May 16, 2006

Year-End Financial Statements (Consolidated)

For the fiscal year ended March 2006

AIFUL Corporation	Stock Exchange: Tokyo, Osaka
Stock Code: 8515	Headquarters: Kyoto City
(URL http://www.aiful.co.jp)	
Representative:	Yoshitaka Fukuda, President and Chief Executive Officer
Inquiries:	Kenichi Kayama, General Manager, Public Relations Department TEL (03) 4503 - 6050
Date of the Board of Directors' meeting approving financial statements:	May 16, 2006
Adoption of U.S. G.A.A.P.:	No

I. Consolidated Business Results for the Year Ended March 31, 2006
(April 1, 2005 – March 31, 2006)

1. Consolidated Operating Results

Note: Amounts in consolidated financial statements and the supplementary data are rounded down.

(In millions of yen, except where noted)

	Operating Revenue		Operating Income		Ordinary Income	
Fiscal year ended March 31, 2006	549,547	6.0%	125,116	(7.1)%	126,964	(6.2)%
Fiscal year ended March 31, 2005	518,416	9.5%	134,716	19.7%	135,294	20.3%

	Net Income		Net Income per Share (Yen)	Diluted Net Income per Share (Yen)	Net Income to Shareholders' Equity Ratio	Ordinary Income to Total Assets Ratio	Ordinary Income to Operating Revenue Ratio
Fiscal year ended March 31, 2006	65,827	(13.1)%	464.84	464.69	10.1%	4.7%	23.1%
Fiscal year ended March 31, 2005	75,723	21.1%	800.36	800.30	13.0%	5.5%	26.1%

Notes:
1. Equity method investment gain or loss for: Fiscal year ended March 31, 2006: - million yen
   Fiscal year ended March 31, 2005: - million yen
2. Average number of shares during: Fiscal year ended March 31, 2006: 141,613,814 shares
   Fiscal year ended March 31, 2005: 94,453,068 shares
3. Changes in accounting policies: Yes
4. Percentage figures shown for operating revenue, operating income, etc., show year-on-year growth.

2. Consolidated Financial Position

(In millions of yen, except where noted)

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio (%)	Shareholders' Equity per Share (Yen)
Fiscal year ended March 31, 2006	2,790,969	681,694	24.4	4,813.45
Fiscal year ended March 31, 2005	2,574,286	617,352	24.0	6,538.03

Notes:
1. Number of shares issued and outstanding: As of March 31, 2006: 141,622,876 shares
   As of March 31, 2005: 94,405,535 shares
2. AIFUL implemented a 1:1.5 stock split on May 23, 2005.

3. Consolidated Cash Flows

(In millions of yen)

	Cash Flow from Operating Activities	Cash Flow from Investing Activities	Cash Flow from Financing Activities	Cash and Cash Equivalents at the End of the Year
Fiscal year ended March 31, 2006	(25,944)	(60,019)	111,185	134,376
Fiscal year ended March 31, 2005	(63,408)	(11,211)	80,318	108,965

4. Consolidated Companies and Companies to Which Equity Method Accounting Applies

Number of consolidated subsidiaries: 13 companies
Number of non-consolidated subsidiaries accounted for by the equity method: 0 companies
Number of affiliated companies accounted for by the equity method: 0 companies

5. Changes in Application of Consolidated Accounting and Equity Method Accounting

Consolidated subsidiaries: (Newly included): 3 companies (Excluded): 0 companies
Companies accounted for by the equity method: (Newly included): 0 companies (Excluded): 0 companies

II. Full Year Forecast (April 1, 2006 - March 31, 2007)

(In millions of yen)

	Operating Revenue	Ordinary Income	Net Income
Interim period ending September 30, 2007	274,232	42,360	22,870
Fiscal year ending March 31, 2007	537,925	96,000	52,540

Reference:
Forecast for net income per share for fiscal year ending March 31, 2007: 370.99 yen

Caution Relating to Results Forecasts:
The above forecasts are based on the information available to management at the time they were made, and are estimates involving uncertain factors thought likely to have an effect on future results. Actual results can differ materially from these forecasts for a variety of reasons.

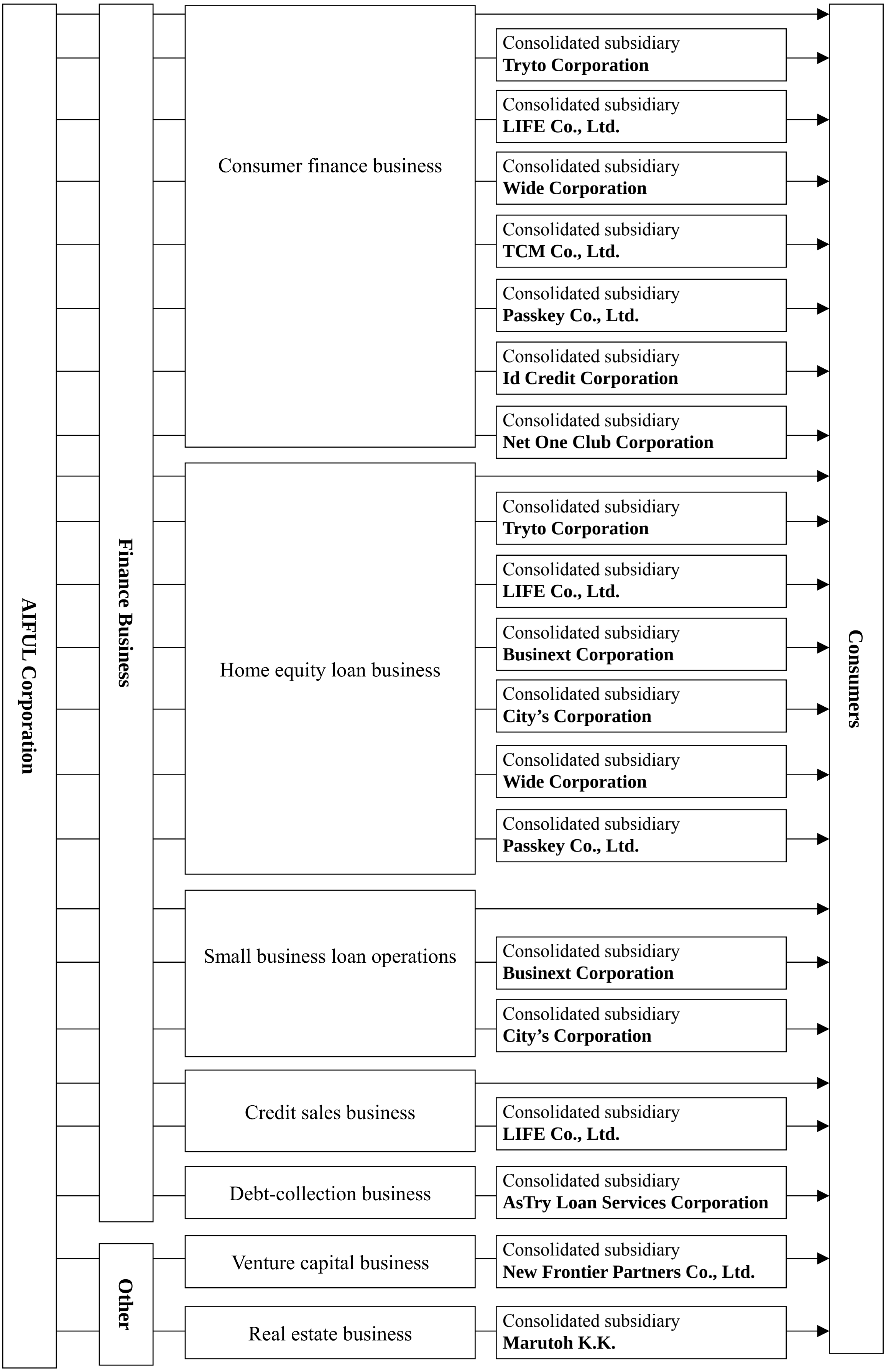
Supplementary Data

I. State of the Group

The AIFUL Group is composed of AIFUL Corporation and 13 consolidated subsidiaries, two non-consolidated subsidiaries and two affiliated companies. The Group is principally engaged in the consumer finance services and credit sales businesses. It is also active in the home equity loan business, small business loans, and debt collection and management.

<table>
<tr><th colspan="2">Business Classification</th><th>AIFUL & Subsidiaries</th><th>Business Descriptions</th></tr>
<tr><td rowspan="21">Finance Businesses</td><td rowspan="8">Consumer finance business</td><td>AIFUL Corporation</td><td rowspan="8">The Company and its subsidiaries provide small, unsecured loans for consumers.</td></tr>
<tr><td>Tryto Corporation</td></tr>
<tr><td>LIFE Co., Ltd</td></tr>
<tr><td>Wide Corporation</td></tr>
<tr><td>TCM Co., Ltd.</td></tr>
<tr><td>Passkey Co., Ltd.</td></tr>
<tr><td>Id Credit Corporation</td></tr>
<tr><td>Net One Club Corporation</td></tr>
<tr><td rowspan="7">Home equity loan business</td><td>AIFUL Corporation</td><td rowspan="7">The Company and its subsidiaries provide home equity loans.</td></tr>
<tr><td>Tryto Corporation</td></tr>
<tr><td>LIFE Co., Ltd</td></tr>
<tr><td>Businext Corporation</td></tr>
<tr><td>City’s Corporation</td></tr>
<tr><td>Wide Corporation</td></tr>
<tr><td>Passkey Co., Ltd.</td></tr>
<tr><td rowspan="3">Small business loan operations</td><td>AIFUL Corporation</td><td rowspan="3">The Company and its subsidiaries lend to small and other businesses.</td></tr>
<tr><td>Businext Corporation</td></tr>
<tr><td>City’s Corporation</td></tr>
<tr><td rowspan="2">Credit sales business</td><td>AIFUL Corporation</td><td rowspan="2">The Company and its subsidiary offer credit card shopping, per-item credit, loans and guarantees for consumers.</td></tr>
<tr><td>LIFE Co., Ltd</td></tr>
<tr><td>Debt-collection business</td><td>AsTry Loan Services Corporation</td><td>This company specializes in the management and collection of a full range of receivables and loans.</td></tr>
<tr><td rowspan="3">Other</td><td>Venture capital business</td><td>New Frontier Partners Co., Ltd.</td><td>This company assesses, invests in and supports venture companies.</td></tr>
<tr><td>Real estate business</td><td>Marutoh K.K.</td><td>This company leases real estate.</td></tr>
<tr><td></td><td>City Green Corporation</td><td>Holding company for City’s Corporation.</td></tr>
</table>

The organization chart for the Company's businesses is as follows:



* City Green Corporation is not listed above, since it is a holding company of City's Corporation, and is not active in business.

II. Management Policies

1. Basic Management Policies

AIFUL Corporation will give an account regarding the recent administrative penalties before reporting on its basic management polices.

On April 14, 2006, the Kinki Finance Bureau of the Financial Services Agency imposed penalties based on the provisions of item 1, Article 36 of the Money Lending Business Control and Regulation Law (Law No. 32 of 1983), halting all operations at the Company's branches and business offices for a set period (except for the receipt of repayments and operations related to credit protection.)

AIFUL Corporation expresses its deepest apologies for the tremendous inconvenience and concern these administrative penalties have caused for all of its stakeholders, including of course its customers as well as its shareholders.

AIFUL Corporation takes the imposition of the administrative penalties seriously. The Company is determined to enhance its compliance system and to be even more thorough in employee training than in the past in order to prevent the recurrence of legal infringements and to completely ensure the proper management of its operations. The whole Company is united in its endeavors to regain public confidence quickly.

