained earnings (corresponding to equity), etc., of those 11 companies in aggregate have an insignificant impact on the consolidated financial statements. Therefore, they have been excluded from the scope of application of the equity method.

3. Matters concerning the fiscal year, etc., of consolidated subsidiaries

Of the consolidated subsidiaries, the closing date of AIRA & AIFUL Public Company Limited is December 31.

In the preparation of the consolidated financial statements, the financial statements as of the above date were used and necessary adjustments for consolidation were made for important transactions occurring between said date and the consolidated closing date.

4. Matters concerning accounting policies

(1) Valuation standards and valuation method for significant assets

(i) Securities

Available-for-sale securities

Those that are marketable

Stated at fair value by the market value method, based on market price, etc., as of the consolidated closing date. (All differences in valuation are fully included in the net asset method, and sales costs are calculated by the moving average method.)

Those that are not marketable

Stated at cost determined by the moving average method. The net amount of equity included in the Company's financial statements from limited liability investment partnerships and similar investments, regarded as marketable securities under paragraph 2, Article 2 of the Financial Instruments and Exchanges Act, is calculated based on the most recent financial statements for the partnership available as of the reporting date stipulated in the partnership agreement.

(ii) Derivatives

Stated at fair value by the market value method.

(iii) Purchased receivables

Stated at cost determined by the specific identification method.

(2) Depreciation method of significant depreciable assets

(i) Property, plant and equipment (excluding leased assets)

The Company and its consolidated subsidiaries have adopted the declining balance method.

However, buildings (excluding attached facilities) acquired on or after April 1, 1998 are depreciated using the straight-line method at consolidated subsidiaries.

The useful life of major assets is as follows:

Buildings and structures:	2 to 62 years
Machinery, equipment and vehicles:	4 to 17 years
Furniture and fixtures:	2 to 20 years

(ii) Intangible assets (excluding leased assets)

The straight-line method has been adopted.

Software for internal use is amortized based on the period of internal use (five years).

(iii) Leased assets

Leased assets pertaining to finance lease transactions involving the transfer of ownership

Depreciated by the same method applied to non-current assets owned by the Company.

Leased assets pertaining to finance lease transactions not involving the transfer of ownership

Depreciated over the lease period by the straight-line method, assuming the residual value is zero.

Overseas consolidated subsidiaries, which prepare financial statements based on the International Financial Reporting Standards, have adopted the International Financial Reporting Standard 16 "Lease" (hereinafter referred to as "IFRS 16") from the fiscal year under review, as described in (Changes in accounting policies). Due to this adoption, the lessees book all leases on their balance sheets as assets and liabilities. Right-of-use assets booked as assets are depreciated using the straight-line method.

(3) Booking of major allowances

(i) Allowance for doubtful accounts

To provide for losses on operating loans caused by bad debt, an amount deemed necessary based on historical losses is booked as an allowance for ordinary receivables, and an estimated uncollectible amount in consideration of individual collectability is booked for doubtful receivables and other certain receivables.

(ii) Allowance for bonuses

To provide for the payment of bonuses to employees, the portion of the estimated amount of future bonus payment as attributable to the fiscal year under review is booked as a provision.

(iii) Provision for point card certificates

To provide for the use of point card certificates granted to card members in accordance with the point card certificate system designed to promote the use of cards, an estimated amount of future use as of the end of the fiscal year under review is booked as a provision.

(iv) Provision for loss on interest repayment

To provide for the future occurrence of interest repayment, an estimated amount of repayments that is reasonably estimated based on repayment history and recent repayment situations is booked as a provision.

(4) Booking of significant revenues and expenses

(i) Interest on operating loans

Interest on operating loans is booked on an accrual basis. For accruals of interest pertaining to operating loans, the lower interest rate under the Interest Rate Restriction Act or the contract interest rate is booked.

(ii) Booking of revenues pertaining to installment sales

Add-on type customer commissions and member store commissions are collectively booked under deferred installment income in a lump sum at the time of contract and booked as revenue at each billing period. For declining balance method or revolving method customer commissions, revenue is booked at each billing period. The add-on type revenue of departments is allocated using the 78 method.

(iii) Revenue from credit guarantee

Revenue is booked using the charge for declining balance method.

(iv) Booking of revenues and expenses pertaining to made-to-order software development

The percentage-of-completion method is applied.

(v) Accounting for interest on borrowings

With respect to interest on borrowings, the portion corresponding to financing receivables is accounted for as operating expenses (financial expenses), and the remaining portions are accounted for as non-operating expenses (interest expenses).

(5) Translation of significant assets or liabilities denominated in a foreign currency into Japanese yen

Monetary assets and liabilities in a foreign currency are translated into Japanese yen based on the spot exchange rate in the foreign exchange market on the consolidated closing date, and foreign exchange gains and losses from the translations are recognized in the income statement. The assets and liabilities of overseas subsidiaries, etc., are translated into Japanese yen based on the spot exchange rate in the foreign exchange market on the consolidated closing date, while their revenues and expenses are translated into Japanese yen based on the average exchange rate during the fiscal year, and the foreign exchange gains and losses from the translations are shown as foreign currency translation adjustment and non-controlling interests under net assets.

(6) Significant hedge accounting method

- Method of hedge accounting

  Special accounting is adopted for interest rate cap transactions since they meet the requirements of special accounting.

- Hedging instrument and hedged item

  Hedging instrument: Interest rate cap transaction

  Hedged item: Borrowings with variable interest rates

- Hedging policy

  For interest rate cap transactions, the interest rate fluctuation risks pertaining to the hedged item are hedged based on the Company's management rules.

- Method of evaluating hedge effectiveness

  The effectiveness of interest rate cap transactions, which are subject to special accounting, is not evaluated.

(7) Funds referred to in the consolidated statements of cash flows

Funds referred to in the consolidated statements of cash flows consist of cash on hand, demand deposits and short-term, highly liquid investments that mature within three months of the acquisition date and are exposed to limited price fluctuation risks.

(8) Accounting for consumption taxes, etc.

Consumption taxes, etc., are accounted for by the tax-exclusive method. However, non-deductible consumption taxes, etc., pertaining to assets are booked as "other" under investments and other assets and amortized equally over five years.

(9) Application of consolidated taxation system

The consolidated taxation system is applied.

(10) Application of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system

The Company and some of its domestic consolidated subsidiaries do not apply the provisions of paragraph 44 of the Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28; February 16, 2018) on items that were transitioned to the group tax sharing system, which was created in the Act for Partial Amendment of the Income Tax Act, etc., (Act No. 8 of 2020), and for which the non-consolidated taxation system was reviewed to coincide with the transition to the group tax sharing system, based on the treatment in paragraph 3 of the Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System

(PITF No. 39; March 31, 2020). The amounts of deferred tax assets and deferred tax liabilities are based on the provisions of the tax law prior to the revision.

Changes in accounting policies

A subsidiary that has adopted the International Financial Reporting Standards has adopted the International Financial Reporting Standard 16 "Lease" ("IFRS 16") from the fiscal year under review. Due to this adoption, the lessees have decided to book all leases on their balance sheets as assets and liabilities. The application of IFRS 16 conforms to transitional treatment, with the cumulative impact of the changes in accounting policies booked under retained earnings at the beginning of the fiscal year under review.

As a result, in the consolidated balance sheets for the fiscal year under review, leased assets increased ¥2,053 million, "other" in current liabilities increased ¥527 million and "other" in non-current liabilities increased ¥1,787 million.

The impact on the consolidated statements of income and per share information of the fiscal year under review is minor.

Due to the reflection of the cumulative impact on net assets at the beginning of the fiscal year under review, the balance of retained earnings and non-controlling interests at the beginning of the period of the consolidated statements of change in shareholders' equity decreased ¥121 million and ¥123 million, respectively.

Accounting standards, etc., not applied

- Accounting Standard for Revenue Recognition, etc., (ASBJ Statement No. 29; revised March 31, 2020)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30; revised March 31, 2020)

(1) Outline

These are comprehensive accounting standards relating to revenue recognition. Revenues are recognized by applying the following five steps:

Step 1: Identify agreements with customers
Step 2: Identify the performance obligation under the agreement
Step 3: Calculate the transaction price
Step 4: Allocate the transaction price to the performance obligation under the agreement
Step 5: Recognize revenues when the performance obligation is fulfilled or according to the progress of such fulfillment.

(2) Scheduled date of application

The accounting standards above are scheduled to be applied from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of application of the accounting standards, etc.

The amount of impact was being assessed when the consolidated financial statements were being prepared.

- Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30; July 4, 2019)
- Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31; July 4, 2019)
- Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9; revised July 4, 2019)
- Accounting Standard for Financial Instruments (ASBJ Statement No. 10; revised July 4, 2019)
- Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19; revised March 31, 2020)

(1) Outline

In order to improve comparability with the provisions of international accounting standards, the Accounting Standard for Fair Value Measurement and the Implementation Guidance on Accounting Standard for Fair Value Measurement (hereinafter referred to as "Accounting Standard for Fair Value Measurement, etc.") were developed to specify guidance on fair value measurement. The Accounting Standard for Fair Value Measurement, etc., are applied to the fair value of the following items:

- Financial instruments under the Accounting Standard for Financial Instruments
- Inventories held for trading purposes under the Accounting Standard for Measurement of Inventories

Furthermore, the Implementation Guidance on Disclosures about Fair Value of Financial Instruments was revised to indicate notes on the breakdown for each fair value level of financial instruments.

(2) Scheduled date of application

The accounting standards above are scheduled to be applied from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of application of the accounting standards, etc.

The amount of impact was being assessed when the consolidated financial statements were being prepared.

• Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24; revised March 31, 2020)

(1) Outline

This accounting standard is aimed at indicating the principles and the outline of procedures of the adopted accounting method when the provisions of relevant accounting standards are unclear.

(2) Scheduled date of application

The accounting standards above are scheduled to be applied from the end of the fiscal year ending March 31, 2021.

• Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31; March 31, 2020)

(1) Outline

This accounting standard is aimed at disclosing information that will contribute to financial statements users' understanding of the details of accounting estimates for items whose amounts booked on the financial statements for the fiscal year under review were based on accounting estimates that might have a significant impact on the financial statements for the following fiscal year.

(2) Scheduled date of application

The accounting standards above are scheduled to be applied from the end of the fiscal year ending March 31, 2021.

Additional information

The use of services by the Group's customers has changed due to the outbreak of COVID-19. However, the Group has deemed that the accounting estimates of allowance for doubtful accounts, etc., will not have a significant impact on the estimates at the end of the fiscal year under review, in consideration of the collection levels available from the last day of the fiscal year to the time of the prepartion of the consolidated financial statements.

Notes to consolidated balance sheets

1. Capital surplus includes an increase of ¥18,693 million (including ¥13,900 million in recognized evaluation differences for shares of subsidiaries during the process of capital consolidation) in legal capital surplus resulting from a simplified exchange of shares.

2. Assets pledged as collateral and corresponding liabilities

Assets pledged as collateral

(Millions of yen)

As of March 31, 2019	
(1) Assets pledged as collateral	
Operating loans	¥ 298,670
Accounts receivable—installment	62,574
Buildings and structures	3,999
Machinery, equipment and vehicles	12
Furniture and fixtures	25
Land	8,523
Total	¥ 373,805
(2) Corresponding liabilities	
Short-term borrowings	¥ 73,570
Current portion of long-term borrowings	67,010
Long-term borrowings	156,415
Total	¥ 296,996

(Millions of yen)

As of March 31, 2020	
(1) Assets pledged as collateral	
Operating loans	¥ 339,779
Accounts receivable—installment	58,820
Buildings and structures	4,262
Machinery, equipment and vehicles	10
Furniture and fixtures	24
Land	8,523
Total	¥ 411,421
(2) Corresponding liabilities	
Short-term borrowings	¥ 77,950
Current portion of long-term borrowings	88,120
Long-term borrowings	164,802
Total	¥ 330,872

(i) The amounts above at the end of the fiscal year ended March 31, 2019 include amounts pertaining to the securitization of receivables (operating loans of ¥179,719 million, current portion of long-term borrowings of ¥27,616 million and long-term borrowings of ¥118,653 million).
(ii) The amount for some of the operating loans and installment receivables is the amount at the time of registration of the transfer of receivables.

(i) The amounts above at the end of the fiscal year ended March 31, 2020 include amounts pertaining to the securitization of receivables (operating loans of ¥181,047 million, current portion of long-term borrowings of ¥35,530 million and long-term borrowings of ¥103,429 million).
(ii) The amount for some of the operating loans and installment receivables is the amount at the time of registration of the transfer of receivables.

3. Unsecured personal loans included in operating loans

(Millions of yen)

As of March 31, 2019
¥ 421,078

(Millions of yen)

As of March 31, 2020
¥ 461,941

4. Shares and other securities issued by non-consolidated subsidiaries and affiliated companies

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Investment securities (shares)	¥ 2,918	¥ 2,712
Investment securities (other securities)	¥ 1,190	¥ 1,174

5. Accounts receivable—installment

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Credit card business	¥ 101,413	¥ 97,430
Installment sales finance business	170	5,511
Total	¥ 101,584	¥ 102,942

6. Deferred installment income

(Millions of yen)

As of March 31, 2019	Balance at April 1, 2018	Receipts during FY	Actual balance during FY	Balance at March 31, 2019
Credit card shopping	¥ 427	¥ 16,168	¥ 16,097	¥ 498 (30)
Installment sales finance	—	—	—	— (—)
Credit guarantee	12	1,410	1,414	9 (—)
Loans	—	5,693	5,693	— (—)
Total	¥ 440	¥ 23,272	¥ 23,205	¥ 508 (30)

(Millions of yen)

As of March 31, 2020	Balance at April 1, 2019	Receipts during FY	Actual balance during FY	Balance at March 31, 2020
Credit card shopping	¥ 498	¥ 17,171	¥ 17,174	¥ 495 (25)
Installment sales finance	496	1,036	691	841 (—)
Credit guarantee	9	1,530	1,532	6 (—)
Loans	—	5,322	5,322	— (—)
Total	¥ 1,005	¥ 25,060	¥ 24,721	¥ 1,344 (25)

Notes: 1. Figures in parentheses indicate member store commissions.
2. The beginning balance for the fiscal year under review includes the balance of LIFE GUARANTEE Co., Ltd., which is included in the scope of consolidation from the fiscal year under review.