The basic management policies of the AIFUL Group are based on the management principle of "gaining the support of society." Based on this principle, the AIFUL Group will direct its energies to "total compliance" and "a customer-first orientation," striving to obtain the support of all its stakeholders.

2. Basic Policies on Profit Distribution

The AIFUL Group's basic dividend policy is to consistently distribute profits to shareholders on the basis of a comprehensive assessment of the economic and financial situation and the Company's own business performance.

Based on this policy, AIFUL aims to distribute profits to shareholders and increase shareholder value via medium to long-term profit growth. The AIFUL Group has a policy of using internal reserves effectively in the strengthening of its corporate infrastructure, including the strengthening of its human resource training and legal compliance system, strategies to boost internal control functions, and investment in IT with an eye to the future, as well as allocating reserves to strategic investment that contributes to expansion of the earnings base for the Group overall, taking factors such as the market environment into account.

3. Management Indicator Objectives

The AIFUL Group puts an emphasis on group ROA from the perspective of seeking to improve management efficiency, and the Group is working to raise ROA.

4. Medium and Long-Term Business Strategies

Japan's consumer credit market was worth approximately 58.2 trillion yen (based on the balance of credit extended), a total that includes 14.8 trillion yen in retail credit and 34.5 trillion yen in consumer loans (excluding deposit and savings-secured loans) in fiscal 2004. In the consumer loan market, the size of the market for companies that specialize in consumer finance stands at 10.2 trillion yen, and it also rose from 12.1% ten years earlier in 1994 to 29.4% in fiscal 2004 as a proportion of the consumer loan market overall.

In this business environment, the AIFUL Group is promoting "total compliance" and "a thoroughly customer-first orientation" as its priority policies, uniting its energies with the intention of contributing to the overall development of a sound consumer credit market.

5. Matters Relating to the Parent Company

There are no relevant matters.

III. Results of Operations and Financial Position

1. Summary of Operations

A. Business Environment

With regard to the Japanese economy during the fiscal year under review, although the Diffusion Index for large manufacturing enterprises, which indicates corporate economic sentiment, stood at 20 points according to the Tankan Survey released by the Bank of Japan in March 2006, which was a decline of one point compared to the previous survey in December 2005, the index for forecast business conditions stood at 22 points, showing no change to the underlying tone of recovery in economic sentiment. Moreover, the indices of business conditions for January 2006 released by the government on March 17, 2006 moved up for the sixth successive month since August 2005 despite being revised slightly downwards from the preliminary figures.

In this business environment, and underpinned by the improvement in the environment with the number of applications for personal bankruptcy published by the Supreme Court falling year-on year for 28 months in a row since November 2003, our industry is witnessing increasingly intensifying competition that includes the expansion of capital and operational alliances between companies in the business that cut across industry boundaries, the entry of IT companies into the finance business, and strengthening of cash advance divisions by credit card companies. Alongside this, there has been a tendency toward an increase in litigation by lawyers and judicial scriveners claiming interest repayments. These factors combined with the review of the Money Lending Business Control Law, which is slated for three years after its enforcement as stipulated in the Supplementary Provisions for the Money Lending Business Control Law amended and enforced in January 2004, and the discussions at Financial Services Agency's Advisory Panel on Money Lending Business Systems make for an unpredictable operating environment.

B. Operations

(1) AIFUL Corporation

A summary of loan operations by product in the fiscal year under review is as follows.

i) Unsecured Loans

There were 520,000 new applications for unsecured loans during the consolidated fiscal year under review, a decrease of 3.9% compared to the previous year, and new account acquisitions were 338,000, down 1.6% year-on-year. New account acquisitions in the second half of the year (from October 2005 on) were 174,000, up 4.9% compared to the same period the previous year, which indicates a slight undertone of recovery from the trend of decline that has persisted since the year ended March 2003. The proportion of new account acquisitions accounted for by the Internet channel was up to 14.7% (11.8% in the previous year).

As a result, unsecured loans outstanding stood at 1,133,083 million yen, up 3.6% year-on-year at the end of the consolidated fiscal year under review.

ii) Home Equity Loans and Small Business Loans

The balance of loans outstanding for other products at the end of the consolidated fiscal year under review was 341,152 million yen, down 1.2% year-on-year, for home equity loans, and 38,480 million, up 16.9% year-on-year, for small business loans.

A summary of business other than loan operations is as follows.

iii) Guarantee Business

The credit guarantee business is a fee business that guarantees loan products handled by financial institutions. The business handles guarantees for unsecured personal loans and unsecured small business loans.

At the end of the consolidated fiscal year under review, AIFUL's tie-ups by loan product numbered 44 unsecured personal loan companies and 57 small business loan companies, and the balance of customers' liabilities for acceptances and guarantees (balance of guarantees for partner financial institutions, etc.) stood at 62,313 million yen.

iv) Credit Cards

On November 16, 2005, AIFUL began issuing the JJ CLUB 100 Premium Card, a new co-branded card with NEXT JAPAN Co., Ltd., which operates JJ CLUB 100, Japan's first franchise chain of multi-leisure facilities with a timed use membership system, which has six million members.

v) Branch Network

In the consolidated fiscal year under review, AIFUL opened 352 branches, chiefly for the roll out of *Suguwaza* loan application processing machines, and closed 12 branches. As a result, the number of branches at the end of the consolidated fiscal year under review totaled 1,912, with 515 staffed branches and 1,397 unstaffed branches.

In terms of the channels for cash services, customers had access to 86,639 CDs/ATMs, including AIFUL's own ATMs and those of 93 partner banks and 14 partner companies.

Apart from this, AIFUL has been working to open up its own nationwide ATMs to other companies in an efficient use of management resources, and it had 17 ATM partner companies at the end of the consolidated fiscal year under review.

As a result, AIFUL's loans outstanding at the end of the consolidated fiscal year under review stood at 1,512,717 million yen, an increase of 2.8% year-on-year.

(2) LIFE Co., Ltd.

During the consolidated fiscal year under review, which was the initial fiscal year for its second medium term business plan, LIFE Co., Ltd., further focused its energies on positioning the credit card business as its core business. As the same time, the company continued working to expand the operating base of its existing businesses.

In the credit card business, LIFE concluded alliances in the retail industry that included a tie-up with major mail order company Image Co., Ltd., moved forward actively in the affinity segment and in tie-up negotiations with financial institutions, and worked to issue corporate credit cards. Moreover, LIFE concluded a membership card agreement with the hospital affiliated with Tokyo University's medical school, and it has been striving to develop new services and added value through a credit card tie-up, such as plans to provide a service that allows patients to go home without waiting for accounting procedures at a counter when they pay for out-patient treatment by credit card. In terms of customer service. LIFE is seeking to enhance its points service by conducting reforms of its programs to include awarding five times the usual number of points in the month of a cardholder's birthday as well as commencing involvement with G Point, Japan's biggest points exchange service.

As a company that issues credit cards, LIFE has produced a television commercial that aims to raise awareness of phishing, one of a number of forms of credit card scams that have occurred recently, in its efforts to communicate its response to credit card crime for the security of its customers in a way that is easy to understand. The commercial went on air in October 2005.

Moreover, the company's mixed media commercial campaign, including web advertising, which began its fifth round in February 2006, has received a major response from customers, including being selected for the Top Ten Commercials of the Year, and the number of hits on the company's website has also increased exponentially. Moreover, LIFE has also been actively involved in the sponsorship of various events, supporting the holding of the LifeCard Ladies Golf Tournament, the Real Madrid World Tour and ladies figure skating. In addition, the company concluded an official partnership agreement with the Super Aguri F1 Team on March 31, 2006, and it is planning to issue an official Super Aguri F1 Team Card in the future.

As a result, the total number of credit card holders at the end of the consolidated fiscal year under review rose 1,180,000 to 13,090,000.

In light of social issues that include nefarious schemes by home renovation firms that target the elderly, LIFE has been responding by making its screening criteria for member stores more rigorous as well as continuously implementing regular monitoring of its member stores in the per-item credit business.

Moreover, the company opened two LifeCard Stores, which it is developing as a brand shop, during the current fiscal year, and it will be steadily expanding the stores in the future.

As a result of the foregoing, the volume of business in the consolidated fiscal year under review was up 26.0% year-on-year to 476,343 million yen for credit card shopping, down 21.7% to 121,911 million yen for per-item credit, up 8.2% to 30,032 million yen for credit guarantees, and up 8.2% to 347,861 million yen for credit card cash advances.

(3) Other Group Companies

i) Small Business Loans

Businext Corporation conducted an expansion of branches that included the opening of the Fukuoka Branch in April 2005 as well as the establishment of a new type of business office that focuses on direct marketing in Niigata and Utsunomiya. Moreover, the company reviewed its scoring system in November 2005, putting its efforts into further improving the quality of receivables.

As a result, at the end of the consolidated fiscal year under review, loans outstanding at Businext stood at 73,110 million yen, up 53.5% year-on-year.

As a result of factors such as sales of the low-interest loan product Super Business Loan, loans outstanding at City's grew 48.6% to 67,857 million yen at the end of the consolidated fiscal year under review.

ii) Consumer Finance

Since opening the Hakata-Eki Mae Branch in June 2005, Tryto Corporation has begun opening branches in the Kyushu area with 11 branches now open for business, including the Kagoshima Branch in July 2005, the Oita Branch in September 2005, and the Nagasaki Branch in December 2005. As a result, loans outstanding stood at 66,544 million yen at the end of the consolidated fiscal year under review, up 14.5% year-on-year.

Moreover, Wide Corporation has continued efficiently expanding its business in the eastern Japan area. As a result, loans outstanding totaled 99,890 million yen (up 4.8%, including 6,575 million yen in off-balance sheet receivables resulting from securitization) at the end of the consolidated fiscal year under review.

Apart from this, TCM Co., Ltd., and Passkey Co., Ltd., have been making efforts to further raise management efficiency as members of the AIFUL Group.

iii) Specialized Internet Loan Companies

The AIFUL Group established Id Credit Corporation and Net One Club Corporation, which are specialized Internet loan companies, with the aim of catering to the diverse needs of customers using IT technology, and the companies began operations on February 14, 2006.

Both companies provide unsecured loans via low-cost operations with no branches and a small number of staff.

iv) Servicing

In order to manage and collect a diverse range of monetary claims, AsTry Loan Services Corporation has focused its energies on expanding the receivables it handles while carefully assessing the environment. As a result, the company registered a steady performance with balance of receivables purchased standing at 10,932 million yen at the end of the consolidated fiscal year under review, up 36.0% year-on-year.

v) Venture Capital

New Frontier Partners Co., Ltd., is actively involved in secondary investment, primarily including investment in new ventures. In addition, in June 2005 the company invested in the production of the movie *Beruna no Shippo* ("Berna's Tail"), scheduled for screening in 2006, in its first investment in content.

As a result, total investments at the end of the consolidated fiscal year under review stood at 4,628 million yen (including investment in funds), up 13.2% year-on-year.

As a result, AIFUL and it subsidiaries had 2,232,417 million yen in loans outstanding, up 6.5% year-on-year, 285,041 million yen in installment receivables, up 3.0%, 153,766 million yen in customers' liabilities for acceptance and guarantees (balance of guarantees for partner financial institutions, etc.), up 8.7%, and 10,520 million yen in other operating receivables, up 0.3%, at the end of the consolidated fiscal year under review. The amounts above include 183,861 million yen in off-balance sheet loans due to securitization (including 108,400 million yen in loans outstanding and 75,460 million yen in installment receivables.)

C. Status of Capital Procurement

During the consolidated fiscal year under review, the AIFUL Group has endeavored to further diversify its methods of fund procurement, raising 70 billion yen through straight domestic bonds, 140 billion yen through securitization, and 500 million US dollars (55,610 million yen) through US dollar-denominated straight bonds.