7. Securitization of claims removed from the balance sheets

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Operating loans	¥ 64,037	¥ 56,119
Accounts receivable—installment	¥ 3,060	¥ 8,530

8. Contingent liability

Guarantee obligation

The Company guarantees loans payable from financial institutions for the Company's non-consolidated subsidiary, PT REKSA FINANCE. The amounts for LIFE GUARANTEE Co., Ltd. and Sumishin Life Card Company, Limited are not stated since they were included in the scope of consolidation from the fiscal year under review.

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
LIFE GUARANTEE Co., Ltd.	¥ 900	¥ —
Sumishin Life Card Company, Limited	2,365	—
PT REKSA FINANCE	—	390
Total	¥ 3,265	¥ 390

9. Non-performing loans

The status of non-performing loans (NPL) of operating loans and claims in bankruptcy is as follows:

(Millions of yen)

As of March 31, 2019			
	Unsecured loans	Other than unsecured loans	Total
Loans in legal bankruptcy	¥ 711	¥ 25,456	¥ 26,167
Nonaccrual loans	27,194	5,923	33,118
Loans 3 months or more in arrears	6,798	244	7,043
Restructured loans	11,870	1,095	12,965
Total	¥ 46,575	¥ 32,719	¥ 79,294

(Millions of yen)

As of March 31, 2020			
	Unsecured loans	Other than unsecured loans	Total
Loans in legal bankruptcy	¥ 768	¥ 21,359	¥ 22,127
Nonaccrual loans	31,794	7,361	39,156
Loans 3 months or more in arrears	7,754	281	8,035
Restructured loans	15,338	1,764	17,102
Total	¥ 55,656	¥ 30,766	¥ 86,422

The loan categories in the table above are as follows:

(Loans in legal bankruptcy)

Loans in legal bankruptcy are loans in which payment of principal or interest remains past due for a considerable period and accruals of interest are discontinued, to which the conditions stipulated under (a) through (e) of sub-paragraph 3, paragraph 1, Article 96 or sub-paragraph 4 of the same paragraph of the Corporation Tax Act Enforcement Ordinance (Enforcement Ordinance No. 97 of 1965) apply. Any amounts deemed necessary to cover possible losses on an individual account basis of the claims in bankruptcy and rehabilitation are posted in the allowances for doubtful accounts.

(Nonaccrual loans)

Nonaccrual loans are loans in which accruals of interest are discontinued, other than loans in legal bankruptcy and loans receiving regular payments in the case of granting deferral of interest payment to debtors in financial difficulties to assist them in their recovery.

(Loans three months or more in arrears)

Loans three months or more in arrears are operating loans for which payments of principal or interest have not been received for three months or more beginning with the next business day following the last due date for such payments. Loans classified as loans in legal bankruptcy and nonaccrual loans are excluded from loans three months or more in arrears.

(Restructured loans)

Restructured loans are operating loans for which creditors have granted concessions (e.g., reduction of the stated interest rate, deferral of interest payment, extension of maturity date, waiver of the face amount or other concessive measures) to debtors in financial difficulties to assist them in their recovery and eventually enable them to pay creditors, and which receive regular payments. Loans classified as loans in legal bankruptcy, nonaccrual loans and loans three months or more in arrears are excluded.

10. Loan commitments related to operating loans

(Fiscal year ended March 31, 2019)

Of operating loans including off-balance sheet loans resulting from securitization, ¥422,993 million is loans under revolving credit agreements. Under these agreements, customers may obtain additional loans up to a specified maximum amount that does not exceed the amount they requested.

Outstanding loan commitments under revolving credit agreements were ¥777,976 million.

The Group reviews the agreements and takes steps to preserve credit even after concluding the agreements if it considers that taking steps is necessary due to changes in customers' credit standing or other reasons.

Outstanding loan commitments include commitments to customers who do not have any outstanding loan commitments or who have not requested any loans after concluding a credit agreement. Many revolving credit agreements expire with no loans being provided. Therefore, outstanding loan commitments themselves do not necessarily affect the Group's future cash flows.

(Fiscal year ended March 31, 2020)

Of operating loans including off-balance sheet loans resulting from securitization, ¥470,703 million is loans under revolving credit agreements. Under these agreements, customers may obtain additional loans up to a specified maximum amount that does not exceed the amount they requested.

Outstanding loan commitments under revolving credit agreements were ¥788,995 million.

The Group reviews the agreements and takes steps to preserve credit even after concluding the agreements if it considers that taking steps is necessary due to changes in customers' credit standing or other reasons.

Outstanding loan commitments include commitments to customers who do not have any outstanding loan commitments or who have not requested any loans after concluding a credit agreement. Many revolving credit agreements expire with no loans being provided. Therefore, outstanding loan commitments themselves do not necessarily affect the Group's future cash flows.

11. Of the allowances for doubtful accounts, the estimated interest repayment amount expected to have priority in being appropriated to operating loans is as follows:

(Millions of yen)

As of March 31, 2019	As of March 31, 2020
¥ 2,534	¥ 1,415

Notes to consolidated statements of comprehensive income

1. Amounts of reclassification adjustment and tax effect pertaining to other comprehensive income

(Millions of yen)

	FY ended March 31, 2019	FY ended March 31, 2020
Valuation difference on available-for-sale securities		
Amount during the period	¥ (205)	¥ 794
Reclassification adjustment	233	(1)
Before tax effect adjustment	27	793
Tax effect	133	(270)
Valuation difference on available-for-sale securities	160	522
Foreign currency translation adjustment		
Amount during the period	(107)	396
Share of other comprehensive income of entities accounted for using equity method		
Amount during the period	(0)	(0)
Total other comprehensive income	¥ 53	¥ 919

Notes to consolidated statements of change in shareholders' equity

Fiscal year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

1. Matters regarding class and total number of shares issued and class and number of treasury shares

	Number of shares at beginning of FY	Number of shares increased during FY	Number of shares decreased during FY	Number of shares at end of FY
Shares issued				
Common stock	484,620,136	—	—	484,620,136
Total	484,620,136	—	—	484,620,136
Treasury shares				
Common stock	917,138	44	—	917,182
Total	917,138	44	—	917,182

(Outline of the reason for the change)

The increase of 44 treasury shares in common stock is due to the purchase of odd-lot shares.

2. Matters regarding share acquisition rights

Classification	Description	Class of shares subject to the rights	Number of shares subject to the rights				Balance at end of FY (Millions of yen)
			At beginning of FY	Increase during FY	Decrease during FY	At end of FY	
AIFUL CORPORATION	Share acquisition rights as stock option for 2015	—	—	—	—	—	¥ 230 (7)
Total			—	—	—	—	¥ 230 (7)

Note: Share acquisition rights held by the Company are indicated in parentheses.

3. Matters regarding dividends
Not applicable.

Fiscal year ended March 31, 2020 (April 1, 2019 to March 31, 2020)
1. Matters regarding class and total number of shares issued and class and number of treasury shares

	Number of shares at beginning of FY	Number of shares increased during FY	Number of shares decreased during FY	Number of shares at end of FY
Shares issued				
Common stock	484,620,136	—	—	484,620,136
Total	484,620,136	—	—	484,620,136
Treasury shares				
Common stock	917,182	164	—	917,346
Total	917,182	164	—	917,346

(Outline of the reason for the change)
The increase of 164 treasury shares in common stock is due to the purchase of odd-lot shares.

2. Matters regarding share acquisition rights
Not applicable.

3. Matters regarding dividends
Not applicable.

Notes to consolidated statements of cash flows

1. Relationship between the balance of cash and cash equivalents at the end of the consolidated fiscal year and the amounts of account titles shown on the consolidated balance sheets

(Millions of yen)

	FY ended March 31, 2019	FY ended March 31, 2020
Cash and deposits	¥ 36,112	**¥ 43,524**
Time deposit with maturity period of more than three months	(3)	**(3)**
Cash and cash equivalents	¥ 36,108	**¥ 43,520**

Notes on financial instruments

Fiscal year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

1. Matters regarding the situation of financial instruments

(1) Policy on financial instruments

The Group's primary business is the financial business, which includes consumer finance, real estate mortgage finance, business operator finance, credit sales, credit guarantee and receivables management and collection. In order to conduct these businesses, the Company procures funds by indirect financing through bank borrowings as well as by direct financing through corporate bonds, based on the market situation and the balance between long- and short-term funding. Thus, as the Company holds financial liabilities that involve interest rate fluctuation, it is also engaged in derivative transactions to prevent any disadvantageous impacts of interest rate fluctuation. In conducting derivatives transactions, the Company has a policy of limiting them to transactions that involve actual demand, in principle, and not engaging in such transactions for short-term trading purposes.

(2) Types and risks of financial instruments

The financial assets of the Group consist mainly of operating loans to individuals and corporations and installment receivables, both of which are exposed to credit risks posed by customer default. In addition, operational investment securities and investment securities mainly consist of shares and investments in capital of partnerships, and are held for the purpose of promoting the Group's business. They are exposed to credit risks of the issuers and market price fluctuation risks, respectively. Financial assets denominated in foreign currencies are exposed to foreign exchange fluctuation risks.

Financial liabilities such as borrowings and corporate bonds are exposed to liquidity risk, which prevents payments from being made on the due date in such cases where the Group will not be able to access the market under certain circumstances. The Group also conducts variable rate financing, which is exposed to interest rate fluctuation risks.

Derivative transactions pose market interest rate fluctuation risk and counterparty risk.

(3) System for managing risk pertaining to financial instruments

(i) Management of credit risk

The Group manages credit risk in accordance with the Company's various management regulations. With respect to operating loans, installment receivables and customers' liabilities for acceptances and guarantees, which are the Group's principal financial assets, the Company has established and operates a system for credit management in which it conducts credit examinations for individual transactions based on the data of personal credit information agencies and the Company's own credit system. Furthermore, the credit risks of issuers of securities are managed by obtaining credit information and fair value regularly.

With respect to counterparty risk of derivative transactions, the Company enters into derivative contracts with credible financial institutions in Japan and abroad, and thus deems credit risk small. These risk management measures are subject to evaluation, analysis and consideration of countermeasures by the respective departments in charge and are reported to the Board of Directors as needed.

(ii) Management of market risk

i) Management of interest rate risk

The Group manages interest rate risk on the basis of the Risk Management Manual, which was created with the approval of the Risk Management Committee, which is under the direct control of the Board of Directors. The risks are reported by the Finance Department, which is the department in charge, to the Internal Control Department, where the risks are assessed and the adequacy and appropriateness of countermeasures are examined and reported to the Board of Directors as needed. For reference, derivative transactions are made to hedge interest rate fluctuation risks.

ii) Management of price fluctuation risk

Many shares held by the Group are for the purpose of business promotion, including business and capital partnerships. The market environment and financial condition of clients are monitored and countermeasures are considered by the department in charge, which reports to the Board of Directors as needed.

The Group does not hold financial instruments for trading purposes.

iii) Derivative transactions

Risks are managed in accordance with the Company's various management regulations.

A protocol of internal checks that involve appropriate execution of transactions, evaluation of hedging effectiveness and administration by the department in charge and reporting to the Accounting Department has been established.

iv) Quantitative information pertaining to market risk

The Group does not carry out quantitative analyses.

(Interest rate risk)

At the Group, the major financial instruments whose fair value fluctuates due to interest rate fluctuation, which is the principal risk variable, are operating loans, installment receivables, borrowings and corporate bonds.

In account titles whose fair value is calculated by market interest rates, the estimated amount of impact of a 1 basis point (0.01%) change in market interest rates at the end of the fiscal year on the net value (of assets) after offsetting financial assets against financial liabilities is as follows: a decrease of ¥56 million in the present value of financial instruments affected by interest rate fluctuations if yen-denominated interest rates rise by 1 basis point (0.01%); and an increase of ¥56 million if such interest rates drop by 1 basis point (0.01%). This estimation of impact assumes no changes in risk variables other than market interest rates.

(iii) Management of liquidity risk pertaining to funding
The Group manages liquidity risk by managing funds for the entire Group on a timely basis as well as by diversifying funding means and adjusting the balance of long-term and short-term financing in consideration of the market environment.

(4) Supplementary explanation on matters regarding fair value, etc., of financial instruments
The fair value of financial instruments includes value based on market prices as well as reasonable estimates if there is no market price. Since certain assumptions are adopted in the calculation of the values, the values may vary under different assumptions.

2. Matters regarding fair value, etc., of financial instruments

The consolidated balance sheet amounts, fair values and the differences between the two as of March 31, 2019 are as follows. Those whose fair value is deemed extremely difficult to ascertain are not included in the table below (refer to Note 2).

(Millions of yen)

Category	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and deposits	¥ 36,112	¥ 36,112	¥ —
(2) Operating loans	457,785		
Allowance for doubtful accounts and provision for loss on interest repayment *1	(33,389)		
	424,395	485,747	61,351
(3) Accounts receivable—installment	101,584		
Deferred installment income *2	(467)		
Allowance for doubtful accounts *3	(4,505)		
	96,611	97,134	522
(4) Operational investment securities and investment securities (Including shares of affiliated companies)	1,503	2,507	1,003
(5) Claims provable in bankruptcy	26,981		
Allowance for doubtful accounts *3	(24,260)		
	2,720	2,720	—
Total assets	¥ 561,343	¥ 624,221	¥ 62,877
(1) Short-term borrowings	86,562	86,562	—
(2) Bonds	27,615	27,615	—
(3) Long-term borrowings *4	304,531	304,620	89
Total liabilities	¥ 418,708	¥ 418,798	¥ 89
Derivative transactions *4			
(i) Those qualified for hedge accounting	—	—	—
(ii) Those not qualified for hedge accounting	—	—	—
Total derivative transactions	¥ —	¥ —	¥ —

*1 Of the allowance for doubtful accounts of operating loans and provision for loss on interest repayment, the estimated amount of interest repayment expected to be preferentially appropriated to operating loans is deducted.
*2 Deferred installment income (liabilities account) on installment receivables is deducted.
*3 The allowances for doubtful accounts for installment receivables and claims provable in bankruptcy are deducted.
*4 Since derivative transactions that quality for hedge accounting are accounted for as part of long-term borrowings that are subject to hedging, their fair value is included in the fair value of such long-term borrowings.