As a result of these efforts, the balance of funds procured during the consolidated fiscal year under review was 1,792,746 million yen, up 7.1% year-on-year.

D. Overview of Performance

As a result of the factors described above, the AIFUL Group's operating revenue for the consolidated fiscal year under review increased by 6.0%, to 549,547 million yen.

AIFUL's non-consolidated operating revenue grew 0.9% year-on-year to 343,515 million yen, comprising 62.5% of the Group's revenue. LIFE recorded operating revenue of 132,251 million yen, an increase of 8.4% year-on-year, comprising 24.1% of the Group's revenues.

Of consolidated operating revenue, 491,357 million yen, or 89.4%, was accounted for by interest on loans to customers, 28,951 million yen or 5.3% by revenue from credit card shopping and per-item credit, 8,667 million yen or 1.6% by credit guarantee revenue.

Operating expenses for the AIFUL Group totaled 424,431 million yen, up 10.6% year-on-year. Of this amount, AIFUL's non-consolidated operating expenses accounted for 60.3%, or 255,966 million yen, up 9.8% year-on-year, while LIFE's operating expenses accounted for 25.3%, or 107,356 million yen, up 1.8% year-on-year.

Total Group operating expenses can be broken down into 166,193 million yen (or 39.2%) for bad debt-related expenses, 37,762 million yen (or 8.9%) in financial expenses, 28,018 million yen (or 6.6%) in advertising expenses, 58,256 million yen (or 13.7%) in personnel expenses, and 28,490 million yen (or 6.7%) in commissions paid.

The 2,055 million yen in write-down of consolidation adjustment account accrued with the purchase of consolidated companies was recorded as an operating expense.

AIFUL has calculated a new 21,074 million yen reserve for losses on interest repayments to provide for future interest repayments. Accompanying this, the Company revised its consolidated and non-consolidated financial results forecasts for the year ended March 2006 down on April 3, 2006.

As a result of the foregoing, consolidated operating income for the consolidated fiscal year under review decreased 7.1% to 125,116 million yen, ordinary income was down 6.2% to 126,964 million yen, and net income fell 13.1% to 65,827 million yen. AIFUL's non-consolidated operating income decreased 18.6% to 87,548 million yen, ordinary income was down 15.9% to 94,632 million yen, and net income fell 25.1% to 50,381 million yen.

E. Outlook for the Fiscal Year Ending March 2007

In terms of the outlook for the next fiscal year, firstly, positive signs, including the improvement in the unemployment rate and the decline in the number of applications for personal bankruptcy, have been appearing in the market environment with the undertone of recovery in the Japanese economy, making for a tough but promising environment. On the other hand, in terms of the business environment, there is a possibility of amendments to business-related legislation, and there are concerns over the impact on the industry and the business of the AIFUL Group.

In this environment, the issues to be addressed by the AIFUL Group are to monitor amendments to business-related legislation and respond quickly and appropriately when changes are made, while also working on exhaustive cost reductions.

Moreover, in its response to the current tough market environment, the AIFUL Group will put into practice the issues raised by "Voluntary Efforts to Further Increase the Soundness of the Consumer Finance Market" published by AIFUL and six other consumer finance companies on March 28, 2006. At the same time, the Group will be united in advancing "total compliance" and "a customer-first orientation" as its priority policies with the intention of contributing to the sound overall development of the consumer credit market.

In the year ending March 2007, we predict a 2.1% decline to 537,925 million yen in consolidated operating income, a 24.4% decrease to 96,000 million yen in ordinary income, and a 20.2% decrease to 52,540 million yen in net income. We forecast that AIFUL's non-consolidated operating income will decrease 6.2% to 322,368 million yen, ordinary income will fall 31.3% to 65,000 million yen, and net income will decrease 24.4% to 38,085 million yen.

2. Qualitative Information on Changes in Consolidated Financial Position

A. Assets

Loans totaled 2,124,017 million yen, an increase of 6.4% year-on-year. This was primarily due to increases in group loans. Businext's loans totaled 73,110 million yen, City's loans were 67,857 million yen, and Wide Corporation's loans amounted to 93,315 million yen. Installment receivables rose 8.9% year-on-year to 209,581 million yen, due to the steady progress made by the credit card shopping and per-item credit businesses at LIFE Co., Ltd. Customers' liabilities for acceptances and guarantees rose 8.7% to 153,766 million yen. Allowance for bad debts increased 7.7% year-on-year to 171,715 million yen. Consolidated loans and installment receivables do not include 183,861 million yen in receivables (108,400 million yen in loan receivables and 75,460 million yen in installment receivables) taken off the balance sheet by securitization of receivables.

The consolidated adjustment account was 9,272 million yen, down 15.8% year-on-year.

B. Liabilities

The balance of interest bearing debt from direct and indirect fund raising at the end of the consolidated fiscal year under review stood at 1,792,746 million yen, up 7.1% year-on-year. Apart from this, AIFUL recorded a 21,074 million yen reserve for losses on interest repayments to provide for future interest repayments.

C. Shareholders' Equity

Consolidated shareholders' equity at the end of the consolidated fiscal year under review was 681,694 million yen, and the equity ratio stood at 24.4%. AIFUL's non-consolidated shareholders' equity was 632,917 million yen, and the equity ratio stood at 28.7%.

D. Cash Flows

Despite a decrease due to such factors as an increase in operating receivables, new capital expenditure and short term borrowing, cash and cash equivalents at the end of the consolidated fiscal year under review stood at 134,376 million yen, up 25,411 million yen compared to the end of the previous consolidated fiscal year, as a result of financing activities such as the issue of bonds.

(1) Cash Flow from Operating Activities

With net income before taxes of 112,773 million yen, net cash used by operating activities fell 25,944 million yen, compared to a decrease of 63,408 million yen a year earlier, due to an increase in loans and other operating receivables and to the payment of corporate tax.

(2) Cash Flow from Investing Activities

Cash used by investing activities recorded a decline of 60,019 million yen (11,211 million yen decline in the previous fiscal year) as a result of an increase in capital expenditure, including automatic loan-contracting machines, and short term borrowing (repurchase agreements).

(3) Cash Flow from Financing Activities

Cash generated by financing activities rose 11,185 million yen (80,318 million yen increase in the previous fiscal year) as a result of indirect fund raising that included borrowing and direct fund raising that included the issue of commercial paper and bonds.

IV. Business Risk

The main factors that may affect the financial position, business performance and share price of the AIFUL Group are those described below. In addition, matters which are certainly not categorized as risk factors but which are considered important in making investment decisions or in understanding business activities are also described, in an effort to be even more proactive in disclosing information to investors.

Aware of the potential for these risks to occur, the Group endeavors to avoid their occurrence. However, the following descriptions do not include all risks. Material in the text relating to the future was current as of March 31, 2006.

1. Legal Regulations

A. Legal Compliance System

On April 14, 2006, AIFUL Corporation was deemed in breach of the Money Lending Business Control and Regulation Law ("Money Lending Control Law" below) with respect to the unlawful preparation and exercise of letters of attorney, demanding claims against borrowers who had received judgments for the commencement of assistance, the frequent demanding of claims through telephone calls to the debtor's workplace, persistently requesting cooperation from third parties in the demanding of claims, and inadequate entries in the records of negotiations as a result of on-the-spot inspections by the Kinki Finance Bureau of the Financial Services Agency. The Company was penalized with the halting of operations for between 20 and 25 days from May 8, 2006 at five of its branches and offices and for three days from May 8, 2006 at all of its other branches and offices.

In its endeavors to enhance its compliance structure, AIFUL Corporation had already established a Compliance Committee and a Group Compliance Committee as well as collecting information on risk and taking preventative measures. Moreover, the Company had established a Compliance Office as a specialist department for verifying and assessing the company-wide compliance set up. However, in light of the penalties above, AIFUL has undertaken the following reviews in order to ensure an even more effective system, especially with regard to the response to business-related legislation.

- In its review of the internal regulation relating to operations, the Company has prepared a new process for the series of operations for lawful and proper operations management, and it is working to create a system that enables the lawfulness of individual operations to be confirmed at all times, including increasing the number of items for attention under applicable laws and regulations.

- In its review of operations-related systems, the Company is seeking to improve its systems as well as further computerizing its operations with the aim of making the proper response to the demands of legislation related to the Company's business and avoiding human error.

- In its review of the in-house training system, AIFUL Corporation will seek to enhance the acquisition of legal knowledge and the absorption of awareness of legal compliance in its training curriculums for employees immediately after joining the Company through to managers. At the same time, the Company is planning to introduce an in-house licensing system in order to assess the legal compliance situation for each employee.

- In its review of the internal auditing system, the Company will add items for checking in auditing operations with a focus on legal compliance to establish a multi-level checking system that includes independent checking as well as checks by superiors and checks by the internal auditing departments, as it works to prevent and quickly detect illegal practices.

- In its review of products and operations, AIFUL Corporation will change its home equity products to set loan amounts based on disposable income in order to prevent excessive lending. At the same time, the Company will revise the forms for its operations in order to confirm customer intentions properly.

In the event that unlawfulness and scandal, including activities in breach of the law involving the employees of the AIFUL Group occur despite these reviews and the response made by the Company, this will result in legal punishments such as administrative penalties and other obligations, and could affect confidence in the Group as well as its financial position and performance.

B. Business Regulations

In terms of the legal regulation of business, the loan business, including the AIFUL Group's mainstay consumer finance business, is subject to the application of the Money Lending Control Law and the Law concerning the Regulation of Receiving Capital Subscription, Deposits, and Interest on Deposits (called "Capital Subscription Law" below). Under these laws, business is subject to a range of regulations. These include the prohibition of excessive lending, the publication of loan terms, the advertising of loan terms, the prohibition of exaggerated advertising, duty to provide explanations when concluding a loan agreement, the issue of documents, the issue of receipts, the preparation of account books, limitations on the acquisition of blank powers of attorney, regulation of collection activities, surrender of claim documents, the posting of signs, regulation of the cession of obligation, duty to disclose transaction history, the appointment of managers to handle lending operations, the carrying of identification documents, the legal regulation of the items to be entered on payment notices, and regulations on the proper handling of personal information.

In addition, the Administrative Guidelines for Precautions Regarding Financial Supervision (Administrative Guidelines) of the Financial Services Agency of Japan, the supervisory agency for AIFUL Corporation, dated October 29, 2003, set standards for preventing excessive lending. The amount that one lender can lend to a borrower with a brief screening at a counter in unsecured, non-guaranteed loans is 500,000 yen or an amount equivalent to 10% of the annual income of the borrower.

Moreover, the AIFUL Group's credit card shopping and per-item credit businesses are subject to a range of regulations based on the application of the Installment Sales Law. These regulations include the publications of terms of business, the issue of documents, the limitation of the amount of compensation for damages accompanying the cancellation of contracts, pleas against installment sales service providers, the prevention of purchases that exceed capacity to pay, and the prevention of consumer problems related to continuous service.

On May 1, 2005, the Administrative Guidelines were partially amended to (a) add failure to take the necessary and appropriate measures to ensure that the duty to provide explanations is fulfilled when engaged in the operation of a money lending business (such as specifying in internal regulations and operations manuals that it is necessary to provide explanations when concluding a loan contract or a guarantee contract so that the opposite party can understand the details of the contract) as an example of an action that could very likely correspond to a violation of paragraph 2, Article 13 of the Money Lending Business Control Law, which prohibits lending based on unlawful or clearly unfair methods, (b) stress the supervisory policy concerning the duty of money lenders to provide explanations, (c) reinforce the duty of money lenders to provide explanations relating to guarantees (they should provide an explanation of the legal consequences and risks for the guarantor if they are actually forced to fulfill the guaranteed obligation in accordance with the details of the individual contract and the ability of the opposite party to understand), and (d) establish a new provision concerning the duty of money lenders to provide an explanation regarding letters of attorney authorizing creation of notarized documents (they should provide an explanation so that the essential details, including the legal consequences of preparing a notarized document with a compulsory execution agreement attached, in accordance with the details of the individual letter of attorney and the ability of the opposite party to understand.

Moreover, the Administrative Guidelines were partially amended on November 14, 2005 to clarify the duty of the money lender to disclose transaction histories.

Furthermore, the Cabinet Order for the Partial Amendment of the Enforcement Regulations of the Money Lending Business Control Law was promulgated and implemented on April 11, 2006 to change the provisions for the mandatory matters to be recorded on the receipts and payment advice documents provided when a money lender receives a repayment. In addition, matters to be entered related to acceleration in an agreement were added to come into force on July 1, 2006. In addition, there are plans to partially amend the Administrative Guidelines in May 2006 (a) to clarify that demands by the money lender for the debtor to maintain the amount of a debt through refusal of repayments and blanket increases in the borrowing limit despite not having been requested by the customer fall under "solicitations to borrow more than necessary" and to clarify the need to examine and record in writing whether a debtor can make repayments without converting the relevant property into cash when seeking collateral on property for lending and the need to record the results of screening of a guarantor's ability to fulfill the guaranteed obligation in writing in order to prevent excessive lending, and (b) to clarify that the actions listed in the Administrative Guidelines as examples of acts that very likely to constitute infringements of paragraph 2, Article 13 of the Money Lending Business Control Law must not be committed when changing an agreement, including requiring a debtor to make automatic transfers from an account into which a public benefit is paid, except when requested by the debtor himself or herself for his or her own convenience, in the relevant examples.

AIFUL Corporation is currently considering the steps it will take to address these amendments, and intends to respond in the appropriate manner.

Apart from this, the Advisory Panel on Money Lending Business Systems, which includes experts, is currently being convened as needed by the Financial Services Agency, and discussions there include comprehensive legislative amendments in the future based on the current status of provisions and regulations in the money lending industry to include such areas as the maximum interest rate, the prevention of excessive lending, measures to counter black market lending, and the computerization of the duty to provide documents.

In the event that the Money Lending Business Control Law and related legislation is amended in the future as a result of this, there is a possibility of a contraction in the size of the market, depending on the details of the changes, and this could affect industry performance, including a decline in interest income accompanying a decrease in operating loans within the industry and for AIFUL Corporation and an increase in credit costs, including reserves for bad debts. Moreover, responding to such amendments or further strengthening of regulations will give rise to new, unanticipated expenses. As a result, the financial position and performance of the AIFUL Group could be affected.

C. Lending Rate

The Law to Partially Amend the Money Lending Business Control and Regulation Law came into force on June 1, 2000, and under the Capital Subscription Law, the maximum lending rate for when money lenders make loans as part of business operations was reduced from 40.004% per annum to 29.2% per annum, and infringements are subject to criminal penalties. However, the maximum lending rate at the AIFUL Group is lower than this.

In addition, Paragraph 2 of Article 12 of the Supplementary Provisions of the Law to Partially Amend the Money Lending Business Control and Regulation Law and the Law concerning the Regulation of Receiving Capital Subscription, Deposits and Interest on Deposits (called "Law to Amend the Money Lending Business Regulation Law and Capital Subscription Law" Below) promulgated on August 1, 2003 sets a target of three years after the enforcement of the Law to Amend the Money Lending Business Regulation Law and Capital Subscription Law for the necessary review of Paragraph 2, Article 5 (Ceiling Interest Rate) of the Capital Subscription Law, taking into consideration demand for funds and other economic and financial conditions, the financial resources of borrowers, the progress in the establishment of lending rates in accordance with creditworthiness, and other circumstances in the business of money lenders. In view of this specification by the Supplementary Provisions, it cannot be denied that there is a possibility that the maximum interest rate under the Capital Subscription Law may be reduced to a level that is lower than the current rate as a result of the amendment of the Capital Subscription Law and the Interest Limitation Law. In the event that the rate is lowered to a level lower than the current one, this could affect the money lending-related business and performance of the AIFUL Group.

In addition, under Paragraph 1 of Article 1 of the Interest Limitation Law, a contract for interest on a cash loan for consumption is considered invalid with regard to the portion in excess of the interest ceiling (20% when the principal is less than 100,000 yen, 18% when the principal is less than 1,000,000 yen, and 15% when the principal is 1,000,000 yen or more). When the debtor paid the relevant excess portion voluntarily under paragraph 2 of the same Article, it is considered that he or she shall not be able to claim repayment. However, under Article 43 of the Money Lending Business Regulation Law, when the document specified in the same Law has been issued to the borrower at the time of the loan and the borrower has voluntarily paid the excess portion as interest, and these payments are based on the contract, which is the issued document specified by the same Law, this payment is regarded as the repayment of valid interest on the debt, notwithstanding the provision of Paragraph 1 of Article 1 of the Interest Limitation Law (payments under the relevant provision called "deemed payments" below.).

Nevertheless, the Supreme Court ruling on January 13, 2006 ruled that the payment of the portion exceeding the ceiling on interest set in paragraph 1, Article 1 of the Interest Limitation Law under a covenant requiring the lump sum payment of the outstanding loan in the event that the payment of a loan installment is late is effectively compulsion and can not be deemed as a voluntary payment by a borrower. In addition, the court ruled that paragraph 2, Article 15 of the Enforcement Regulations for the Money Lending Business Control Law under 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. So far a number of lawsuits have been brought for the repayment of the excess portion on the interest ceilings stipulated by the Interest Limitation Law due to a lack of preparation in the industry of the matters to be entered on the contract document specified in the Money Lending Business Regulation Law, and 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. There have been cases in which the plaintiffs' claims that the Group did not fulfill its obligation as a loan business operator to issue the necessary documents required for the payment to be regarded as "deemed payments" under the Money Lending Business Regulation Law have been recognized, as well as cases in which the Company has made repayment of excess interest based on settlements. As a result, repayments of the relevant interest overpayments during the consolidated fiscal year under review stood at 13,108 million yen. Moreover, AIFUL Corporation is recording a reserve (reserve for losses on interest repayments, 21,074 million yen) from the consolidated fiscal year under review to provide for repayment risk equating to excess interest.

Nevertheless, in the event that repayments of excess interest arise exceeding the relevant reserve, this, as well as amendments to related legislation, could affect the financial position and performance of the AIFUL Group.

D. Financial Services Agency Administrative Guidelines

Based on the Money Lending Business Regulation Law, when the AIFUL Group, which operates a money lending business, concludes a loan agreement or a guarantee agreement, and extends a loan, it has an obligation to issue a document that records the specified matters concerning the terms of the loan immediately to the customer, who is the borrower, and the guarantor.

The Administrative Guidelines require lenders to issue a document that records all the statutory matters immediately whenever a customer borrows funds from an ATM or staffed office (includes mailing the document immediately) in addition to issuing the prescribed document when the contract is concluded. The AIFUL Group changed the software for the Company's ATMs and has been issuing the document described above that records all the statutory matters since August 2003, and it is taking measures to change the matters recorded based on the amendments to the Enforcement Regulations for the Money Lending Business Control Law as described previously with relation to the statutory matters to be recorded on the relevant document. In addition, for the ATM's of partner financial institutions, the Company obtains the prior consent of customers to mail the document that records the statutory matters to the customer separately immediately after a loan. However, the Company does not mail the document to customers from which it has not obtained prior consent.

The Financial Services Agency has statutory authority to impose administrative penalties for non-compliance by lenders with such obligations as issuing documents and providing explanations, including an order to completely or partially suspend business, to restrict the use of ATMs at partner financial institutions, as well as to cancel registration as a lender. The imposition of such administrative penalties on the AIFUL Group could affect the Group's performance and financial position.

E. Other Laws

(1) Personal Information Protection Law and the Handling of Personal Information

On April 1, 2005, the Personal Information Protection Law and the accompanying guidelines on the protection of personal information established by each government ministry came into force. Under the law, businesses that handle personal information have specific reporting obligations when judged necessary. In addition, the competent Minister can recommend or order that the necessary measures be taken when deemed necessary to protect the interests of individuals in the event that specific obligations under the Law are breached. Furthermore, businesses are required to make notification, clearly state and publish the purpose of use of personal information, obtain the consent of customers where necessary related to the handling of personal information, to supervise sub-contractors when subcontracting the handling of personal information, establish a system for security management from the organizational, personnel and technological perspectives, and publish their basic policy on the handling of personal information. In accordance with this, after reviewing its handling of personal information, the AIFUL Group has also taken measures to prevent the leaking of personal information before it happens. The credibility, financial condition and performance of the AIFUL Group may be affected in the event of a leakage of personal information for any reason or in the event that the Group is subject to a recommendation or order from the Financial Services Agency.

(2) Amendment of the Judicial Scrivener Law

Effective April 1, 2003, the Judicial Scrivener Law was amended to expand the scope of judicial scrivener services, making it possible for judicial scriveners to appear as representatives in court like lawyers in cases such as arbitration and civil lawsuits (maximum claim of 1.4 million yen) that can be handled by a summary court. So far, there has not been a substantial impact from the increase in the number of lawsuits and adjustments of debt using judicial scriveners as representatives. However, if future trends and further expansion in the scope of services bring about a further increase in lawsuits and adjustments of debt, it may lead to longer repayment plans for the Group's loans and a rise in bad debts. This could affect the performance of the AIFUL Group.

(3) Impact from Amendment of Bankruptcy Law

The amendments to the Bankruptcy Law came into force on January 1, 2005. The amendments seek to streamline and accelerate bankruptcy proceedings. If the amendments are accompanied by a rise in the number of bankruptcies, it could lead to an increase in bad debts, and this could affect the performance of the AIFUL Group.

(4) Possibility of Increase in Adjustment of Debts due to Formulation of the Special Conciliation Law and Amendments to Civil Rehabilitation Law

Under the Law concerning Special Conciliation to Promote the Liquidation of Specified Debts that came into force on February 17, 2000, debtors who are likely to be unable to pay off their debts, are now able to negotiate with creditors via arbitration by an arbitration committee composed of a judge and civil conciliators with specialist knowledge and experience in the necessary laws, taxes, finances, corporate finances, and asset appraisal, depending on the nature of the business operated by the debtor to adjust the debt, such as by changing the due date for payment. In addition, the amendments also made it possible for a debtor to request a suspension of civil execution proceedings against personal assets during the special conciliation proceedings.

Moreover, under the amended Civil Rehabilitation Law, which came into force on April 1, 2001, a number of optional proceedings were adopted to allow the postponement of loan repayments, without adjudication of bankruptcy, for personal loans to bankrupt borrowers. One of the procedures based on the Law does not require the approval of creditors for a draft rehabilitation plan. In addition, in certain circumstances, it makes it possible to avoid losing a personal residence covered by a home loan through the application of the special provisions for home funds.

So far, large numbers of AIFUL Group customers have not requested legal protection from creditors as a result of these introductions to the legal system. However, in the event of an increase in the future due to economic trends and so on, it could lead to longer repayment plans for the Group's loans and a rise in bad debts. This could affect the performance of the AIFUL Group.

2. Capital Procurement Environment: Trends in the Borrowing Rate

A. Interest Rate Fluctuation Risk

The interest rate for the capital procurement of the AIFUL Group varies depending on the market environment and other factors. In order to minimize the risk of interest rate fluctuation, the Company hedges against increases in interest rates using interest caps and swaps. However, the performance of the AIFUL Group could be affected by future increases in interest rates.