Notes: 1. Matters regarding fair value measurement of financial instruments

Assets

(1) Cash and deposits

Since all deposits are short term and their fair value is similar to the book value, the book value is shown as the fair value.

(2) Operating loans

The fair value of operating loans is measured based on the present value of the collectible amounts of principal and interest that reflect their collectability minus the estimated collection costs, discounted by a safe interest rate corresponding to the remaining period.

(3) Accounts receivable—installment

The fair value of installment receivables is measured based on the present value of the collectible amounts of principal and fees that reflect their collectability minus the estimated collection costs, discounted by a safe interest rate corresponding to the remaining period.

(4) Operational investment securities and investment securities (including shares of affiliated companies)

The fair value of shares and bonds is measured at prices quoted on exchanges.

(5) Claims provable in bankruptcy

Since the estimated amount of bad debt on claims provable in bankruptcy is calculated based on the collectible amount by collateral, the fair value of the claims is similar to the balance sheet amount on the consolidated closing date minus the present estimate of probable credit losses. Therefore, this amount is shown as the fair value.

Liabilities

(1) Short-term borrowings

Since these are settled in a short time and their fair value is similar to the book value, the book value is shown as the fair value.

(2) Bonds

Of bonds whose fair value is measured, the fair value of those that have a market price is based on the market price, while the fair value of those that do not have a market price is measured at the present value of the sum total of principal and interest discounted by an interest rate that reflects the remaining period of the bond and allows for credit risk.

(3) Long-term borrowings

The fair value of the current portions of long-term borrowings whose fair value is measured is similar to the book value. Therefore, the book value is shown as the fair value. Of other borrowings, the fair value of those with a fixed interest rate is measured at the present value of the sum total of principal and interest discounted by the expected interest rate of a similar borrowing. The fair value of those with a variable interest rate is measured at book value since the fair value is deemed similar to the book value as it reflects market interest rates and credit risk within a short time.

2. Financial instruments whose fair value is deemed extremely difficult to ascertain

(Millions of yen)

Category	Consolidated balance sheet amount
Operational investment securities and investment securities	
(1) Unlisted shares	¥ 4,147
(2) Investments in limited liability investment partnerships, etc.	1,201
Total	¥ 5,349

Since the fair value of these financial instruments is deemed extremely difficult to ascertain, it is not included in “Assets (4) Operational investment securities and investment securities.”

3. Scheduled redemption amounts after the consolidated closing date of monetary claims and securities with maturity

(Millions of yen)

Category	Due within 1 year	Due within 1-5 years	Due after 5 years or more
Cash and deposits	¥ 36,112	¥ —	¥ —
Operating loans	183,698	269,104	4,981
Accounts receivable—installment	97,652	3,931	—
Total	¥ 317,463	¥ 273,036	¥ 4,981

Does not include ¥26,981 million of claims provable in bankruptcy, etc., for which a scheduled redemption amount cannot be expected.

4. Scheduled repayments of bonds, long-term borrowings, lease obligations and other interest-bearing debt after the consolidated closing date

(Millions of yen)

Category	Due within 1 year	Due within 1-2 years	Due within 2-3 years	Due within 3-4 years	Due within 4-5 years	Due after 5 years or more
Bonds payable	¥ 7,370	¥ 5,170	¥ 15,075	¥ —	¥ —	¥ —
Finance lease obligations	289	183	144	39	8	—
Long-term borrowings	98,728	91,517	70,509	31,280	8,335	4,160
Total	¥ 106,387	¥ 96,871	¥ 85,729	¥ 31,319	¥ 8,344	¥ 4,160

Fiscal year ended March 31, 2020 (April 1, 2019 to March 31, 2020)

1. Matters regarding the situation of financial instruments

(1) Policy on financial instruments

The Group's primary business is the financial business, which includes consumer finance, real estate mortgage finance, business operator finance, credit sales, credit guarantee and receivables management and collection. In order to conduct these businesses, the Company procures funds by indirect financing through bank borrowings as well as by direct financing through corporate bonds, based on the market situation and the balance between long- and short-term funding. Thus, as the Company holds financial liabilities that involve interest rate fluctuation, it is also engaged in derivative transactions to prevent any disadvantageous impacts of interest rate fluctuation. In conducting derivatives transactions, the Company has a policy of limiting them to transactions that involve actual demand, in principle, and not engaging in such transactions for short-term trading purposes.

(2) Types and risks of financial instruments

The financial assets of the Group consist mainly of operating loans to individuals and corporations and installment receivables, both of which are exposed to credit risks posed by customer default. In addition, operational investment securities and investment securities mainly consist of shares and investments in capital of partnerships, and are held for the purpose of promoting the Group's business. They are exposed to credit risks of the issuers and market price fluctuation risks, respectively. Financial assets denominated in foreign currencies are exposed to foreign exchange fluctuation risks.

Financial liabilities such as borrowings and corporate bonds are exposed to liquidity risk, which prevents payments from being made on the due date in such cases where the Group will not be able to access the market under certain circumstances. The Group also conducts variable rate financing, which is exposed to interest rate fluctuation risks.

Derivative transactions pose market interest rate fluctuation risk and counterparty risk.

(3) System for managing risk pertaining to financial instruments

(i) Management of credit risk

The Group manages credit risk in accordance with the Company's various management regulations. With respect to operating loans, installment receivables and customers' liabilities for acceptances and guarantees, which are the Group's principal financial assets, the Company has established and operates a system for credit management in which it conducts credit examinations for individual transactions based on the data of personal credit information agencies and the Company's own credit system. Furthermore, the credit risks of issuers of securities are managed by obtaining credit information and fair value regularly.

With respect to counterparty risk of derivative transactions, the Company enters into derivative contracts with credible financial institutions in Japan and abroad, and thus deems credit risk small. These risk management measures are subject to evaluation, analysis and consideration of countermeasures by the respective departments in charge and are reported to the Board of Directors as needed.

(ii) Management of market risk

i) Management of interest rate risk

The Group manages interest rate risk on the basis of the Risk Management Manual, which was created with the approval of the Risk Management Committee, which is under the direct control of the Board of Directors. The risks are reported by the Finance Department, which is the department in charge, to the Internal Control Department, where the risks are assessed and the adequacy and appropriateness of countermeasures are examined and reported to the Board of Directors as needed. For reference, derivative transactions are made to hedge interest rate fluctuation risks.

ii) Management of price fluctuation risk

Many shares held by the Group are for the purpose of business promotion, including business and capital partnerships. The market environment and financial condition of clients are monitored and countermeasures are considered by the department in charge, which reports to the Board of Directors as needed.

The Group does not hold financial instruments for trading purposes.

iii) Derivative transactions

Risks are managed in accordance with the Company's various management regulations.

A protocol of internal checks that involve appropriate execution of transactions, evaluation of hedging effectiveness and administration by the department in charge and reporting to the Accounting Department has been established.

iv) Quantitative information pertaining to market risk

The Group does not carry out quantitative analyses.

(Interest rate risk)

At the Group, the major financial instruments whose fair value fluctuates due to interest rate fluctuation, which is the principal risk variable, are operating loans, installment receivables, borrowings and corporate bonds.

In account titles whose fair value is calculated by market interest rates, the estimated amount of impact of a 1 basis point (0.01%) change in market interest rates at the end of the fiscal year on the net value (of assets) after offsetting financial assets against financial liabilities is as follows: a decrease of ¥67 million in the present value of financial instruments that are affected by interest rate fluctuations if yen-denominated interest rates rise by 1 basis point (0.01%); and an increase of ¥67 million if such interest rates drop by 1 basis point (0.01%). This estimation of impact assumes no changes in risk variables other than market interest rates.

(iii) Management of liquidity risk pertaining to funding

The Group manages liquidity risk by managing funds for the entire Group on a timely basis as well as by diversifying funding means and adjusting the balance of long-term and short-term financing in consideration of the market environment.

(4) Supplementary explanation on matters regarding fair value, etc., of financial instruments

The fair value of financial instruments includes value based on market prices as well as reasonable estimates if there is no market price. Since certain assumptions are adopted in the calculation of the values, the values may vary under different assumptions.

2. Matters regarding fair value, etc., of financial instruments

The consolidated balance sheet amounts, fair values and the differences between the two as of March 31, 2020 are as follows. Those whose fair value is deemed extremely difficult to ascertain are not included in the table below (refer to Note 2).

(Millions of yen)

Category	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and deposits	¥ 43,524	¥ 43,524	¥ —
(2) Operating loans	516,960		
Allowance for doubtful accounts and provision for loss on interest repayment *1	(37,248)		
	479,711	547,983	68,271
(3) Accounts receivable—installment	102,942		
Deferred installment income *2	(1,311)		
Allowance for doubtful accounts *3	(5,019)		
	96,610	98,428	1,817
(4) Operational investment securities and investment securities (Including shares of affiliated companies)	2,643	3,380	737
(5) Claims provable in bankruptcy	23,609		
Allowance for doubtful accounts *3	(20,620)		
	2,989	2,989	—
Total assets	¥ 625,480	¥ 696,306	¥ 70,826
(1) Short-term borrowings	103,119	103,119	—
(2) Bonds	35,245	35,234	(10)
(3) Long-term borrowings *4	337,529	337,620	90
Total liabilities	¥ 475,894	¥ 475,974	¥ 80
Derivative transactions *4			
(i) Those qualified for hedge accounting	—	—	—
(ii) Those not qualified for hedge accounting	—	—	—
Total derivative transactions	¥ —	¥ —	¥ —

*1 Of the allowance for doubtful accounts of operating loans and provision for loss on interest repayment, the estimated amount of interest repayment expected to be preferentially appropriated to operating loans is deducted.
*2 Deferred installment income (liabilities account) on installment receivables is deducted.
*3 The allowances for doubtful accounts for installment receivables and claims provable in bankruptcy are deducted.
*4 Since derivative transactions that quality for hedge accounting are accounted for as part of long-term borrowings that are subject to hedging, their fair value is included in the fair value of such long-term borrowings.

Notes: 1. Matters regarding fair value measurement of financial instruments

Assets

(1) Cash and deposits

Since all deposits are short term and their fair value is similar to the book value, the book value is shown as the fair value.

(2) Operating loans

The fair value of operating loans is measured based on the present value of the collectible amounts of principal and interest that reflect their collectability minus the estimated collection costs, discounted by a safe interest rate corresponding to the remaining period.

(3) Accounts receivable—installment

The fair value of installment receivables is measured based on the present value of the collectible amounts of principal and fees that reflect their collectability minus the estimated collection costs, discounted by a safe interest rate corresponding to the remaining period.

(4) Operational investment securities and investment securities (including shares of affiliated companies)

The fair value of shares and bonds is measured at prices quoted on exchanges.

(5) Claims provable in bankruptcy

Since the estimated amount of bad debt on claims provable in bankruptcy is calculated based on the collectible amount by collateral, the fair value of the claims is similar to the balance sheet amount on the consolidated closing date minus the present estimate of probable credit losses. Therefore, this amount is shown as the fair value.

Liabilities

(1) Short-term borrowings

Since these are settled in a short time and their fair value is similar to the book value, the book value is shown as the fair value.

(2) Bonds

Of bonds whose fair value is measured, the fair value of those that have a market price is based on the market price, while the fair value of those that do not have a market price is measured at the present value of the sum total of principal and interest discounted by an interest rate that reflects the remaining period of the bond and allows for credit risk.

(3) Long-term borrowings

The fair value of the current portions of long-term borrowings whose fair value is measured is similar to the book value. Therefore, the book value is shown as the fair value. Of other borrowings, the fair value of those with a fixed interest rate is measured at the present value of the sum total of principal and interest discounted by the expected interest rate of a similar borrowing. The fair value of those with a variable interest rate is measured at book value since the fair value is deemed similar to the book value as it reflects market interest rates and credit risk within a short time.

2. Financial instruments whose fair value is deemed extremely difficult to ascertain

(Millions of yen)

Category	Consolidated balance sheet amount
Operational investment securities and investment securities	
(1) Unlisted shares	¥ 3,593
(2) Investments in limited liability investment partnerships, etc.	1,175
Total	¥ 4,768

Since the fair value of these financial instruments is deemed extremely difficult to ascertain, it is not included in "Assets (4) Operational investment securities and investment securities."

3. Scheduled redemption amounts after the consolidated closing date of monetary claims and securities with maturity

(Millions of yen)

Category	Due within 1 year	Due within 1-5 years	Due after 5 years or more
Cash and deposits	¥ 43,524	¥ —	¥ —
Operating loans	204,090	309,563	3,307
Accounts receivable—installment	95,832	7,068	41
Total	¥ 343,447	¥ 316,632	¥ 3,348

Does not include ¥23,609 million of claims provable in bankruptcy, etc., for which a scheduled redemption amount cannot be expected.

4. Scheduled repayments of bonds, long-term borrowings, lease obligations and other interest-bearing debt after the consolidated closing date

(Millions of yen)

Category	Due within 1 year	Due within 1-2 years	Due within 2-3 years	Due within 3-4 years	Due within 4-5 years	Due after 5 years or more
Bonds payable	¥ 20,170	¥ 15,075	¥ —	¥ —	¥ —	¥ —
Finance lease obligations	977	969	876	841	317	33
Long-term borrowings	121,928	107,688	68,849	23,215	14,487	1,360
Total	¥ 143,075	¥ 123,733	¥ 69,726	¥ 24,056	¥ 14,805	¥ 1,393

Notes on securities

Fiscal year ended March 31, 2019 (as of March 31, 2019)

1. Available-for-sale securities

(Millions of yen)

Category	Consolidated balance sheet amount	Purchase cost	Difference
Those whose consolidated balance sheet amount exceeds purchase cost			
Shares	¥ 111	¥ 19	¥ 92
Subtotal	111	19	92
Those whose consolidated balance sheet amount does not exceed purchase cost			
Shares	570	570	—
Subtotal	570	570	—
Total	¥ 681	¥ 589	¥ 92

Note: Unlisted shares, etc., (consolidated balance sheet amount of ¥3,253 million) are not included in the above table since they do not have a market price and their fair value is deemed extremely difficult to ascertain.

2. Available-for-sale securities sold during the fiscal year (April 1, 2018 to March 31, 2019)

(Millions of yen)

	Amount of sales	Total amount of gain on sales	Total amount of loss on sales
Shares	¥ 569	¥ 489	¥ —

3. Available-for-sale securities for which impairment loss was recorded

An impairment loss of ¥690 million was recognized for available-for-sale securities during the fiscal year.

Impairment loss on securities is recognized when fair value has dropped 50% or more of the purchase cost and is not expected to recover to the level of the purchase cost. When fair value has dropped between 30% to 50% of the purchase cost, impairment loss is recognized for the amount deemed necessary in consideration of financial conditions, operating performance, share prices, etc.

Fiscal year ended March 31, 2020 (as of March 31, 2020)

1. Available-for-sale securities

(Millions of yen)

Category	Consolidated balance sheet amount	Purchase cost	Difference
Those whose consolidated balance sheet amount exceeds purchase cost			
Shares	¥ 1,416	¥ 512	¥ 904
Subtotal	1,416	512	904
Those whose consolidated balance sheet amount does not exceed purchase cost			
Shares	308	311	(2)
Subtotal	308	311	(2)
Total	¥ 1,724	¥ 823	¥ 901

Note: Unlisted shares, etc., (consolidated balance sheet amount of ¥2,974 million) are not included in the above table since they do not have a market price and their fair value is deemed extremely difficult to ascertain.

2. Available-for-sale securities sold during the fiscal year (April 1, 2019 to March 31, 2020)

(Millions of yen)

	Amount of sales	Total amount of gain on sales	Total amount of loss on sales
Shares	¥ 76	¥ 7	¥ —

3. Available-for-sale securities for which impairment loss was recorded

An impairment loss of ¥347 million was recognized for available-for-sale securities during the fiscal year.

Impairment loss on securities is recognized when fair value has dropped 50% or more of the purchase cost and is not expected to recover to the level of the purchase cost. When fair value has dropped between 30% to 50% of the purchase cost, impairment loss is recognized for the amount deemed necessary in consideration of financial conditions, operating performance, share prices, etc.

Notes on derivative transactions

Fiscal year ended March 31, 2019 (as of March 31, 2019)

1. Derivative transactions not qualified for hedge accounting

Not applicable.

2. Derivative transactions qualified for hedge accounting

(Millions of yen)

Method of hedge accounting	Type, etc., of derivative transaction	Main hedged item	Contract amount, etc.	Contract amount, etc., over one year	Fair value
Special accounting for interest rate cap	Interest rate cap transaction	Long-term borrowings	¥ 75,564	¥ 60,404	(Note)

Note: Since those subject to special accounting for interest rate cap are accounted for as part of long-term borrowings that are subject to hedging, their fair value is included in the fair value of such long-term borrowings.

Fiscal year ended March 31, 2020 (as of March 31, 2020)

1. Derivative transactions not qualified for hedge accounting

Not applicable.

2. Derivative transactions qualified for hedge accounting

(Millions of yen)

Method of hedge accounting	Type, etc., of derivative transaction	Main hedged item	Contract amount, etc.	Contract amount, etc., over one year	Fair value
Special accounting for interest rate cap	Interest rate cap transaction	Long-term borrowings	¥ 66,404	¥ 48,222	(Note)

Note: Since those subject to special accounting for interest rate cap are accounted for as part of long-term borrowings that are subject to hedging, their fair value is included in the fair value of such long-term borrowings.

Notes on retirement benefits

1. Outline of retirement benefit system adopted

The Group has adopted a defined contribution pension plan and a prepaid retirement benefit plan, except for some of its consolidated subsidiaries.

Overseas consolidated subsidiaries have adopted a defined benefit plan.

Overseas consolidated subsidiaries have adopted the International Financial Reporting Standards and account for retirement benefits pursuant to IAS 19 Employee Benefits.

2. Defined benefit plan

(1) Reconciliation between beginning balance and ending balance of retirement benefit obligations

(Millions of yen)

	FY ended March 31, 2019	FY ended March 31, 2020
Beginning balance of retirement benefit obligations	¥ 11	¥ 13
Service cost	5	4
Interest expense	0	0
Actuarial gain or loss	(3)	0
Retirement benefits paid	—	(7)
Prior service cost incurred during the period	—	2
Foreign currency translation adjustment	(0)	0
Ending balance of retirement benefit obligations	¥ 13	¥ 16

(2) Reconciliation between ending balance of retirement benefit obligations and pension assets and the consolidated balance sheet amount of liabilities and assets pertaining to retirement benefits

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Funded retirement benefit obligations	¥ —	¥ —
Pension assets	—	—
	—	—
Unfunded retirement benefit obligations	13	16
Net consolidated balance sheet amounts of liabilities and assets	¥ 13	¥ 16
Liabilities pertaining to retirement benefits	13	16
Assets pertaining to retirement benefits	—	—
Net consolidated balance sheet amounts of liabilities and assets	¥ 13	¥ 16

(3) Retirement benefit expenses and sub-items

(Millions of yen)

	FY ended March 31, 2019	FY ended March 31, 2020
Service cost	¥ 5	¥ 4
Interest expense	0	0
Amount of prior service costs recorded as expenses	—	2
Retirement benefit expenses pertaining to the defined benefit plan	¥ 5	¥ 8

(4) Matters regarding the basis of actuarial calculation

Major basis of actuarial calculation

	FY ended March 31, 2019	FY ended March 31, 2020
Discount rate	2.6%	1.9%

3. Defined contribution pension plan and prepaid retirement benefit plan

(Millions of yen)

	FY ended March 31, 2019	FY ended March 31, 2020
Amount of prepaid retirement benefits	¥ 147	¥ 131
Amount of contribution to defined contribution pension	331	358
Retirement benefit expenses	¥ 478	¥ 489

Notes on stock options, etc.

Fiscal year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

1. Amount recorded as income during the fiscal year due to expiry owing to non-exercise of rights

Other (non-operating income) ¥4 million

2. Details and scale of stock options and changes thereof

(1) Details of stock option

	Stock options of 2015
Classification and number of grantees	1,352 employees of AIFUL 31 employees of consolidated subsidiaries
Number of stock options	1,583,850 shares of common stock
Grant date	June 30, 2015
Vesting conditions	The grantee must continue working at the company from the grant date (June 30, 2015) to the vesting date (June 30, 2017). This shall not, however, apply to cases where the grantee retires at the mandatory retirement age.
Requisite service period	From June 30, 2015 to June 30, 2017
Exercise period	From July 1, 2017 to June 30, 2019

(2) Scale of stock options and changes thereof

The following includes stock options existing during the fiscal year ended March 31, 2019. The stock options have been converted to and stated as number of shares.

(i) Number of stock options

	Stock options of 2015
Before vesting (shares)	
March 31, 2019	—
Granted	—
Expired	—
Vested	—
Unvested	—
After vesting (shares)	
March 31, 2019	1,582,850
Vested	—
Exercised	—
Expired	—
Unexercised	1,582,850

(ii) Unit price information

	Stock options of 2015
Exercise price (yen)	¥ 407
Average share price at time of exercise (yen)	—
Fair value per unit (grant date) (yen)	¥ 157

3. Method of estimation of number of stock options vested

Since it is difficult to reasonably estimate the number of future expiries, the Company basically reflects only the actual number of expiries.

Fiscal year ended March 31, 2020 (April 1, 2019 to March 31, 2020)

1. Amount recorded as income during the fiscal year due to expiry owing to non-exercise of rights

Gain on reversal of share acquisition rights ¥230 million

2. Details and scale of stock options and changes thereof

(1) Details of stock option

	Stock options of 2015
Classification and number of grantees	1,352 employees of AIFUL 31 employees of consolidated subsidiaries
Number of stock options	1,583,850 shares of common stock
Grant date	June 30, 2015
Vesting conditions	The grantee must continue working at the company from the grant date (June 30, 2015) to the vesting date (June 30, 2017). This shall not, however, apply to cases where the grantee retires at the mandatory retirement age.
Requisite service period	From June 30, 2015 to June 30, 2017
Exercise period	From July 1, 2017 to June 30, 2019

(2) Scale of stock options and changes thereof

The following includes stock options existing during the fiscal year ended March 31, 2020. The stock options have been converted to and stated as number of shares.

(i) Number of stock options

	Stock options of 2015
Before vesting (shares)	
March 31, 2019	—
Granted	—
Expired	—
Vested	—
Unvested	—
After vesting (shares)	
March 31, 2019	1,582,850
Vested	—
Exercised	—
Expired	1,582,850
Unexercised	—

(ii) Unit price information

	Stock options of 2015
Exercise price (yen)	¥ 407
Average share price at time of exercise (yen)	—
Fair value per unit (grant date) (yen)	¥ 157

3. Method of estimation of number of stock options vested

Since it is difficult to reasonably estimate the number of future expiries, the Company basically reflects only the actual number of expiries.

Notes on tax effect accounting

1. Breakdown of major factors of deferred tax assets and liabilities

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Deferred tax assets		
Allowance for doubtful accounts	¥ 9,873	¥ 12,023
Provision for loss on interest repayment	7,101	7,733
Bad debt loss	1,781	1,856
Accrued income	1,037	1,193
Loss carried forward	118,383	83,833
Other	4,391	4,355
Subtotal of deferred tax assets	142,569	110,995
Valuation allowance for tax loss carryforwards *2	(117,965)	(83,830)
Valuation allowance for the sum total of deductible temporary differences, etc.	(18,371)	(20,064)
Subtotal of valuation allowances *1	(136,336)	(103,895)
Total deferred tax assets	¥ 6,232	¥ 7,100
Deferred tax liabilities		
Valuation difference on available-for-sale securities	(27)	(298)
Retirement cost corresponding to asset retirement obligations	(157)	(138)
Other	0	—
Total deferred tax liabilities	¥ (185)	¥ (436)
Net amount of deferred tax assets	¥ 6,047	¥ 6,663

*1 Valuation allowance has decreased ¥32,441 million. This decrease mainly reflects the additional recording of deferred tax assets of ¥657 million due to a revision to the collectability of temporary differences and the writing off of tax loss carryforwards of ¥33,090 million (an amount multiplied by the effective statutory tax rate) from among the tax loss carryforwards incurred in the fiscal year ended March 2011, due to the expiry of the carryforward period.

*2 The amount of tax loss carryforwards and their deferred tax assets by carryforward period.

Fiscal year ended March 31, 2019 (as of March 31, 2019)

(Millions of yen)

	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
Tax loss carryforwards (a)	34,677	29,218	14,147	5,851	6,261	28,227	118,383
Valuation allowances	(34,259)	(29,218)	(14,147)	(5,851)	(6,261)	(28,227)	(117,965)
Deferred tax assets	418	—	—	—	—	—	(b) 418

(a) The amount of tax loss carryforwards has been multiplied by the effective statutory tax rate.

(b) Deferred tax assets of ¥418 million have been recorded for the ¥118,383 million of tax loss carryforwards (amount multiplied by the effective statutory tax rate). The ¥418 million of deferred tax assets recognizes part of the Company's outstanding tax loss carryforwards of ¥117,054 million (amount multiplied by the effective statutory tax rate). The tax loss carryforwards that recorded said deferred tax assets were incurred due to the recording of loss before taxes of ¥70,007 million in the fiscal year ended March 2011 and do not recognize valuation allowances, since they were deemed collectible based on future expectations of taxable income.

Fiscal year ended March 31, 2020 (as of March 31, 2020)

(Millions of yen)

	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
Tax loss carryforwards (c)	29,169	14,093	5,842	6,255	14,395	14,077	83,833
Valuation allowances	(29,169)	(14,093)	(5,842)	(6,255)	(14,395)	(14,075)	(83,830)
Deferred tax assets	—	—	—	—	—	2	(d) 2

(c) The amount of tax loss carryforwards has been multiplied by the effective statutory tax rate.

(d) Deferred tax assets of ¥2 million have been recorded for the ¥83,833 million of tax loss carryforwards (amount multiplied by the effective statutory tax rate). The ¥2 million of deferred tax assets recognizes AsTry Loan Services Corporation's outstanding tax loss carryforwards of ¥2 million (amount multiplied by the effective statutory tax rate). The tax loss carryforwards that recorded said deferred tax assets were incurred due to the resolution of deductible temporary differences of past fiscal years and do not recognize valuation allowances, since they were deemed collectible based on future expectations of taxable income.

2. Major components of significant differences between the effective statutory tax rate and the burden rate of income taxes, etc., after application of tax effect accounting

	As of March 31, 2019	As of March 31, 2020
Effective statutory tax rate	30.5%	30.5%
(Adjustment)		
Inhabitant tax on per capita basis	1.9	4.0
Entertainment expenses and other items permanently excluded from loss	0.4	1.6
Stock-based compensation expenses	0.0	(4.5)
Valuation allowances	(1,557.9)	(2,076.4)
Change of tax rate	(6.2)	12.6
Tax credits due to pay raise or investment promotion tax system	—	(7.9)
Share of profit (loss) of entities accounted for using the equity method	(0.7)	(2.1)
Expiry of time limit of loss carried forward	1,381.0	2,104.2
Difference in tax rate from that of parent company	12.3	18.7
Other	(0.6)	0.1
Burden rate of income taxes, etc., after application of tax effect accounting	(139.3)	80.8

Notes to segment information, etc.

Segment information

1. Overview of reporting segments

(1) Determination of reporting segments

The Company’s reporting segments are the Group’s constituent units for which separate financial information is available and which the Board of Directors reviews periodically to decide the allocation of managerial resources and evaluate business performance.

The Group conducts business with the Company and its consolidated subsidiaries as the smallest components of its strategies.

Therefore, the Group’s reporting segments are its three core companies, namely, AIFUL Corporation, LIFECARD Co., Ltd. and AIRA & AIFUL Public Company Limited.