B. Status of Capital Procurement and Diversification

The AIFUL Group has been seeking to diversify its fund raising methods to include borrowing from financial institutions, syndicate loans, corporate bonds, commercial paper and asset securitization. At present, the AIFUL Group considers that there are no difficulties in procuring loan funds. However, capital procurement on the same terms as at present may become difficult if borrowing terms deteriorate and the amount of borrowings falls due to a decline in the Company's creditworthiness, and this could affect the performance of the AIFUL Group.

3. Changes in Performance

The very framework of the environment surrounding the AIFUL Group is changing from the former competition within a specialist consumer finance market to a fierce competition for one overall consumer credit market that encompasses banks, credit card companies, installment sales companies, and companies specializing in consumer finance. Moreover, an increase in the number of personal bankruptcies has a major impact on a rise in bad debts in the consumer finance industry. A decline in the rate of increase in the number of applications for personal bankruptcy began to appear in July 2003, and negative year-on-year growth has lasted since November 2003. However, so long as the persistently high level of unemployment due to the deterioration in the earnings and employment environment of recent years and flat income levels for the employed persist into the future, it is expected that the number of personal bankruptcies will remain at a high level. These factors make the environment unpredictable.

While taking this business environment into consideration, the AIFUL Group intends to promote business diversification and develop a range of other strategies. However, further changes in the market environment, including legal regulations, economic fluctuations and the competitive situation could affect the business and performance of the AIFUL Group.

4. Dislocation, Breakdown and Other Damage to Technology Systems, including Information Network System and Internet Services

The AIFUL Group depends on internal and external information and technology systems to manage its business, and this dependence on software, systems and networks to manage the business office network and the diversity of information that makes up the Group's business, including account data is growing. The hardware and software used by the AIFUL Group could suffer damage or interruption by human errors, natural disasters, power outages, computer viruses, and other similar phenomena or be affected by an interruption in support services provided by a third party, such as a telephone company or an Internet service provider. Such dislocation, breakdown, delay or other damage in information or technology systems could reduce the number of accounts established, delay the repayment of accrued balances, reduce the trust of consumers in the AIFUL Group's business, or result in other disadvantageous effects on the performance of the AIFUL Group.

The AIFUL Group seeks to duplicate both its hardware and telecommunications equipment to keep damage to a minimum by replacing equipment with backups when damage occurs. However, interruption to the operations of the AIFUL Group may be unavoidable in the event of natural disasters, such as earthquakes or typhoons.

5. Significant Lawsuits

The AIFUL Group is aware of a number of lawsuits based on the Group's loan collection practices that have been lodged by some groups. In the event that further lawsuits are lodged in the future, new and unanticipated expenses will arise. Moreover, coverage of such lawsuits by the mass media will affect whether and how customers use AIFUL, stock price formation and borrowing of funds. As a result, the AIFUL Group's financial position and performance could be affected.

V. Consolidated Financial Statements

1. Consolidated Balance Sheets

(In millions of yen, except where noted)

Category	Note No	End of previous consolidated fiscal year (As of March 31, 2005) Amount		%	End of current consolidated fiscal year (As of March 31, 2006) Amount		%
(Assets)							
I. Current assets							
1. Cash and cash equivalents	*2		109,575			134,454	
2. Loans	*2, 7, 8		1,995,621			2,124,017	
3. Installment receivables	*2, 5, 7		192,401			209,581	
4. Operational investment securities			1,622			1,788	
5. Customers' liabilities for acceptances and guarantees			–			153,766	
6. Credit guarantee installment receivables			141,407			–	
7. Other operating receivables			10,489			10,520	
8. Inventory	*2		8,382			11,285	
9. Deferred tax assets			30,809			32,262	
10. Short-term loans	*3		5,187			50,128	
11. Other	*2		53,559			52,171	
Allowance for bad debts			(137,935)			(146,961)	
Total current assets			2,411,119	93.7		2,633,014	94.4
II. Fixed assets							
1. Tangible fixed assets							
(1) Buildings and structures	*2	49,861			51,070		
Total accumulated depreciation		(27,443)	22,418		(28,729)	22,341	
(2) Machinery and vehicles	*2	232			230		
Total accumulated depreciation		(91)	140		(113)	117	
(3) Equipment and fixtures		19,208			26,673		
Total accumulated depreciation		(9,387)	9,821		(11,754)	14,919	
(4) Land	*2		15,653			15,899	
(5) Construction in process account			218			398	
Total tangible fixed assets			48,252	1.9		53,676	1.9
2. Intangible fixed assets							
(1) Software			19,806			20,976	
(2) Telephone rights			691			688	
(3) Consolidation adjustment account			11,007			9,272	
(4) Other			311			27	
Total intangible fixed assets			31,816	1.2		30,965	1.1
3. Investment and other fixed assets							
(1) Investment securities	*4		24,273			32,859	
(2) Claims in bankruptcy	*8		28,535			33,031	
(3) Long-term loans			8,344			140	
(4) Lease deposits and guarantees			12,195			12,118	
(5) Deferred tax assets			4,288			2,904	
(6) Loss on deferred hedge	*9		18,970			10,229	
(7) Other			7,393			6,036	
Allowance for bad debts			(21,547)			(24,753)	
Total investment and other fixed assets			82,453	3.2		72,567	2.6
Total fixed assets			162,522	6.3		157,209	5.6
III. Deferred assets							
Bond issuing expenses			643			744	
Total deferred assets			643	0.0		744	0.0
Total assets			2,574,286	100.0		2,790,969	100.0

		End of previous consolidated fiscal year (As of March 31, 2005)		End of current consolidated fiscal year (As of March 31, 2006)	
Category	Note No	Amount	%	Amount	%
(Liabilities)					
I. Current liabilities					
1. Notes & accounts payable - trade		28,988		28,070	
2. Acceptances and guarantees		–		153,766	
3. Credit guarantees payable		141,407		–	
4. Short-term debts	*2	71,695		113,200	
5. Current portion of bonds		94,000		82,000	
6. Current portion of long-term debts	*2	436,661		434,325	
7. Commercial paper		–		25,000	
8. Income taxes payable		23,597		25,040	
9. Reserve for accrued bonuses		4,243		4,153	
10. Reserve for losses on interest repayments		–		21,074	
11. Gains on deferred installments	*6	14,523		14,021	
12. Other	*2	43,750		46,565	
Total current liabilities		858,865	33.4	947,218	33.9
II. Long-term liabilities					
1. Bonds		384,890		428,500	
2. Long term debts	*2	686,212		709,721	
3. Deferred tax liabilities		–		3,759	
4. Allowance for retirement benefits for employees		687		–	
5. Allowance for retirement benefits for directors		1,419		1,328	
6. Interest swaps		17,834		9,462	
7. Other		1,639		2,321	
Total long-term liabilities		1,092,683	42.4	1,155,092	41.4
Total liabilities		1,951,548	75.8	2,102,310	75.3
(Minority interests)					
Minority interests		5,384	0.2	6,964	0.3
(Shareholders equity)					
I. Common stock	*10	83,317	3.2	83,317	3.0
II. Capital surplus	*1	104,125	4.0	104,125	3.7
III. Retained earnings		427,609	16.6	486,214	17.4
IV. Differences in evaluation of other marketable securities		5,363	0.2	11,001	0.4
V. Treasury stock	*11	(3,063)	(0.0)	(2,964)	(0.1)
Total shareholders' equity		617,352	24.0	681,694	24.4
Total Liabilities, minority interests and shareholders' equity		2,574,286	100.0	2,790,969	100.0

2. Consolidated Statements of Income

(In millions of yen, except where noted)

Category	Note No.	Previous consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005) Amount		%	Current consolidated fiscal year (Apr. 1, 2005 to Mar. 31, 2006) Amount		%
I. Operating revenue							
1. Interest on loans to customers			466,429	90.0		491,357	89.4
2. Credit card revenue			9,090	1.7		11,275	2.1
3. Per-item credit revenue			17,200	3.3		17,675	3.2
4. Credit guarantee revenue			7,087	1.4		8,667	1.6
5. Financial revenue - other							
(1) Interest on deposits		2			2		
(2) Interest on marketable securities		0			0		
(3) Interest on loans		111			0		
(4) Other		31	144	0.0	33	35	0.0
6. Operating revenue - other							
(1) Sales of real estate		–			23		
(2) Revenue from operational investment securities		664			436		
(3) Collection of bad debts		7,719			8,535		
(4) Other		10,077	18,462	3.6	11,539	20,535	3.7
Total operating revenue			518,416	100.0		549,547	100.0
II. Operating expenses							
1. Financial expenses							
(1) Interest expenses		26,534			25,163		
(2) Interest on bonds		8,887			8,629		
(3) Other		4,260	39,682	7.7	3,968	37,762	6.9
2. Cost of sales							
(1) Cost of sales of real estate		–			24		
(2) Cost of sales of operational investment securities		357	357	0.0	149	173	0.0
3. Operating expenses - other							
(1) Advertising expenses		23,669			28,018		
(2) Commissions		25,556			28,490		
(3) Loan losses		11,972			12,331		
(4) Transfer to allowance for bad debts		143,493			153,862		
(5) Transfer to reserve for losses on interest repayments		–			21,074		
(6) Salaries for employees		41,340			44,931		
(7) Transfer to reserve for accrued bonuses		4,209			4,148		
(8) Expenses for retirement benefits for employees		2,098			1,284		
(9) Transfers to allowance for retirement benefits for directors		95			100		
(10) Write-down of consolidation adjustment account		1,940			2,055		
(11) Other		89,284	343,660	66.3	90,199	386,495	70.3
Total operating expenses			383,700	74.0		424,431	77.2
Operating income			134,716	26.0		125,116	22.8
III. Non-operating income							
1. Interest on loans		41			28		
2. Dividends received		140			286		
3. Dividends on insurance		766			607		
4. Gain on investment in anonymous association		–			652		
5. Gain on cancellation of leveraged leases		165			–		
6. Other		378	1,493	0.3	432	2,007	0.3
IV. Non-operating expenses							
1. Interest expenses		189			4		
2. Loss on investment in anonymous association		616			0		
3. Amortization of business establishment expenses		–			41		
4. Other		109	914	0.2	113	159	0.0
Ordinary income			135,294	26.1		126,964	23.1

		Previous consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)			Current consolidated fiscal year (Apr. 1, 2005 to Mar. 31, 2006)		
Category	Note No.	Amount		%	Amount		%
V. Extraordinary income							
1. Gain on sale of fixed assets	*1	–			176		
2. Gain on sale of investment securities		712			60		
3. Allowance for bad debts from previous year		0			0		
4. Gain on liquidation of lease deposits and guarantees		33			144		
5. Gain from transfer of agency portion of employees' pension fund to government		207			–		
6. Gain on transfer to defined contribution pension system		208			421		
7. Other		21	1,184	0.2	1	803	0.1
VI. Extraordinary losses							
1. Loss on sale of fixed assets	*2	383			102		
2. Loss on sale of investment securities		499			65		
3. Impairment losses	*4	–			743		
4. Interest repayments		–			13,108		
5. Write-down of consolidation adjustment account	*3	3,830			–		
6. Dissolution fees for cancellation of contract		412			135		
7. Other		1,912	7,037	1.3	838	14,994	2.7
Net income before taxes			129,441	25.0		112,773	20.5
Corporate tax, local and enterprise taxes		41,025			45,520		
Adjustment on corporate tax, etc.		11,990	53,015	10.3	(145)	45,374	8.2
Gain on minority interests			702	0.1		1,571	0.3
Net income			75,723	14.6		65,827	12.0

3. Consolidated Statements of Retained Earnings

(In millions of yen, except where noted)