(2) Types of products and services belonging to each reporting segment

AIFUL Corporation is mainly engaged in loans and credit guarantees. LIFECARD Co., Ltd. is mainly involved in the credit card and credit guarantee businesses, while AIRA & AIFUL Public Company Limited is mainly engaged in the loan business.

2. Calculation of operating revenue, profit or loss, assets, liabilities, etc., of each reporting segment

The accounting methods applied to the reported business segments are the same as those described in “Significant items forming the basis for the preparation of consolidated financial statements.” Profit or loss of the reporting segments is the amount of profit or loss.

Inter-segment sales and transfers are based on the amount equivalent to costs of the Company.

Application of IFRS 16 “Lease”

As described in “Changes in accounting policies,” a subsidiary that has adopted the International Financial Reporting Standards has adopted IFRS 16 from the fiscal year under review. Due to this adoption, the lessees have decided to book all leases on their balance sheets as assets and liabilities.

3. Information on operating revenue, profit or loss, assets, liabilities and other items of each reporting segment

Fiscal year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

(Millions of yen)

	Reporting segment					
	AIFUL Corporation	LIFECARD Co., Ltd.	AIRA & AIFUL Public Company Limited *4	Total	Other *1	Total
Operating revenue						
Operating revenue from third parties	¥ 70,979	¥ 32,698	¥ 5,901	¥ 109,579	¥ 5,749	¥ 115,328
Inter-segment sales and transfers	12	139	—	151	66	218
Total	¥ 70,991	¥ 32,838	¥ 5,901	¥ 109,731	¥ 5,816	¥ 115,547
Segment profit (loss)	5,208	2,822	(2,313)	5,717	2,073	7,790
Segment assets	556,450	196,005	21,345	773,801	44,397	818,198
Segment liabilities	465,249	149,611	13,900	628,761	24,541	653,302
Other items						
Provision for point card certificates	—	2,950	—	2,950	—	2,950
Provision of allowance for doubtful accounts *2	22,074	3,287	3,427	28,789	565	29,354
Provision for loss on interest repayment	10,354	1,147	—	11,501	—	11,501
Provision for bonuses	828	15	—	844	27	871
Depreciation	1,249	1,294	96	2,640	13	2,653
Interest on loans receivable	620	5	—	625	164	790
Dividends received	23	12	—	36	1	37
Rental income from real estate	154	—	—	154	5	160
Gain on sales of investment securities	1	—	—	1	457	458
Interest expenses *3	—	—	—	—	35	35
Extraordinary income	—	—	—	—	—	—
(Gain on reversal of share acquisition rights)	(—)	(—)	(—)	(—)	(—)	(—)
Extraordinary losses	690	—	—	690	—	690
(Loss on valuation of investment securities)	(690)	(—)	(—)	(690)	(—)	(690)
(Loss on retirement of non-current assets)	(—)	(—)	(—)	(—)	(—)	(—)
Income taxes—current	(655)	994	—	339	518	858
Income taxes—deferred	(3,723)	(685)	—	(4,408)	(844)	(5,252)
Increase in property, plant and equipment, and intangible assets	¥ 724	¥ 881	¥ 2	¥ 1,607	¥ —	¥ 1,607

*1 The "Other" category comprises business segments not included in reporting segments and encompasses the activities of BUSINEXT CORPORATION, AsTry Loan Services Corporation, etc.
*2 Provision of allowance for doubtful accounts is the sum total of operating expenses and non-operating expenses.
*3 Interest expenses are the amount that is not included in operating expenses but is noted as non-operating expenses.
*4 The figures for the reporting segment of AIRA & AIFUL Public Company Limited are after consolidated adjustments in accordance with the Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries, etc., for Consolidated Financial Statements (ASBJ PITF No. 18).

Fiscal year ended March 31, 2020 (April 1, 2019 to March 31, 2020)

(Millions of yen)

	Reporting segment					
	AIFUL Corporation	LIFECARD Co., Ltd.	AIRA & AIFUL Public Company Limited *4	Total	Other *1	Total
Operating revenue						
Operating revenue from third parties	¥ 77,491	¥ 33,492	¥ 6,519	¥ 117,503	¥ 9,534	¥ 127,038
Inter-segment sales and transfers	13	674	—	688	896	1,584
Total	¥ 77,504	¥ 34,167	¥ 6,519	¥ 118,191	¥ 10,431	¥ 128,623
Segment profit (loss)	1,639	1,136	(2,174)	600	(505)	95
Segment assets	635,683	197,237	22,383	855,304	92,154	947,458
Segment liabilities	543,074	149,243	16,960	709,278	72,279	781,557
Other items						
Provision for point card certificates	—	2,707	—	2,707	—	2,707
Provision of allowance for doubtful accounts *2	22,788	4,376	3,423	30,588	3,208	33,796
Provision for loss on interest repayment	15,433	1,493	—	16,927	—	16,927
Provision for bonuses	857	16	—	873	25	899
Depreciation	1,162	1,278	552	2,994	23	3,017
Interest on loans receivable	790	80	—	871	431	1,303
Dividends received	25	13	—	38	4	43
Rental income from real estate	159	—	—	159	6	165
Gain on sales of investment securities	—	—	—	—	—	—
Interest expenses *3	—	—	—	—	42	42
Extraordinary income	230	—	—	230	—	230
(Gain on reversal of share acquisition rights)	(230)	(—)	(—)	(230)	(—)	(230)
Extraordinary losses	264	—	112	376	—	376
(Loss on valuation of investment securities)	(264)	(—)	(—)	(264)	(—)	(264)
(Loss on retirement of non-current assets)	(—)	(—)	(112)	(112)	(—)	(112)
Income taxes—current	351	1,086	—	1,437	718	2,155
Income taxes—deferred	(295)	112	—	(183)	(579)	(762)
Increase in property, plant and equipment, and intangible assets	¥ 1,835	¥ 2,364	¥ 131	¥ 4,330	¥ 146	¥ 4,477

*1 The "Other" category comprises business segments not included in reporting segments and encompasses the activities of BUSINEXT CORPORATION, AsTry Loan Services Corporation, etc.
*2 Provision of allowance for doubtful accounts is the sum total of operating expenses and non-operating expenses.
*3 Interest expenses are the amount that is not included in operating expenses but is noted as non-operating expenses.
*4 The figures for the reporting segment of AIRA & AIFUL Public Company Limited are after consolidated adjustments in accordance with the Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries, etc., for Consolidated Financial Statements (ASBJ PITF No. 18).

4. The amount and main constituents of the difference between the sum total of the reporting segments and the amount posted in consolidated financial statements

(Millions of yen)

Operating revenue	FY ended March 31, 2019	FY ended March 31, 2020
Reporting segment total	¥ 109,731	¥ 118,191
Operating revenue categorized as "other"	5,816	10,431
Inter-segment eliminations	(218)	(1,584)
Operating revenue posted in consolidated financial statements	¥ 115,328	¥ 127,038

(Millions of yen)

Profit	FY ended March 31, 2019	FY ended March 31, 2020
Reporting segment total	¥ 5,717	¥ 600
Profit (loss) categorized as "other"	2,073	(505)
Inter-segment eliminations	325	(15)
Other adjustments	1,230	1,310
Profit attributable to owners of parent posted in consolidated financial statements	¥ 9,346	¥ 1,390

(Millions of yen)

Assets	FY ended March 31, 2019	FY ended March 31, 2020
Reporting segment total	¥ 773,801	¥ 855,304
Assets categorized as "other"	44,397	92,154
Other adjustments	(57,611)	(86,951)
Total assets posted in consolidated financial statements	¥ 760,587	¥ 860,507

(Millions of yen)

Liabilities	FY ended March 31, 2019	FY ended March 31, 2020
Reporting segment total	¥ 628,761	¥ 709,278
Liabilities categorized as "other"	24,541	72,279
Other adjustments	(20,732)	(49,981)
Total liabilities posted in consolidated financial statements	¥ 632,570	¥ 731,576

(Millions of yen)

Other items	Reporting segment total *3 FY2019/3	Reporting segment total *3 FY2020/3	Other FY2019/3	Other FY2020/3	Adjustments FY2019/3	Adjustments FY2020/3	Amount posted in consolidated financial statements FY2019/3	Amount posted in consolidated financial statements FY2020/3
Other items								
Provision for point card certificates	2,950	**2,707**	—	**—**	—	**—**	2,950	**2,707**
Provision of allowance for doubtful accounts *1	28,789	**30,588**	565	**3,208**	—	**—**	29,354	**33,796**
Provision for loss on interest repayment	11,501	**16,927**	—	**—**	—	**—**	11,501	**16,927**
Provision for bonuses	844	**873**	27	**25**	407	**411**	1,279	**1,311**
Depreciation	2,640	**2,994**	13	**23**	—	**—**	2,653	**3,017**
Interest on loans receivable	625	**871**	164	**431**	(634)	**(1,109)**	155	**193**
Dividends received	36	**38**	1	**4**	(13)	**(13)**	23	**30**
Share of profit of entities accounted for using equity method	—	**—**	—	**—**	81	**110**	81	**110**
Rental income from real estate	154	**159**	5	**6**	(78)	**(81)**	82	**84**
Gain on sales of investment securities	1	**—**	457	**—**	—	**—**	458	**—**
Interest expenses *2	—	**—**	35	**42**	(28)	**(37)**	6	**5**
Extraordinary income	—	**230**	—	**—**	—	**—**	—	**230**
(Gain on reversal of share acquisition rights)	(—)	**(230)**	(—)	**(—)**	(—)	**(—)**	(—)	**(230)**
Extraordinary losses	690	**376**	—	**—**	—	**—**	690	**376**
(Loss on valuation of investment securities)	(690)	**(264)**	(—)	**(—)**	(—)	**(—)**	(690)	**(264)**
(Loss on retirement of non-current assets)	(—)	**(112)**	(—)	**(—)**	(—)	**(—)**	(—)	**(112)**
Income taxes—current	339	**1,437**	518	**718**	—	**—**	858	**2,155**
Income taxes—deferred	(4,408)	**(183)**	(844)	**(579)**	(369)	**(124)**	(5,621)	**(886)**
Investments in entities accounted for using equity method	—	**—**	—	**—**	821	**918**	821	**918**
Increase in property, plant and equipment, and intangible assets	1,607	**4,330**	—	**146**	—	**—**	1,607	**4,477**

*1 Provision of allowance for doubtful accounts is the sum total of operating expenses and non-operating expenses.
*2 Interest expenses are the amount that is not included in operating expenses but is noted as non-operating expenses.
*3 The figures for "reporting segment total" are after consolidated adjustments in accordance with the Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries, etc., for Consolidated Financial Statements (ASBJ PITF No. 18).

Related information

Fiscal year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

1. Information on products and services

(Millions of yen)

	Loan business	Credit sales business	Credit guarantee business	Other	Total
Operating revenue from third parties	¥ 70,972	¥ 16,935	¥ 14,287	¥ 13,132	¥ 115,328

2. Information by region

(1) Operating revenue

Disclosure is omitted since operating revenue from third parties in Japan accounts for more than 90% of operating revenue in the consolidated statements of income.

(2) Property, plant and equipment

Disclosure is omitted since the amount of property, plant and equipment located in Japan accounts for more than 90% of the consolidated balance sheet amount of property, plant and equipment.

3. Information of major customers

There is no disclosure since no counterparty for operating revenue from third parties accounts for 10% or more of the operating revenue in the consolidated statements of income.

Fiscal year ended March 31, 2020 (April 1, 2019 to March 31, 2020)

1. Information on products and services

(Millions of yen)

	Loan business	Credit sales business	Credit guarantee business	Other	Total
Operating revenue from third parties	¥ 78,475	¥ 23,667	¥ 15,566	¥ 9,329	¥ 127,038

2. Information by region

(1) Operating revenue

Disclosure is omitted since operating revenue from third parties in Japan accounts for more than 90% of operating revenue in the consolidated statements of income.

(2) Property, plant and equipment

(Millions of yen)

Japan	Thailand	Total
¥ 17,447	¥ 2,250	¥ 19,698

3. Information by major customer

There is no disclosure since no counterparty for operating revenue from third parties accounts for 10% or more of the operating revenue in the consolidated statements of income.

Information on impairment loss on non-current assets of the reporting segments

Not applicable.

Information on goodwill amortization and unamortized balance of the reporting segments

Not applicable.

Information on impairment loss on non-current assets of the reporting segments

Not applicable.

Information on related parties

1. Transactions with related parties

(1) Transactions between the Company and related parties

(i) Officers and major shareholders (limited to individuals) of the Company

Fiscal year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

Type	Name of company or person	Address	Capital stock or investments in capital (Millions of yen)	Description of business or occupation	Ratio of voting right ownership (%)	Relationship with the related party	Description of transaction	Transaction amount (Millions of yen)	Account title	Ending balance (Millions of yen)
Company whose officer or close relative thereof owns a majority of voting rights	Kabushiki Kaisha NK Kikaku *1	Ukyo-ku, Kyoto	¥ 2	Real estate business	None	Borrowing of funds	Repayment of funds *2	¥ 3,420	—	—
							Interest expenses (Operating expenses) *2	¥ 122	—	—

*1 A close relative of an officer directly owns 100% of the voting rights.
*2 Transaction terms and policy for deciding the transaction terms
The interest rate of the borrowing is decided in consideration of market interest rates.

Fiscal year ended March 31, 2020 (April 1, 2019 to March 31, 2020)

Not applicable.

Per share information

FY ended March 31, 2019		FY ended March 31, 2020	
Net assets per share	¥ 256.45	Net assets per share	¥ 260.53
Profit per share	¥ 19.32	Profit per share	¥ 2.88
Diluted profit per share	—	Diluted profit per share	—

Notes: 1. The diluted profit per share for the fiscal year ended March 2019 is omitted because there were no latent shares with a dilutive effect. The diluted profit per share for the fiscal year ended March 2020 is omitted because there were no latent shares.
2. The basis for calculation of net assets per share is as follows:

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Total net assets	¥ 128,016	¥ 128,931
Amount deducted from total net assets	3,971	2,914
(Portion of share acquisition rights)	(230)	(—)
(Portion of non-controlling interest)	(3,741)	(2,914)
Net assets related to common stock at end of FY	¥ 124,045	¥ 126,017
Number of shares of common stock at end of FY used in the calculation of net assets per share	483,702,954 shares	483,702,790 shares

3. The basis for calculation of profit per share and diluted profit per share is as follows:

(Millions of yen)

	FY ended March 31, 2019	FY ended March 31, 2020
Profit per share		
Profit attributable to owners of parent	¥ 9,346	¥ 1,390
Amount not attributable to common stockholders	—	—
Profit attributable to owners of parent pertaining to common stock	¥ 9,346	¥ 1,390
Average number of shares of common stock during the period	483,702,983 shares	483,702,875 shares
Diluted profit per share		
Adjusted profit attributable to owners of parent	—	—
Increase in number of common stock	—	—
(Portion of share acquisition rights)	(—)	(—)
Outline of latent shares not included in calculation of diluted profit per share due to lack of dilutive effect	Stock options based on share acquisition rights issued by resolution of the Board of Directors on June 15, 2015 (1,465,850 common shares)	—

Consolidated Schedules

AIFUL CORPORATION and Consolidated Subsidiaries

Bonds schedule

Company name	Issue	Date of issue	Balance at April 1, 2019 (Millions of yen)	Balance at March 31, 2020 (Millions of yen)	Interest rate (%)	Security	Maturity date
The Company	57th unsecured straight bond	July 14, 2017	¥ 7,200	¥ —	2.400 per annum	Unsecured	January 14, 2020
	58th unsecured straight bond	July 10, 2018	415	245 (170)	0.370 per annum	Unsecured	July 9, 2021
	59th unsecured straight bond	September 25, 2018	15,000	15,000	1.850 per annum	Unsecured	September 24, 2021
	60th unsecured straight bond	September 25, 2018	5,000	5,000 (5,000)	1.800 per annum	Unsecured	March 25, 2021
	61st unsecured straight bond	June 14, 2019	—	15,000 (15,000)	0.990 per annum	Unsecured	December 14, 2020
Total		—	¥ 27,615	35,245 ¥ (20,170)	—	—	—

Notes: 1. The amount of ending balance shown in parentheses is included in the amount shown without parentheses. Said amount is scheduled to be redeemed within one (1) year from the day immediately following the date of the consolidated balance sheets. In the consolidated balance sheets, said amount is stated under current liabilities.
2. The scheduled amount of redemption for each year within five years after the consolidated closing date is as shown below.

(Millions of yen)

Due within 1 year	Due within 1-2 years	Due within 2-3 years	Due within 3-4 years	Due within 4-5 years
20,170	15,075	—	—	—

Borrowings schedule

Category	Balance at April 1, 2019 (Millions of yen)	Balance at March 31, 2020 (Millions of yen)	Average interest rate (%)	Repayment due date
Short-term borrowings	¥ 86,562	¥ 103,119	1.51	—
Current portion of long-term borrowings	98,728	121,928	1.54	—
Current portion of lease obligations	289	977	—	—
Long-term borrowings (excluding the current portion)	205,803	215,601	1.22	From April 2021 to July 2030
Lease obligations (excluding the current portion)	376	3,038	—	From April 2021 to June 2028
Total	¥ 391,759	¥ 444,664	—	—

Notes: 1. The "average interest rate" represents the weighted-average rate applicable to the ending balance.
2. The average interest rate of lease obligations is not stated since lease obligations recorded on the consolidated balance sheets represent the amount prior to deducting the amount equivalent to interest included in the total lease fees.
3. The scheduled repayment amounts of long-term borrowings and lease obligations (excluding current portions) for each year within five years after the date of the consolidated balance sheets are as shown below.

(Millions of yen)

Category	Due within 1-2 years	Due within 2-3 years	Due within 3-4 years	Due within 4-5 years
Long-term borrowings	107,688	68,849	23,215	14,487
Lease obligations	969	876	841	317

Asset retirement obligations schedule

Disclosure is omitted since the amounts of asset retirement obligations at the beginning and end of the fiscal year under review are not more than one hundredth (1/100) of the sum total of liabilities and net assets at the beginning and end of the fiscal year under review.

Quarterly information for the fiscal year under review

(Millions of yen)

	First three months	First six months	First nine months	FY ended March 31, 2020
Operating revenue	¥ 30,251	¥ 61,277	¥ 93,192	¥ 127,038
Profit before income taxes	3,373	5,178	12,346	1,569
Profit attributable to owners of parent	3,453	5,245	11,749	1,390
Profit per share (yen)	¥ 7.14	¥ 10.84	¥ 24.29	¥ 2.88

	First quarter	Second quarter	Third quarter	Fourth quarter
Profit (loss) per share (yen)	¥ 7.14	¥ 3.71	¥ 13.45	¥ (21.41)

Non-Consolidated Balance Sheets

AIFUL CORPORATION
As of March 31

(Millions of yen)

	2019	2020
Assets		
Current assets		
Cash and deposits	¥ 18,186	¥ 15,443
Operating loans (Notes 1, 2, 4 and 5)	370,034	413,714
Accounts receivable—installment (Note 1)	402	325
Customers' liabilities for acceptances and guarantees	113,064	127,999
Other operating receivables	6,745	7,633
Prepaid expenses	281	303
Accrued income	2,898	3,379
Short-term loans receivable from subsidiaries and associates	50	—
Other	6,321	7,091
Allowance for doubtful accounts (Note 6)	(32,178)	(33,829)
Total current assets	485,807	542,061
Non-current assets		
Property, plant and equipment		
Buildings (Note 1)	12,920	12,799
Accumulated depreciation	(8,605)	(8,749)
Buildings, net (Note 1)	4,314	4,049
Structures (Note 1)	1,210	977
Accumulated depreciation	(988)	(800)
Structures, net (Note 1)	222	177
Machinery and equipment (Note 1)	146	146
Accumulated depreciation	(134)	(135)
Machinery and equipment, net (Note 1)	12	10
Furniture and fixtures (Note 1)	3,813	3,421
Accumulated depreciation	(3,279)	(3,000)
Furniture and fixtures, net (Note 1)	534	421
Land (Note 1)	6,809	6,809
Leased assets	847	538
Accumulated depreciation	(580)	(194)
Leased assets, net	267	344
Construction in progress	93	256
Total property, plant and equipment	12,254	12,070
Intangible assets		
Software	1,220	2,169
Other	27	24
Total intangible assets	1,248	2,194
Investments and other assets		
Investment securities	947	683
Shares of subsidiaries and associates	34,496	34,496
Long-term loans receivable from subsidiaries and associates	14,142	36,322
Claims provable in bankruptcy (Note 4)	16,041	15,033
Long-term prepaid expenses	213	238
Deferred tax assets	3,542	3,838
Lease and guarantee deposits	1,448	1,376
Other	235	316
Allowance for doubtful accounts	(13,927)	(12,947)
Total investments and other assets	57,140	79,356
Total non-current assets	70,643	93,622
Total assets	¥ 556,450	¥ 635,683

(Millions of yen)

	2019	2020
Liabilities		
Current liabilities		
Acceptances and guarantees	¥ 113,064	¥ 127,999
Short-term borrowings (Note 1)	6,900	22,700
Current portion of bonds	7,370	20,170
Current portion of long-term borrowings (Note 1)	91,957	114,588
Lease obligations	165	108
Trade accounts payable	4,102	4,607
Accrued expenses	942	580
Income taxes payable	769	1,569
Allowance for bonuses	1,273	1,310
Deferred installment income	9	6
Asset retirement obligations	13	—
Other	578	594
Total current liabilities	227,148	294,237
Non-current liabilities		
Bonds payable	20,245	15,075
Long-term borrowings (Note 1)	194,220	208,260
Lease obligations	122	268
Provision for loss on interest repayment	20,722	22,458
Asset retirement obligations	1,966	1,946
Other	823	828
Total non-current liabilities	238,101	248,836
Total liabilities	465,249	543,074
Net assets		
Shareholders' equity		
Capital stock	143,454	94,028
Capital surplus		
Legal capital surplus	52	52
Total capital surplus	52	52
Retained earnings		
Other retained earnings		
Retained earnings brought forward	(49,426)	1,639
Total retained earnings	(49,426)	1,639
Treasury shares	(3,110)	(3,110)
Total shareholders' equity	90,970	92,609
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	0	(0)
Total valuation and translation adjustments	0	(0)
Share acquisition rights	230	—
Total net assets	91,200	92,609
Total liabilities and net assets	¥ 556,450	¥ 635,683

Non-Consolidated Statements of Income

AIFUL CORPORATION
Years ended March 31

(Millions of yen)

	2019	2020
Operating revenue		
Interest on operating loans	¥ 51,960	¥ 57,682
Other financial revenue	0	0
Other operating revenue		
Revenue from credit guarantee	11,246	11,610
Recoveries of written off claims	5,925	6,215
Other	1,859	1,995
Total other operating revenue	19,031	19,821
Total operating revenue	70,991	77,504
Operating expenses		
Financial expenses		
Interest expenses	4,688	4,180
Interest on bonds	377	623
Other	777	638
Total financial expenses	5,843	5,442
Other operating expenses		
Commissions	5,713	6,027
Provision of allowance for doubtful accounts	22,060	22,788
Provision for loss on interest repayment	10,354	15,433
Salaries and allowances for employees	5,899	6,003
Provision for bonuses	828	857
Sales promotion expenses	5,674	6,081
Depreciation	1,249	1,162
Other	12,899	13,294
Total other operating expenses	64,679	71,648
Total operating expenses	70,523	77,091
Operating profit	468	413
Non-operating income		
Foreign exchange gains	14	—
Interest on loans receivable (Note 1)	620	790
Rental income from real estate (Note 1)	154	159
Outsourcing service income (Note 1)	175	251
Other (Note 1)	106	125
Total non-operating income	1,071	1,327
Non-operating expenses		
Foreign exchange loss	—	6
Provision of allowance for doubtful accounts	14	—
Other	6	5
Total non-operating expenses	20	11
Ordinary profit	1,519	1,728
Extraordinary income		
Gain on reversal of share acquisition rights	—	230
Total extraordinary income	—	230
Extraordinary losses		
Loss on valuation of investment securities	690	264
Total extraordinary losses	690	264
Profit before taxes	829	1,694
Income taxes—current	(655)	351
Income taxes—deferred	(3,723)	(295)
Total income taxes	(4,378)	55
Profit	¥ 5,208	¥ 1,639

Notes to Non-Consolidated Financial Statements

AIFUL CORPORATION

Significant accounting policies

1. Valuation standards and valuation method for securities

(1) Shares of subsidiaries and affiliated companies

Stated at cost determined by the moving average method.

(2) Available-for-sale securities

Those that are marketable

Stated at fair value by the market value method, based on market price, etc., as of the closing date. (All differences in valuation are fully included in the net asset method, and sales costs are calculated by the moving average method.)

Those that are not marketable

Stated at cost determined by the moving average method. The net amount of equity included in the Company's financial statements from limited liability investment partnerships and similar investments, regarded as marketable securities under paragraph 2, Article 2 of the Financial Instruments and Exchanges Act, is calculated based on the most recent financial statements for the partnership available as of the reporting date stipulated in the partnership agreement.

2. Valuation standards and valuation method for derivatives

Stated at fair value by the market value method.

3. Depreciation method of non-current assets

(1) Property, plant and equipment (excluding leased assets)

Depreciated using the declining balance method.

The useful life of major assets is as follows:

Buildings and structures:	2 to 50 years
Machinery and equipment:	15 years
Furniture and fixtures:	3 to 20 years

(2) Intangible assets (excluding leased assets)

Amortized using the straight-line method.

Software for internal use is amortized based on the period of internal use (five years).

(3) Leased assets

Leased assets pertaining to finance lease transactions involving the transfer of ownership

Depreciated by the same method applied to non-current assets owned by the Company.

Leased assets pertaining to finance lease transactions not involving the transfer of ownership

Depreciated over the lease period by the straight-line method, assuming the residual value is zero.

4. Booking of allowances

(1) Allowance for doubtful accounts

To provide for losses on operating loans caused by bad debt, an amount deemed necessary based on historical losses is booked as an allowance for ordinary receivables, and an estimated uncollectible amount in consideration of individual collectability is booked for doubtful receivables and other certain receivables.

(2) Allowance for bonuses

To provide for the payment of bonuses to employees, the portion of the estimated amount of future bonus payment as attributable to the fiscal year under review is booked as a provision.

(3) Provision for loss on interest repayment

To provide for the future occurrence of interest repayment, an estimated amount of repayments that is reasonably estimated based on repayment history and recent repayment situations is booked as a provision.

5. Translation of assets or liabilities denominated in a foreign currency into Japanese yen

Monetary assets and liabilities in a foreign currency are translated into Japanese yen based on the spot exchange rate in the foreign exchange market on the closing date, and foreign exchange gains and losses from the translations are recognized in the income statement.

6. Booking of revenues and expenses

(1) Interest on operating loans

Interest on operating loans is booked on an accrual basis. For accruals of interest pertaining to operating loans, the lower interest rate under the Interest Rate Restriction Act or the contract interest rate is booked.

(2) Booking of revenues pertaining to installment sales

Add-on type customer commissions and member store commissions are collectively booked under deferred installment income in a lump sum at the time of contract and booked as revenue at each billing period. For declining balance method or revolving method customer commissions, revenue is booked at each billing period. The add-on type revenue of departments is allocated using the 78 method.

(3) Revenue from credit guarantee

Revenue is booked using the charge for declining balance method.

(4) Accounting for interest on borrowings

With respect to interest on borrowings, the portion corresponding to financing receivables is accounted for as operating expenses (financial expenses), and the remaining portions are accounted for as non-operating expenses (other).

7. Significant hedge accounting method

- Method of hedge accounting

  Special accounting is adopted for interest rate cap transactions since they meet the requirements of special accounting.