		Previous consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)		Current consolidated fiscal year (Apr. 1, 2005 to Mar. 31, 2006)	
Category	Note No.	Amount		Amount	
(Capital surplus)					
I. Capital surplus at the beginning of the year			104,125		104,125
II. Capital surplus at the end of the year			104,125		104,125
(Retained earnings)					
I. Retained earnings at the beginning of the year			357,705		427,609
II. Increase in retained earnings					
Net Income		75,723	75,723	65,827	65,827
III. Decrease in retained earnings					
1. Cash dividends		5,669		7,080	
2. Bonuses to directors		106		126	
3. Loss on price differences in disposal of treasury stock		42	5,819	15	7,222
IV. Retained earnings at the end of the year			427,609		486,214

4. Consolidated Statements of Cash Flows

(In millions of yen, except where noted)

Category	Note No.	Previous consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005) Amount	Current consolidated fiscal year (Apr. 1, 2005 to Mar. 31, 2006) Amount
I. Cash flow from operating activities			
Net income before taxes		129,441	112,773
Depreciation expenses		11,188	11,836
Impairment losses		–	743
Write-down of consolidation adjustment account		5,770	2,055
Loss on valuation of investment securities		499	65
Increase (decrease) in allowance for bad debts		5,002	11,561
Increase (decrease) in reserve for accrued bonuses		179	(103)
Increase (decrease) in reserve for losses on interest repayments		–	21,074
Increase (decrease) in allowance for retirement benefits for employees		(1,557)	(266)
Increase (decrease) in allowance for retirement benefits for directors		1	(91)
Non-operating interest on loans and cash dividends		(182)	(314)
Amortization of bond issuing expenses		591	650
Loss (gain) on sale of fixed assets		376	(73)
Loss on disposal of fixed assets		548	346
Increase on liquidation of lease deposits and guarantees		(33)	(144)
Gain from transfer of agency portion of employees' pension fund to government		(207)	–
Gain on transfer to defined contribution pension system		(208)	(421)
Bonuses paid to directors		(106)	(126)
Decrease (increase) in loans to customers		(134,434)	(121,000)
Decrease (increase) in installment receivables		(38,116)	(17,178)
Decrease (increase) in operational investment securities		505	(121)
Loss (gain) on other trade receivables		(283)	(30)
Decrease (increase) in claims in bankruptcy		(4,875)	(4,495)
Decrease (increase) in inventory		(7,052)	(2,896)
Decrease (increase) in pre-paid expenses		83	(275)
Decrease (increase) in long-term pre-paid expenses		1,815	1,584
Decrease (increase) in other current assets		5,207	1,693
Increase (decrease) in other current liabilities		6,174	972
Other		337	2
Subtotal		(19,335)	17,819
Non-operating interest on loans and cash dividends		182	314
Payments for corporate and other taxes		(44,256)	(44,078)
Cash flow from operating activities		(63,408)	(25,944)

Category	Note No.	Previous consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005) Amount	Current consolidated fiscal year (Apr. 1, 2005 to Mar. 31, 2006) Amount
II. Cash flow from investing activities			
Expenditure due to deposit of term deposits		–	(3)
Revenue from disbursement of term deposits		676	547
Funds provided by sales of securities		120	–
Decrease (increase) in trust beneficiary rights		1,000	–
Funds used for purchase of new subsidiaries	*2	(9,897)	–
Funds used for purchase of tangible fixed assets		(4,293)	(11,800)
Gain on sale of tangible fixed assets		411	719
Funds used for purchase of intangible fixed assets		(5,014)	(7,522)
Funds used for purchase of investment securities		(4,025)	(1,663)
Funds provided by sales of investment securities		2,314	2,867
Decrease (increase) in short-term receivables		14,991	(44,940)
Funds used for long-term loan receivables		(7,116)	(36)
Funds provided by collection of long-term loan receivables		109	1,130
Funds used for purchases of investments and other assets		(13)	(74)
Funds provided by sales of investments and other assets		425	222
Other		(899)	534
Cash flow from investing activities		(11,211)	(60,019)
III. Cash flow from financing activities			
Increase in short-term debts		875,186	989,210
Repayment of short-term debts		(869,351)	(947,705)
Increase (decrease) in commercial paper		(5,000)	25,000
Increase in long-term debts		629,726	514,473
Repayments of long-term debts		(566,683)	(493,654)
Cash from issue of corporate bonds		113,153	124,859
Loss on redemption of bonds		(90,000)	(94,000)
Payment for acquisition of treasury stock		(1,043)	(46)
Cash from disposal of treasury stock		–	129
Cash dividends paid		(5,669)	(7,080)
Cash flow from financing activities		80,318	111,185
IV. Effect of exchange rate changes on cash and cash equivalents		(5)	16
V. Increase (decrease) in cash and cash equivalents		5,692	25,238
VI. Balance of cash and cash equivalents at the beginning of the year		98,329	108,965
VII. Increase in cash and cash equivalents from new consolidations		4,943	173
VIII. Balance of cash and cash equivalents at the end of the year	*1	108,965	134,376

5. Significant Accounting Policies Relating to the Financial Statements

Item	Previous consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)	Current consolidated fiscal year (Apr. 1, 2005 to Mar. 31, 2006)
1. Matters pertaining to consolidation	(1) No. of consolidated subsidiaries: 10 Names of consolidated subsidiaries Tryto Corporation, LIFE Co., Ltd, Businext Corporation, AsTry Loan Services Corporation, Marutoh K.K., City's Corporation, City Green Corporation, Wide Corporation, New Frontier Partners Co., Ltd., TCM Co., Ltd. On April 1, 2004, Happy Credit Co., Ltd., Sinwa Co., Ltd., and Sanyo Shinpan Co., Ltd., merged with Happy Credit as the surviving company, which then changed its name to Tryto Corporation. New Frontier Partners Co., Ltd. has been included in the scope of consolidation from the current consolidated fiscal year in view of its importance, while Wide Corporation and TCM Co., Ltd., have been included in the scope of consolidation from the current consolidated fiscal year through the acquisition of 100% of issued shares in Wide Corporation on June 30, 2004, and the acquisition of 100% of issued shares in TCM on February 21, 2005. (2) Names of non-consolidated subsidiaries Passkey Co., Ltd., and two others (Reasons the companies are excluded from consolidation) Non-consolidated subsidiaries have not been included in the scope of consolidation. This is due to the fact that they are small in size and the total assets, operating income, net profit/loss and retained earnings represented in the Company's share of their equity has a small effect on the consolidated financial statements.	(1) No. of consolidated subsidiaries: 13 Names of consolidated subsidiaries Tryto Corporation, LIFE Co., Ltd, Businext Corporation, AsTry Loan Services Corporation, City's Corporation, Wide Corporation, New Frontier Partners Co., Ltd., TCM Co., Ltd, Passkey Co., Ltd., Id Credit Corporation, Net One Club Corporation, and two others Passkey Co., Ltd., has been included in the scope of consolidation from the current consolidated fiscal year in view of its importance while Id Credit Corporation and Net One Club Corporation have been included in the scope of consolidation from the current consolidated fiscal year because they were newly established in the consolidated fiscal year under review. (2) Names of non-consolidated subsidiaries Life Stock Center Co., Ltd., and one other (Reasons the companies are excluded from consolidation) Non-consolidated subsidiaries have not been included in the scope of consolidation. This is due to the fact that they are small in size and the total assets, operating income, net profit/loss and retained earnings represented in the Company's share of their equity has a small effect on the consolidated financial statements.
2. Matters concerning the application of equity method accounting	Three non-consolidated subsidiaries and two affiliated companies (including Sumishin Life Card Co., Ltd., and one other company), have not adopted the equity method. This is due to the fact that they are small in size, and the sums of AIFUL's share of their consolidated net profit or loss and retained earnings would have a negligible effect on the consolidated financial statements.	Two non-consolidated subsidiaries and two affiliated companies (including Sumishin Life Card Co., Ltd., and one other company), have not adopted the equity method. This is due to the fact that they are small in size, and the sums of AIFUL's share of their consolidated net profit or loss and retained earnings would have a negligible effect on the consolidated financial statements.
3. Matters concerning the fiscal year-end dates of consolidated subsidiaries	The end of the fiscal year for consolidated subsidiaries is the same as the end of the consolidated fiscal year. Consolidated subsidiary Marutoh K.K. has changed its fiscal year-end to March 31.	The end of the fiscal year for consolidated subsidiaries is the same as the end of the consolidated fiscal year.
4 Accounting principles used for standard accounting treatment (1) Important asset valuation standards and valuation methods i) Marketable securities	 Marketable securities for trading purposes Market value method (sale price computed using the moving average method)	 —

Item	Previous consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)	Current consolidated fiscal year (Apr. 1, 2005 to Mar. 31, 2006)
	Other marketable securities Securities valued at market: Market value method based on the market price on the settlement date of the consolidated period. All valuation differences are reflected directly in shareholders' equity, the sale price being computed using the moving average method. Securities not valued at market: Cost method, cost being determined by the moving average method Investments in limited liability investment partnerships and other similar partnerships (regarded as marketable securities under paragraph 2, Article 2 of the Securities and Exchange Law) take the net holding based on the most recent available report depending on the date for the statement of accounts specified in the partnership agreement.	Other marketable securities Securities valued at market: As on left Securities not valued at market: As on left
ii) Inventories	Real estate for sale Lower-of-cost-or-market method, cost being determined by the specific cost method Warehouse goods Cost method, cost being determined by the specific cost method Purchased claims Cost method, cost being determined by the specific cost method	Real estate for sale As on left Warehouse goods As on left Purchased claims As on left
(2) Depreciation methods for depreciable assets		
i) Tangible fixed assets	Diminishing balance depreciation method Major useful lives are as follows: Buildings and structures 2-62 years Machinery and vehicles 2-15 years Equipment and fixtures 2-20 years	As on left
ii) Intangible fixed assets	- Software Straight-line method based on the assumed useful life for internal use (5 years) - Others Straight-line method	As on left As on left
(3) Accounting standards for allowances and reserves		
i) Allowance for bad debts	Provision for losses on bad debts is made up to the necessary amount considering the actual percentage of bad loan write-offs for normal claims, and up to the amount forecast to be irrecoverable based on individual assessments of recoverability for doubtful claims.	As on left
ii) Reserve for accrued bonuses	Provision for accrued bonuses to employees is made by appropriating an amount based on the estimated total bonuses that will be paid during the consolidated fiscal year.	As on left

Item	Previous consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)	Current consolidated fiscal year (Apr. 1, 2005 to Mar. 31, 2006)
iii) Reserve for losses on interest repayments	—	Provision for future interest repayments is made by estimating the forecast amount of repayments based on actual repayments to date and taking into account the recent status of repayments. (Supplementary Information) In the past, AIFUL Corporation and some of its consolidated subsidiaries treated interest repayments as an expense at the time of the expenditure. However, the impact on consolidated financial statements has increased because of the more rigorous application of deemed payment provisions. Therefore, the Company has decided to record an amount equivalent to future interest repayments forecast as of the last day of the fiscal year as a reserve for losses on interest repayments in accordance with the Japanese Institute of Certified Public Accountants Hearing Data No. 24, “Considerations for Accounting at Consumer Finance Companies based on the Supreme Court Decision regarding the Application of the Deemed Payment Provisions of the Money Lending Business Control Law” (Japanese Institute of Certified Public Accountants, March 15, 2006). As a result, current liabilities have increased by 21,074 million yen. Accompanying the calculation of the reserve for losses on interest repayments, “Interest repayments” (4,153 million yen in the previous consolidated fiscal year), which were previously recorded in “Other” under Operating expenses, has been treated as an extraordinary loss. As a result, operating expenses rose 7,965 million yen, while operating income and ordinary income both declined by the same amount. At the same time, extraordinary losses have risen by 13,108 million yen, and net income before taxes has declined 21,074 million yen.
iv) Allowance for retirement benefits for employees	Provision for employees’ retirement benefits is made on the basis of forecast retirement benefit obligations and pension assets at the end of the current consolidated fiscal year. Actuarial differences and past service obligations are generally written off as lump sum expenses in the consolidated fiscal year in which they arise. (Supplementary Information) With the enforcement of the Defined Benefit Corporate Pension Law, AIFUL and some of its consolidated subsidiaries received authorization from the Minister of Health, Labour and Welfare on September 30, 2004 to return the past portion of the agency portion of the employees’ pension fund. The amount returned was confirmed on March 16, 2005. The impact on consolidated profit and loss in the current consolidated fiscal year is 207 million yen recorded as extraordinary income.	— (Supplementary Information) On September 30, 2004, AIFUL Corporation and some of its consolidated subsidiaries received authorization from the Minister of Health, Labour and Welfare to dissolve the AIFUL employees’ pension fund and to introduce defined contribution pensions, and the AIFUL employees’ pension fund was dissolved and a new defined contribution pension system and advance retirement benefit system were adopted on October 1, 2004.