- Hedging instrument and hedged item

  Hedging instrument: Interest rate cap transaction

  Hedged item: Borrowings with variable interest rates

- Hedging policy

  For interest rate cap transactions, the interest rate fluctuation risks pertaining to the hedged item are hedged based on the Company's management rules.

• Method of evaluating hedge effectiveness
The effectiveness of interest rate cap transactions, which are subject to special accounting, is not evaluated.

8. Other significant items forming the basis for the preparation of non-consolidated financial statements

(1) Accounting for consumption taxes, etc.
Consumption taxes, etc., are accounted for by the tax-exclusive method. However, non-deductible consumption taxes, etc., pertaining to assets are booked as other under investments and other assets and amortized equally over five years.

(2) Application of consolidated taxation system
The consolidated taxation system is applied.

(3) Application of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system
The Company does not apply the provisions of paragraph 44 of the Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28; February 16, 2018) on items that were transitioned to the group tax sharing system, which was created in the Act for Partial Amendment of the Income Tax Act, etc., (Act No. 8 of 2020), and for which the non-consolidated taxation system was reviewed to coincide with the transition to the group tax sharing system, based on the treatment in paragraph 3 of the Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (PITF No. 39; March 31, 2020). The amounts of deferred tax assets and deferred tax liabilities are based on the provisions of the tax law prior to the revision.

Additional information

The use of services by the Company's customers has changed due to the outbreak of COVID-19. However, the Company has deemed that the accounting estimates of allowance for doubtful accounts, etc., will not have a significant impact on the estimates at the end of the fiscal year under review, in consideration of the collection levels available from the last day of the fiscal year to the time of preparation of the non-consolidated financial statements.

Notes to non-consolidated balance sheets

1. Assets pledged as collateral and corresponding liabilities
Assets pledged as collateral

(Millions of yen)

	As of March 31, 2019
(1) Assets pledged as collateral	
Operating loans	¥ 261,033
Accounts receivable—installment	14
Buildings	2,834
Structures	21
Machinery and equipment	12
Furniture and fixtures	25
Land	6,433
Total	¥ 270,375
(2) Corresponding liabilities	
Short-term borrowings	¥ —
Current portion of long-term borrowings	64,348
Long-term borrowings	152,745
Total	¥ 217,094

(i) The amounts above at the end of the fiscal year ended March 31, 2019 include amounts pertaining to the securitization of receivables (operating loans of ¥179,719 million, current portion of long-term borrowings of ¥27,616 million and long-term borrowings of ¥118,653 million).
(ii) Of the above assets, ¥40 million of operating loans and ¥14 million of installment receivables are pledged as collateral for borrowings by LIFECARD Co., Ltd.

(Millions of yen)

	As of March 31, 2020
(1) Assets pledged as collateral	
Operating loans	¥ 312,018
Accounts receivable—installment	9
Buildings	2,715
Structures	19
Machinery and equipment	10
Furniture and fixtures	24
Land	6,433
Total	¥ 321,231
(2) Corresponding liabilities	
Short-term borrowings	¥ 5,000
Current portion of long-term borrowings	85,950
Long-term borrowings	163,302
Total	¥ 254,252

(i) The amounts above at the end of the fiscal year ended March 31, 2020 include amounts pertaining to the securitization of receivables (operating loans of ¥181,047 million, current portion of long-term borrowings of ¥35,530 million and long-term borrowings of ¥103,429 million).
(ii) Of the above assets, ¥31 million of operating loans and ¥9 million of installment receivables are pledged as collateral for borrowings by LIFECARD Co., Ltd.

2. Unsecured personal loans included in operating loans

(Millions of yen)

As of March 31, 2019	As of March 31, 2020
¥ 355,907	¥ 401,249

3. Contingent liability

Guarantee obligation

The Company guarantees loans payable from financial institutions for the Company's consolidated subsidiaries: LIFECARD Co., Ltd., BUSINEXT CORPORATION, AsTry Loan Services Corporation, AIRA & AIFUL Public Company Limited and LIFE GUARANTEE Co., Ltd., and its non-consolidated subsidiary, PT REKSA FINANCE.

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
LIFECARD Co., Ltd.	¥ 1,700	¥ 2,600
BUSINEXT CORPORATION	1,760	1,320
AsTry Loan Services Corporation	400	275
AIRA & AIFUL Public Company Limited	3,106	1,503
LIFE GUARANTEE Co., Ltd.	900	700
PT REKSA FINANCE	—	390
Total	¥ 7,866	¥ 6,788

4. The status of non-performing loans (NPL) of operating loans and claims in bankruptcy is as follows:

(Millions of yen)

As of March 31, 2019	Unsecured loans	Other than unsecured loans	Total
Loans in legal bankruptcy	¥ 674	¥ 14,646	¥ 15,321
Nonaccrual loans	26,491	3,344	29,836
Loans 3 months or more in arrears	5,535	221	5,756
Restructured loans	8,498	964	9,462
Total	¥ 41,199	¥ 19,177	¥ 60,376

(Millions of yen)

As of March 31, 2020	Unsecured loans	Other than unsecured loans	Total
Loans in legal bankruptcy	¥ 739	¥ 13,351	¥ 14,090
Nonaccrual loans	30,972	3,256	34,229
Loans 3 months or more in arrears	6,496	245	6,742
Restructured loans	11,829	1,195	13,024
Total	¥ 50,037	¥ 18,049	¥ 68,086

The loan categories in the table above are as follows:

(Loans in legal bankruptcy)

Loans in legal bankruptcy are loans in which payment of principal or interest remains past due for a considerable period and accruals of interest are discontinued, to which the conditions stipulated under (a) through (e) of sub-paragraph 3, paragraph 1, Article 96 or sub-paragraph 4 of the same paragraph of the Corporation Tax Act Enforcement Ordinance (Enforcement Ordinance No. 97 of 1965) apply. Any amounts deemed necessary to cover possible losses on an individual account basis of the claims in bankruptcy and rehabilitation are posted in the allowances for doubtful accounts.

(Nonaccrual loans)

Nonaccrual loans are loans in which accruals of interest are discontinued, other than loans in legal bankruptcy and loans receiving regular payments in the case of granting deferral of interest payment to debtors in financial difficulties to assist them in their recovery.

(Loans three months or more in arrears)

Loans three months or more in arrears are operating loans for which payments of principal or interest have not been received for three months or more beginning with the next business day following the last due date for such payments. Loans classified as loans in legal bankruptcy and nonaccrual loans are excluded from loans three months or more in arrears.

(Restructured loans)

Restructured loans are operating loans for which creditors have granted concessions (e.g., reduction of the stated interest rate, deferral of interest payment, extension of maturity date, waiver of the face amount or other concessive measures) to debtors in financial difficulties to assist them in their recovery and eventually enable them to pay creditors, and which receive regular payments. Loans classified as loans in legal bankruptcy, nonaccrual loans and loans three months or more in arrears are excluded.

5. Loan commitments related to operating loans
(Fiscal year ended March 31, 2019)
Of operating loans including off-balance sheet loans resulting from securitization, ¥319,317 million is loans under revolving credit agreements. Under these agreements, customers may obtain additional loans up to a specified maximum amount that does not exceed the amount they requested.

Outstanding loan commitments under revolving credit agreements were ¥88,100 million.

The agreements include clauses that enable the Company to decrease the loan amounts or cancel new loans if it deems it necessary due to changes in customers' credit standing or other reasons. The Company regularly reviews the agreements and takes steps to preserve credit even after concluding the agreements.

Outstanding loan commitments include commitments to customers who do not have any outstanding loan commitments or who have not requested any loans after concluding a credit agreement. Many revolving credit agreements expire with no loans being provided. Therefore, outstanding loan commitments themselves do not necessarily affect the Company's future cash flows.

(Fiscal year ended March 31, 2020)
Of operating loans including off-balance sheet loans resulting from securitization, ¥359,404 million is loans under revolving credit agreements. Under these agreements, customers may obtain additional loans up to a specified maximum amount that does not exceed the amount they requested.

Outstanding loan commitments under revolving credit agreements were ¥100,176 million.

The agreements include clauses that enable the Company to decrease the loan amounts or cancel new loans if it deems it necessary due to changes in customers' credit standing or other reasons. The Company regularly reviews the agreements and takes steps to preserve credit even after concluding the agreements.

Outstanding loan commitments include commitments to customers who do not have any outstanding loan commitments or who have not requested any loans after concluding a credit agreement. Many revolving credit agreements expire with no loans being provided. Therefore, outstanding loan commitments themselves do not necessarily affect the Company's future cash flows.

6. Of the allowances for doubtful accounts, the estimated interest repayment amount expected to have priority in being appropriated to operating loans is as follows:

(Millions of yen)

As of March 31, 2019
¥ 2,534

(Millions of yen)

As of March 31, 2020
¥ 1,415

Notes to non-consolidated statements of income

1. Matters regarding subsidiaries and associates

(Millions of yen)

	FY ended March 31, 2019	FY ended March 31, 2020
Interest on loans receivable	¥ 618	¥ 788
Rental income from real estate	98	99
Outsourcing service income	175	251
Other (non-operating income)	—	53

Notes on securities

Shares of subsidiaries and affiliated companies

Fiscal year ended March 31, 2019 (as of March 31, 2019)

(Millions of yen)

Category	Non-consolidated balance sheet amount	Fair value	Difference
(1) Shares of subsidiaries	¥ —	¥ —	¥ —
(2) Shares of affiliated companies	356	1,723	1,367
Total	¥ 356	¥ 1,723	¥ 1,367

Fiscal year ended March 31, 2020 (as of March 31, 2020)

(Millions of yen)

Category	Non-consolidated balance sheet amount	Fair value	Difference
(1) Shares of subsidiaries	¥ —	¥ —	¥ —
(2) Shares of affiliated companies	356	1,563	1,207
Total	¥ 356	¥ 1,563	¥ 1,207

Note: Non-consolidated balance sheet amount of shares of subsidiaries and affiliated companies whose fair value is deemed extremely difficult to ascertain

(Millions of yen)

Category	As of March 31, 2019	As of March 31, 2020
(1) Shares of subsidiaries	¥ 34,140	**¥ 34,140**
(2) Shares of affiliated companies	—	**—**
Total	¥ 34,140	**¥ 34,140**

These are not shown in the above table since they do not have a market price and their fair value is deemed extremely difficult to ascertain.

Notes on tax effect accounting

1. Breakdown of major factors of deferred tax assets and liabilities

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Deferred tax assets		
Allowance for doubtful accounts	¥ 6,317	¥ 7,252
Provision for loss on interest repayment	6,338	6,857
Bad debt loss	1,263	1,375
Accrued income	822	890
Loss carried forward	117,054	82,258
Shares of subsidiaries and associates	4,216	4,290
Other	2,335	2,204
Subtotal of deferred tax assets	138,348	105,129
Valuation allowance for tax loss carryforwards	(116,636)	(82,258)
Valuation allowance for the sum total of deductible temporary differences, etc.	(18,011)	(18,894)
Subtotal of valuation allowances	(134,648)	(101,152)
Total deferred tax assets	¥ 3,700	¥ 3,976
Deferred tax liabilities		
Valuation difference on available-for-sale securities	(0)	—
Retirement cost corresponding to asset retirement obligations	(157)	(138)
Other	0	—
Total deferred tax liabilities	¥ (158)	¥ (138)
Net amount of deferred tax assets	¥ 3,542	¥ 3,838

2. Major components of significant differences between the effective statutory tax rate and the burden rate of income taxes, etc., after application of tax effect accounting

	As of March 31, 2019	As of March 31, 2020
Effective statutory tax rate	30.5%	30.5%
(Adjustment)		
Inhabitant tax on per capita basis	4.8	2.2
Entertainment expenses and other items permanently excluded from loss	0.6	0.9
Stock-based compensation expenses	(0.2)	(4.1)
Valuation allowances	(6,181.3)	(1,976.5)
Exclusion from gross profits of dividends received	(0.4)	(0.2)
Change of tax rate	(24.4)	11.3
Tax credits due to pay raise or investment promotion tax system	—	(7.0)
Expiry of time limit of loss carried forward	5,645.1	1,945.4
Other	(2.7)	0.8
Burden rate of income taxes, etc., after application of tax effect accounting	(528.0)	3.3

Non-Consolidated Schedules

AIFUL CORPORATION

Securities schedule

Disclosure is omitted pursuant to Article 124 of Non-Consolidated Financial Statements Regulation since the amount of securities is not more than one hundredth (1/100) of the total amount of assets.

Property, plant and equipment, etc., schedule

(Millions of yen)

Type of assets	Balance at April 1, 2019	Increase during FY	Decrease during FY	Balance at March 31, 2020	Accumulated depreciation or amortization at March 31, 2020	Amortization during FY	Net balance at March 31, 2020
Property, plant and equipment							
Buildings	¥ 12,920	¥ 94	¥ 215	¥ 12,799	¥ 8,749	¥ 359	¥ 4,049
Structures	1,210	3	236	977	800	48	177
Machinery and equipment	146	—	—	146	135	1	10
Furniture and fixtures	3,813	134	525	3,421	3,000	226	421
Land	6,809	—	—	6,809	—	—	6,809
Leased assets	847	245	553	538	194	167	344
Construction in progress	93	416	254	256	—	—	256
Total property, plant and equipment	¥ 25,842	¥ 894	¥ 1,786	¥ 24,950	¥ 12,879	¥ 803	¥ 12,070
Intangible assets							
Software	—	—	—	29,516	27,346	358	2,169
Other	—	—	—	39	14	0	24
Total intangible assets	¥ —	¥ —	¥ —	¥ 29,556	¥ 27,361	¥ 358	¥ 2,194
Long-term prepaid expenses	¥ 437	¥ 167	¥ 86	¥ 518	¥ 280	¥ 142	¥ 238

Note: Disclosure of "Balance at April 1, 2019," "Increase during FY" and "Decrease during FY" is omitted since the amount of intangible assets is not more than 1% of the total amount of assets.

Allowance schedule

(Millions of yen)

Category	Balance at April 1, 2019	Increase during FY	Decrease during FY (Used for objective)	Decrease during FY (Other)	Balance at March 31, 2020
Allowance for doubtful accounts	¥ 46,105	¥ 22,788	¥ 22,115	¥ —	¥ 46,777
Allowance for bonuses	1,273	1,310	1,273	—	1,310
Provision for loss on interest repayment	¥ 20,722	¥ 15,433	¥ 13,697	¥ —	¥ 22,458

Major assets and liabilities

Disclosure is omitted since the Company has prepared consolidated financial statements.

Others

Not applicable.

History

1967

Apr	Yoshitaka Fukuda, AIFUL CORPORATION's current chairman, established a sole proprietorship as a consumer finance company

1978

Feb	Established Marutaka, Inc. (now AIFUL CORPORATION) with capital of 9.0 million yen in Sakyo-ku, Kyoto
	Began unsecured consumer loan business with four branches: the Kyoto Branch (now closed), the Fukuoka Branch (now the Hakata Branch), the Nagasaki Branch (now the Nagasaki-Hamamachi Branch) and the Kokura Branch (now the Kokura-Kyomachi Branch)

1982

May	Marutaka, Inc. absorbed three related companies (Oasa, Inc., Yamakatsu Sangyo, Inc., Maruto, Inc.) and increased its equity capital to 500.0 million yen
	Name simultaneously changed to AIFUL CORPORATION
Jul	Began providing unsecured loans to sole proprietors

1984

Feb	Started of ATM operations (AIFUL Fine Cards issued)
Mar	Registration of money lenders based on enactment of the Money Lending Business Control Law
Oct	Began sales of real estate-secured loans

1985

Mar	Introduced first Scoring System (automated credit check system)
May	Received transfer of business rights for loan business from Marumiya Co., Ltd.
Aug	All branches began handling real estate-secured loans

1992

Jul	Introduced auto-pricing system for automatically performing periodic credit checks after customers borrow money
Aug	Absorption merger of Toshi Finance Co., Ltd. (Based on the merger, established AIFUL's Secured Loan Department, now the Secured Loan Business Department, as a specialized division for large-sum real estate-secured loans)

1993

Feb	Began operation of the AI Computing Center, AIFUL's dedicated computer information-processing facility
Aug	Opened Taiwanese family restaurant "Alishan" in Kyoto
Oct	Special sponsor of AIFUL Cup Kyushu Sports Festa in Kamitsue '93
Dec	Converted MARUTOH Co., Ltd. (Ukyo-ku, Kyoto: real estate business) into a subsidiary

1994

Mar	Absorption merger of MARUTOH Co., Ltd. (Based on the merger, established Amusement Business Section in the Restaurant and Entertainment Department as the group responsible for the Company's karaoke business)
Nov	Opened Heartful Center (now Contact Center, the Company's centralized management center for toll-free inquiries and loan applications)

1995

Mar	Completed installation of "Ojidou-san," an automated loan agreement machine, at Kanda North Exit Branch and Ikebukuro West Exit Branch
Jun	Entered cash dispenser/ATM alliance with credit card distribution companies
Nov	Established Internet homepage

1997

Jan	Launched association of five consumer credit companies
Jul	Over-the-counter registration of Company's stock with the Japan Securities Dealers Association
Oct	Began full-scale sales of commercial loans to consumers

1998

Apr	Issued four million new shares through public subscription
Oct	Listed Company's stock on Second Section, Tokyo Stock Exchange, Second Section, Osaka Exchange and Kyoto Stock Exchange

1999

Feb	Opened automated application teller "Concentration Center Kyoto"
May	Implemented stock split at 1.2 shares for 1 ordinary par value share
	Registered as certified finance corporation based on "Law Concerning the Issuance of Corporate Bonds for the Financial Industry Loan Business" (Kinki Bureau of Finance Chief No. 1)
Jul	Concluded agreement on transfer of operating assets of Nippon Benefit Co., Ltd.
Sep	Completed installation of 16 "Concentration Centers" for automated loan agreement machines

2000

Mar	Balance of loans reached one trillion yen
	Listed on First Section, Tokyo Stock Exchange and First Section, Osaka Securities Exchange
Apr	Launched "e-cashing" Internet cashing service
May	Reached two million customer accounts
	Implemented stock split at 1.5 shares for 1 ordinary par value share
Jun	100% subsidiary of AIFUL took over operating assets from Happy Credit Co., Ltd. and Sky Co., Ltd. and commenced operations as Happy Credit Co., Ltd.
	Converted Sinwa Co., Ltd. into 100% subsidiary (share exchange method)
	Capital increased to 39.78852 billion yen
Oct	Concluded sponsorship agreement with LIFE Co., Ltd., a sales finance company

2001

Jan	Established business finance company Businext Co., Ltd. through a joint venture with Sumitomo Trust and Banking Co., Ltd.
Feb	Completed new headquarters building (Shimogyo-ku, Kyoto)
Mar	Converted LIFE Co., Ltd. into 100% subsidiary
Apr	Introduced loan adviser system
Jun	Converted Sanyo Shinpan Co., Ltd. into 100% subsidiary
Aug	Issued 8.5 million new shares through public subscription (domestic and overseas) and raised 83.3 billion yen in new capital
Nov	Partial transfer of treasury stock (4.12%) related to LIFE Co., Ltd. to main financial institutions
	Established servicer company AsTry Loan Services Corporation in joint venture with Aozora Bank, Ltd.
Dec	Introduced stock options

2002

Feb	AIFUL services made available from ATMs of Group company Sinwa Co., Ltd.
Mar	Purchased claims from business loan division of Misawa Homes Co., Ltd.

Apr Introduced seventh Scoring System

Established Compliance Committee

AIFUL services made available from ATMs of Group companies Happy Credit Co., Ltd., Sinwa Co., Ltd. and Sanyo Shinpan Co., Ltd.

May Formed a partnership for business loan guarantees with Daiwa Bank, Ltd.

Jun Entered cash dispenser/ATM alliance with city banks

Acquired Mastercard International principal member license

Oct Converted business finance company City's Corporation into 100% subsidiary

2003

Jan Joined the Japan Business Federation (Nippon Keidanren)

Received "Listed Company Disclosure Commendation" from the Tokyo Stock Exchange

Feb Sold "Alishan," Taiwanese family restaurant business, to BB Restaurant Service Corp.

2004

Mar Converted KOKUSAI Capital Co., Ltd. into 100% subsidiary

Apr Concluded sponsorship agreement with TCM. Co. Ltd.

Happy Credit Corporation merged with Sinwa Co., Ltd. and Sanyo Shinpan Co., Ltd. The incorporated company changed its name to Tryto Corporation

Jun Converted Wide Corporation into 100% subsidiary

Jul KOKUSAI Capital Corporation changed its name to New Frontier Partners Co., Ltd.

2005

Feb Converted TCM. Co. Ltd. into 100% subsidiary

Issued first US dollar-denominated unsecured straight bonds

Mar Converted Passkey Co., Ltd. into 100% subsidiary

Sep Established specialized Internet loan companies id Credit Corporation and Net One Club Corporation

2006

Feb id Credit Corporation and Net One Club Corporation commenced operations

Apr Established a new company, AGM Research Institute Co., Ltd.

Introduced eighth Scoring System

2007

Mar Absorption merger of id Credit Corporation and Net One Club Corporation

Apr Revised management philosophy. The new management philosophy is "Earn the trust of society through corporate activity based in integrity"

Established Risk Management Committee

Jun Introduced executive officer system

2008

Feb Issued new shares through third party and offered new convertible bonds

2009

Sep Transferred all shares of four subsidiaries, Wide Corporation, Tryto Corporation, TCM. Co. Ltd. and Passkey Co., Ltd., to NEOLINE CAPITAL Co., Ltd.

2010

Apr Delisted voluntarily from Osaka Exchange

Jul Subsidiary LIFE Co., Ltd., now a consolidated subsidiary, established LIFECARD Co., Ltd., a wholly owned subsidiary for the credit card business and credit guarantee business

2011

Jul Under the Group reorganization, the credit sales business as well as the credit guarantee and insurance businesses of LIFE Co., Ltd. were transferred to LIFECARD Co., Ltd. by way of corporate spin-off and merger

Furthermore, four consolidated subsidiaries (LIFE Co., Ltd., following its spin-off, City's Corporation, City Green Corporation and Marutoh KK) were merged with AIFUL

2013

Apr New Frontier Partners Co., Ltd. (a current consolidated subsidiary), a wholly owned subsidiary of the Company, acquired all shares in BUSINEXT CORPORATION (a current consolidated subsidiary), owned by the Company and Sumitomo Mitsui Trust Bank Limited, and made it a wholly owned subsidiary

2014

Dec AIRA & AIFUL Public Company Limited, a joint venture, was established with AIRA Capital, as an overseas subsidiary in Thailand

AIRA & AIFUL

2015

Apr SANSHU Finance Corporation, which manages the lease business in Shanghai, China, became a member of the Group

Oct AIRA & AIFUL Public Company Limited commenced the consumer finance business in Thailand with the A Money brand

Nov Shares of Anshin Guarantor Service Co., Ltd., a Group company, were listed on the Tokyo Stock Exchange Mothers section

あんしん保証 ANSHIN GUARANTOR SERVICE

2016

Apr New Frontier Partners Co., Ltd. (a current consolidated subsidiary) changed its corporate name to AG Capital Co., Ltd.

AG Capital

2017

Apr 50th anniversary of AIFUL's establishment

アイフル おかげさまで50周年

May Acquired shares of REKSA FINANCE, which manages the used car loan business in Indonesia

REKSA FINANCE

Jun AIRA & AIFUL Public Company Limited was included in the scope of consolidation

2018

Apr Established AsTry Partners Corporation, which manages the corporate turnaround & restructuring business

ASTRY アストライパートナーズ

2019

Mar Group company Anshin Guarantor Service Co., Ltd. was included in the scope of an equity method affiliate

Apr AIFUL's manned stores nationwide were transitioned to a corporate sales organization that sells products of the AIFUL Group

2020

Jun Established AG MIRAIBARAI CO., LTD., which manages the Postpay settlement business

AG ミライバライ

Jul AIFUL Group companies below have been renamed as follows:

BUSINEXT CORPORATION (currently a consolidated subsidiary) to AIFUL BUSINESS FINANCE CORPORATION; AsTry Loan Services Corporation (currently a consolidated subsidiary) to AG Loan Services Corporation; LIFE GUARANTEE CO., LTD. (currently a consolidated subsidiary) to AIFUL GUARANTEE CO., LTD.; Life Stock Center Co., Ltd. to AIFUL STOCK CENTER CORPORATION; and AsTry Partners Corporation to AIFUL Partners Corporation

Group Companies

Company Name	Business Classification	Website
AIFUL CORPORATION	• Unsecured consumer loan • Small business loan • Credit guarantee	https://www.aiful.co.jp/
LIFECARD CO., LTD.	• Credit card • Prepaid card • Credit guarantee • Receiving agent service	http://www.lifecard.co.jp/
AIFUL BUSINESS FINANCE CORPORATION	• Small business loan • Secured loan • Factoring • Medical loan secured by medical fee receivables	https://www.aiful-bf.co.jp/
AG Loan Services Corporation	• Debt collection (Servicer) • Restructuring	http://www.astry-s.co.jp/
AG Capital Co., Ltd.	• Venture capital business	https://nf-partners.co.jp/
AIFUL GUARANTEE CO., LTD.	• Receiving agent service • Installment credit sales	https://www.aifulguarantee.co.jp/
AIFUL Partners Corporation	• Corporate turnaround & restructuring	http://www.astry-p.co.jp/
AIFUL STOCK CENTER CORPORATION	• Warehouse/Document management	—
Sumishin Life Card Company, Limited	• Credit card	http://www.sumishinlifecard.co.jp/
AG MIRAIBARAI CO., LTD.	• Postpay settlement business	https://www.mirai-barai.co.jp/
Anshin Guarantor Service Co., Ltd.	• Guarantee (Rent liabilities)	https://anshin-gs.co.jp/
AIRA & AIFUL Public Company Limited	• Consumer finance	http://www.aira-aiful.co.th/
PT REKSA FINANCE	• Used car loans	https://reksafinance.co.id/

Corporate Overview (As of March 31, 2020)

Corporate Name	AIFUL CORPORATION
Address of Head Office	381-1, Takasago-cho, Gojo-Agaru, Karasuma-Dori, Shimogyo-ku, Kyoto 600-8420, Japan
Date of Establishment	April 1967
Paid-in Capital	¥94,028 million
Fiscal Year	April 1 to March 31
Number of Employees	Non-consolidated: 1,028 Consolidated: 2,113
Stock Listing	The First Section of the Tokyo Stock Exchange
Securities Code	8515
Transfer Agent and Registrar	Sumitomo Mitsui Trust Bank, Limited
Independent Auditor	Deloitte Touche Tohmatsu LLC

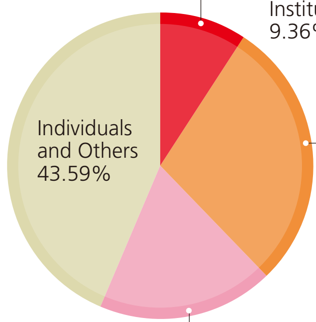
Stock Information (As of March 31, 2020)

Total Number of Shares Authorized	1,136,280,000 shares
Total Number of Shares Issued	484,620,136 shares
Number of Shareholders	31,211

Principal Shareholders

Name	Number of Shares (Thousands)	Percentage of Total Shares Outstanding
AMG Co., Ltd.	94,814	19.56
Mitsuhide Fukuda	62,155	12.83
Marutaka Co., Ltd.	24,543	5.06
The Master Trust Bank of Japan, Ltd. (trust account)	12,201	2.52
J.P. MORGAN BANK LUXEMBOURG S.A. 1300000	6,637	1.37
STATE STREET BANK AND TRUST COMPANY 505325	6,326	1.31
Japan Trustee Services Bank, Ltd. (trust account)	6,272	1.29
BANK JULIUS BAER AND CO. LTD. SINGAPORE CLIENTS	6,119	1.26
Japan Trustee Services Bank, Ltd. (trust account 5)	6,112	1.26
UBS AG LONDON A/C IPB SEGREGATED CLIENT ACCOUNT	6,005	1.24

Composition of Shareholders



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