Item	Previous consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)	Current consolidated fiscal year (Apr. 1, 2005 to Mar. 31, 2006)
	AIFUL and some of its consolidated subsidiaries obtained authorization on September 30, 2004 from the Minister of Health, Welfare and Labour to dissolve the AIFUL employees' pension fund and to introduce defined contribution pensions, and a new defined contribution pension system and advance retirement benefit system were adopted on October 1, 2004. However, the amount of assets under management per individual to be transferred to the defined contribution pension system with respect to the portion relating to past service had not been determined as of March 31, 2005. Moreover, with the enforcement of the Defined Contribution Pension Law, some consolidated subsidiaries dissolved the employees' pension fund on March 31, 2005 and revised the retirement pension system as of April 1, 2005, introducing a defined contribution pension system and advance retirement benefit system on the same date. In addition, some consolidated subsidiaries have transferred from the lump sum retirement benefit system to the defined contribution pension and advance retirement benefit systems. The accounting rules in Accounting for Transfers among Retirement Benefit Plans (Financial Accounting Standard Implementation Guidance No. 1) apply to these accounting procedures. The impact of these transfers on consolidated profit and loss in the current consolidated fiscal year is 208 million yen recorded as "Gain on transfer to defined contribution pension system" under extraordinary income.	The amount of assets under management per individual to be transferred to the defined contribution pension system with respect to the portion relating to past service, which had not been determined during the previous consolidated fiscal year, has been determined during the consolidated fiscal year under review. Moreover, some consolidated subsidiaries have transferred from a lump sum retirement benefit system to a defined contribution pensions system and advance retirement benefit system, and some consolidated subsidiaries have abolished the lump sum retirement benefit system. Accounting for Transfers among Retirement Benefit Plans (Financial Accounting Standard Implementation Guidance No. 1) is applied in the treatment of these transfers for accounting purposes. The impact of these transfers on consolidated profit and loss in the current consolidated fiscal year is 421 million yen recorded as "Gain on transfer to defined contribution pension system" under Extraordinary income.
v) Allowance for retirement benefits for directors	The Company provides for retirement benefits for directors by determining the amount to be paid at the end of the consolidated fiscal year based on the regulation for the payment of directors' retirement benefits.	As on left
(4) Significant accounting standards for income and expenses		
i) Interest on loans to customers	Interest on loans to customers is recorded in accordance with accrual standards. Uncollected interest is recorded at the lower of the maximum legal interest rate and the pertinent Company interest rate.	As on left
ii) Accounting standards for income related to installment sales	Commission charges from customers and merchant fees from member stores based upon add-on systems are treated as "gains on deferred installments" in a lump sum at the time the credit contract is concluded, and transferred to revenues at the time the bill is made. However, customer commission charges based upon the diminishing-balance or revolving method are treated as revenues at the time the bill is made. The segment revenue distribution method, based on the add-on system, is the 7:8 method.	As on left
iii) Credit guarantee revenue	Credit guarantee revenues are accounted for with the diminishing-balance method.	As on left
iv) Accounting treatment of interest on debts	Interest on debts used to provide consumer loans is accounted for as "interest expenses" in financial expenses. All other interest expenses are accounted for as "interest expenses" in non-operating expenses.	As on left

Item	Previous consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)	Current consolidated fiscal year (Apr. 1, 2005 to Mar. 31, 2006)
(5) Accounting treatment of lease transactions	In finance lease transactions, other than those in which the title of the leased asset is deemed to be transferred to the lessee, finance leases are treated according to the method used for ordinary loan transactions, *mutatis mutandis*.	As on left
(6) Hedge accounting methods		
i) Hedge accounting methods	The Company uses deferred hedge accounting. The Company also applies appropriation treatment to exchange rate fluctuation risk hedge transactions that meet the requirements for appropriation treatment, and exceptional accounting rules for interest swaps that meet the requirements for exceptional treatment as interest swaps and interest caps.	As on left
ii) Hedging methods and hedged transactions	a. Hedging methods: Currency swaps Hedged transactions: Foreign currency-denominated bonds b. Hedging methods: Interest caps and interest swaps Hedged transactions: Borrowing that will change the Company's cash flow depending upon changes in market interest rates (floating rate bank borrowing and corporate bonds).	a. Hedging methods: As on left Hedged transactions: As on left b. Hedging methods: As on left Hedged transactions: As on left
iii) Hedging policy	The Company uses currency swaps as hedge transactions for exchange rate fluctuation risk related to the payment of principal and interest on foreign currency denominated corporate bonds. The Company uses hedge transactions for interest caps and interest swaps to keep the percentage of fixed interest rate capital at a specified percentage of total capital funds procured.	As on left
iv) Evaluation of hedge effectiveness	The Company determines the effectiveness of its hedging transactions based on a method of ratio analysis covering cumulative changes over a ten-year period. However, no evaluation of the effectiveness of interest swaps based on exceptional accounting rules is conducted.	As on left
(7) Accounting treatment of consumption taxes	Consumption taxes are taken out of all Statement of Income items and Balance Sheet items. Consumption taxes for fixed assets that are not subject to the exclusion, however, are included in "other" under investment and other fixed assets, and are written off using the straight-line method over a five-year period.	As on left
5. Matters relating to the evaluation of the assets and liabilities of consolidated subsidiaries	All assets and liabilities of consolidated subsidiaries are evaluated using the market value method.	As on left
6. Write-off of the consolidation adjustment account	The Company writes off the consolidation adjustment account using the straight-line method over a ten-year period. Items that do not have a significant effect on the consolidated financial statements, however, are written off completely in the year in which the adjustment is made	As on left

Item	Previous consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)	Current consolidated fiscal year (Apr. 1, 2005 to Mar. 31, 2006)
7. Matters relating to the treatment of profit appropriation categories	Consolidated Statements of Retained Earnings are prepared on the basis of profit appropriation determined during the consolidated fiscal year.	As on left
8. Scope of Funds in the Consolidated Statements of Cash Flows	Funds include cash on hand, deposits on demand, and short-term, highly liquid investments with maturities of three months or less at the date of acquisition that are readily convertible to cash and cash equivalents and are subject to only insignificant risk of changes in value.	As on left

6. Changes to Significant Matters Forming the Basis for the Preparation of Consolidated Financial Statements

Previous consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)	Current consolidated fiscal year (Apr. 1, 2005 to Mar. 31, 2006)
—	(Accounting Standard for Impairment of Fixed Assets) The AIFUL Group adopted the Accounting Standard for Impairment of Fixed Assets (Opinion Concerning Establishment of Accounting Standard for the Impairment of Fixed Assets, Business Accounting Council, August 9, 2002 and Implementation Guidance for the Accounting Standard for Impairment of Fixed Assets [Financial Accounting Standard Implementation Guidance No. 6] Accounting Standards Board of Japan, October 31, 2003) from the current consolidated fiscal year. As a result, net income before taxes declined 743 million yen. Cumulative impairment losses are deducted directly from the value of assets based on the amended consolidated financial statement regulations.

7. Changes in Labeling Method

Previous consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)	Current consolidated fiscal year (Apr. 1, 2005 to Mar. 31, 2006)
(Consolidated Balance Sheets) Investments in limited liability investment partnerships and other similar partnerships are deemed securities under paragraph 2, Article 2 of the Securities and Exchange Law based on the Law to Partially Amend the Securities and Exchange Law (Law No. 97 of 2004, June 9, 2004). Accompanying this, investments, etc., in limited liability investment partnerships which the Company included in “Other” under “Investment and other fixed assets” on the consolidated balance sheets until the previous consolidated fiscal year have been included in “Investment securities” from the current consolidated fiscal year. As a result, “Investment securities” increased by 3,313 million yen in the current consolidated fiscal year and “Other” under “Investment and other fixed assets” fell by the equivalent amount.	(Consolidated Balance Sheets) The balances of guarantee obligations related to guarantee operations were hitherto recorded as Credit guarantee installment receivables under Current Assets and Credit guarantees payable under Current Liabilities on the consolidated balance sheets. However, with the change in the method of recording the balance of guarantee obligations on the balance sheets to Customers’ liabilities for acceptance and guarantees under Current Assets and Acceptance and guarantees under Current Liabilities on the balance sheets of AIFUL, and the same method has been adopted for the consolidated balance sheets.

8. Supplementary Information

Previous consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)	Current consolidated fiscal year (Apr. 1, 2005 to Mar. 31, 2006)
On March 31, 2003, Partial Revisions of Regional Tax Laws (Law No. 9 of 2003) was published, and with the incorporation of pro forma standard taxation systems into corporate enterprise taxes from the fiscal year commencing April 1, 2004, the corporate enterprise tax levied in proportion to added value and capital will be included in “Other” under “Operating expenses – other” from the current consolidated fiscal year in accordance with Practical Treatment Concerning Presentation of Pro Forma Standard Taxation Portion of Enterprise Tax in Statements of Income, Practice Report No. 12, February 13, 2004, Accounting Standards Boards of Japan. As a result, “Other operating expenses” increased 1,252 million yen, and operating income, ordinary income and net income before taxes fell 1,252 million yen.	—

9. Notes

A. Notes to the Consolidated Balance Sheets

<table>
<tr><th>Previous consolidated fiscal year
(Apr. 1, 2004 to Mar. 31, 2005)</th><th>Current consolidated fiscal year
(Apr. 1, 2005 to Mar. 31, 2006)</th></tr>
<tr><td>*1 Capital surplus includes an increase of 18,693 million yen in a simple equity swap. This includes a difference of 13,900 million yen recorded in the valuation of subsidiary’s stock incurred in capital consolidation methods.</td><td>*1 As on left</td></tr>
<tr><td>*2 Assets pledged as collateral and corresponding liabilities
(1) Assets pledged as collateral
(In millions of yen)
Cash and deposits 532
Loans 855,522
Installment receivables 58,730
Inventory 113
Buildings and structures 906
Machinery and vehicles 13
Land 1,470
Total 917,288</td><td>*2 Assets pledged as collateral and corresponding liabilities
(1) Assets pledged as collateral
(In millions of yen)
Loans 620,035
Installment receivables 56,922
Inventory 107
Buildings and structures 814
Machinery and vehicles 10
Land 563
Total 678,453</td></tr>
<tr><td>(2) Corresponding liabilities
(In millions of yen)
Short-term debts 53,240
Current portion of long-term debts 229,617
Long term debts 380,695
Current liabilities (other) 170
Total 663,723</td><td>(2) Corresponding liabilities
(In millions of yen)
Short-term debts 56,640
Current portion of long-term debts 153,524
Long term debts 222,268
Total 432,432</td></tr>
<tr><td>Above amounts include items related to the securitization of loans receivables, 344,038 million yen for outstanding loans receivables, 33,276 million yen for the current portion of long-term debts, and 100,989 million yen for the long-term debts.
The matters below are not included in the aforementioned amounts.
• The Company has contracted to offer loans as collateral in response to borrowers’ requests to the sum of 400 million yen for short term debts, 76,016 million yen for the current portion of long-term debts, and 77,995 million yen in long-term debts, totaling 154,411 million yen.
• The Company has also offered 4,456 million yen in cash and cash equivalents as collateral for swap transactions.</td><td>Above amounts include items related to the securitization of loans receivables, 349,796 million yen for outstanding loans receivables, 30,284 million yen for the current portion of long-term debts, and 98,056 million yen for the long-term debts.
The matters below are not included in the aforementioned amounts.
• The Company has contracted to offer 296,225 million yen in loans as collateral in response to borrowers’ requests to the sum of 300 million yen for short term debts, 106,038 million yen for the current portion of long-term debts, and 173,079 million yen in long-term debts, totaling 279,418 million yen.
• The Company has also offered 1,919 million yen in cash and cash equivalents as collateral for swap transactions.</td></tr>
<tr><td>*3 Financial assets accepted as collateral with full rights of disposal and corresponding market values
Commercial paper 4,998 million yen</td><td>*3 Financial assets accepted as collateral with full rights of disposal and corresponding market values
Commercial paper 49,999 million yen</td></tr>
<tr><td>*4 Amount of shares in non-consolidated subsidiaries and affiliated companies included in Investment securities
157 million yen</td><td>*4 Amount of shares in non-consolidated subsidiaries and affiliated companies included in Investment securities
117 million yen</td></tr>
<tr><td>*5 Installment receivables
(In millions of yen)
Card shopping 55,971
Per item shopping 136,430
Other 0
Total 192,401</td><td>*5 Installment receivables
(In millions of yen)
Card shopping 76,767
Per item shopping 132,813
Total 209,581</td></tr>
</table>

Previous consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)	Current consolidated fiscal year (Apr. 1, 2005 to Mar. 31, 2006)

*6 Gains on deferred installments

Previous consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)

(In millions of yen)

	Balance at end of prior period	Gains during period	Amounts realized during period	Balance at end of period
Credit card shopping	377	9,162	9,007	532 (114)
Per item shopping	9,937	20,638	16,930	13,646 (1,492)
Guarantees	428	3,930	4,043	315 (0)
Loans	82	83,170	83,224	29 (-)
Total	10,826	116,902	113,205	14,523 (1,606)

Note: Amounts in parenthesis are merchant fees.

Current consolidated fiscal year (Apr. 1, 2005 to Mar. 31, 2006)

(In millions of yen)

	Balance at end of prior period	Gains during period	Amounts realized during period	Balance at end of period
Credit card shopping	532	11,305	11,175	663 (240)
Per item shopping	13,646	16,858	17,395	13,108 (1,545)
Guarantees	315	4,165	4,241	239 (-)
Loans	29	89,807	89,826	10 (-)
Total	14,523	122,137	122,639	14,021 (1,785)

Note: Amounts in parenthesis are merchant fees.

*7 Securitization of receivables

Previous consolidated fiscal year:

The amount of loans and installment receivables removed from the balance sheets through the securitization of claims stood at 184,027 million yen at the end of the consolidated fiscal year. The break down was as follows:

(In millions of yen)

Loans	99,580
Installment receivables	84,447
Total	184,027

Current consolidated fiscal year:

The amount of loans and installment receivables removed from the balance sheets through the securitization of claims stood at 183,861 million yen at the end of the consolidated fiscal year. The break down was as follows:

(In millions of yen)

Loans	108,400
Installment receivables	75,460
Total	183,861

*8 Bad debts

Previous consolidated fiscal year:

The bad debts included in loans and claims in bankruptcy are shown below:

(In millions of yen)

	Unsecured loans	Other loans	Total
Claims in bankruptcy	6,240	24,779	31,019
Loans in arrears	31,551	28,731	60,283
Loans in arrears longer than 3 months	14,846	6,202	21,049
Loans with adjusted terms	59,780	3,003	62,784
Total	112,418	62,717	175,136

Current consolidated fiscal year:

The bad debts included in loans and claims in bankruptcy are shown below:

(In millions of yen)

	Unsecured loans	Other loans	Total
Claims in bankruptcy	6,505	26,940	33,445
Loans in arrears	45,530	35,190	80,721
Loans in arrears longer than 3 months	20,123	7,440	27,564
Loans with adjusted terms	58,507	3,560	62,068
Total	130,667	73,132	203,800

Explanations for each of the above items follow:

(Claims in bankruptcy)
"Claims in bankruptcy" refers to loans that are included in loans on which principal or interest payments have been continuously late for a considerable period of time for the reasons cited in Article 96, Paragraph 1, Number 3, Items A through E of the Corporate Income Tax Law Execution Ordinance (1965, Ordinance No. 97), or for the reasons set forth in Number 4 of the same paragraph. The Company sets aside a reserve for bad debts that is equivalent to the amount the Company believes it will be unable to recover based on an evaluation of each loan.

(Loans in arrears)
"Loans in arrears" refers to loans other than claims in bankruptcy for which unpaid interest is not accrued. This excludes loans, however, that are included in loans for which the Company has made arrangements convenient to the borrower for the purpose of reorganization or support of the borrower, such as reduction or exemption of interest or extension of the repayment period on which the Company is periodically receiving payments.

(Loans in arrears longer than 3 months)
"Loans in arrears longer than 3 months" refers to loans for which the principal or interest payment is three or more months overdue from the day following the scheduled payment date and that are not regarded as claims in bankruptcy or loans in arrears.

Current consolidated fiscal year:

Explanations for each of the above items follow:

(Claims in bankruptcy)
As on left

(Loans in arrears)
As on left

(Loans in arrears longer than 3 months)
As on left

Previous consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)	Current consolidated fiscal year (Apr. 1, 2005 to Mar. 31, 2006)
(Loans with adjusted terms) "Loans with adjusted terms" refers to loans for which the Company has made arrangements convenient to the borrower for the purpose of reorganization or support of the borrower, such as reduction or exemption of interest or extension of the repayment period on which the Company is periodically receiving payments, and that are not regarded as claims in bankruptcy, loans in arrears or loans in arrears longer than 3 months.	(Loans with adjusted terms) As on left
*9 Gains and losses related to hedging methods are recorded under Loss on deferred hedge on a net basis. The total deferred hedge loss before being netted out was 19,001 million yen. Total deferred hedge gains were 31 million yen.	*9 Gains and losses related to hedging methods are recorded under Loss on deferred hedge on a net basis. The total deferred hedge loss before being netted out was 10,297 million yen. Total deferred hedge gains were 67 million yen.
*10 The total number of shares issued and outstanding in the Company was 94,690,000 shares of common stock.	*10 The total number of shares issued and outstanding in the Company was 142,035,000 shares of common stock.
*11 The Company held 284,465 shares of its common stock as treasury shares.	*11 The Company held 412,124 shares of its common stock as treasury shares.

B. Notes to the Consolidated Statement of Income

Previous consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)	Current consolidated fiscal year (Apr. 1, 2005 to Mar. 31, 2006)
—	*1 Breakdown of gains on sale of fixed assets is as follows: (In millions of yen) Land 172 Other 3 Total 176
*2 Breakdown of loss on sale of fixed assets is as follows: (In millions of yen) Buildings and structures 170 Land 110 Other (Telephone rights, etc.) 101 Total 383	*2 Breakdown of loss on sale of fixed assets is as follows: (In millions of yen) Buildings and structures 17 Land 71 Other (Telephone rights, etc.) 14 Total 102
*3 The amount of tax losses carried forward at a subsidiary at the time of acquisition of the subsidiary's shares that corresponds to the accrued deferred tax assets at the subsidiary following the acquisition of the subsidiary's shares is written off as a lump sum.	—
—	*4 Impairment losses The AIFUL Group recorded the following impairment losses in the current consolidated fiscal year. (1) Assets with recognized impairment losses

Location (Pref.)	Use	Category
Kyoto (Kyoto)	Buildings for lease	Land and buildings, etc.
Osaka (Osaka)	Rental apartments	Land and buildings, etc.
Utsunomiya (Tochigi)	Idle real estate	Land and buildings, etc.
Nasu-gun (Tochigi)	Idle real estate	Land
Tamatsukuri-gun (Miyagi)	Idle real estate	Land

Previous consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)	Current consolidated fiscal year (Apr. 1, 2005 to Mar. 31, 2006)
	(2) Asset grouping method The AIFUL Group uses each operating company in the financial and venture capital businesses, with the exception of idle real estate and real estate for sale, and each property for rental in the real estate business as the smallest unit for asset grouping. (3) Background to recognition of impairment losses The AIFUL Group recognizes impairment losses due to a marked fall in the market price or a deterioration in income from operating activities with respect to some real estate for lease or due to a marked decline in the net sale value from the book value for idle real estate. (4) Amount of Impairment Losses (In millions of yen) Buildings and structures 227 Equipment and fittings 0 Land 516 Total 743 (5) Method of calculation for recoverable value Recoverable value is measured using net sale value for idle real estate and the higher of use value or net sale value for real estate for lease. When use value is used, future cash flow is discounted by 1.85%, and when net sale value is used, the calculation is based on an appraised value by a real estate appraiser.

C. Note to the Consolidated Statement of Cash Flows

Previous consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)	Current consolidated fiscal year (Apr. 1, 2005 to Mar. 31, 2006)
*1 Relationship between the balance of cash and cash equivalents at the end of the consolidated fiscal year and the amounts recorded in the categories shown on the consolidated balance sheet: (In millions of yen) Cash and cash equivalents account 109,575 Term deposits with maturity greater than 3 months (609) Cash and cash equivalents 108,965	*1 Relationship between the balance of cash and cash equivalents at the end of the consolidated fiscal year and the amounts recorded in the categories shown on the consolidated balance sheet: (In millions of yen) Cash and cash equivalents account 134,454 Term deposits with maturity greater than 3 months (77) Cash and cash equivalents 134,376
*2 Breakdown of primary assets and liabilities of the companies that became new subsidiaries due to stock acquisition The breakdown of the assets and liabilities at the start of the consolidated period following the consolidation of Wide Corporation and TCM Co., Ltd., through stock acquisition, the acquisition price of Wide Corporation and TCM Co., Ltd., shares, and the relationship to expenditures (net) made to acquire Wide Corporation and TCM Co., Ltd., are as follows: (In millions of yen) Current assets 80,284 Fixed assets 7,319 Consolidation adjustment account 4,584 Current liabilities (31,061) Long-term liabilities (44,276) Acquisition price of shares 16,849 Balance of cash and cash equivalents at start of fiscal period (6,952) Expenditures to acquire Wide Corporation and TCM Co., Ltd. 9,897	—

D. Notes to Lease Transaction

Previous consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)

1. Finance lease transactions except leases under which the title of the leased asset is deemed to be transferred to the lessee are as follows.

(1) Amount equivalent to acquisition cost, accumulated depreciation and period ending balance of lease assets

(In millions of yen)

	Acquisition cost	Accumulated depreciation	Period ending balance
Buildings and structures	9	3	5
Machinery and vehicles	313	170	143
Equipment and fixtures	19,555	12,755	6,800
Total	19,878	12,929	6,949

(2) Amount equivalent to outstanding balance of future lease payments at the end of the fiscal year

(In millions of yen)

Within one year	3,790
Over one year	3,108
Total	6,899

(3) Amount of lease fee payments, the amount equivalent to depreciation expenses, and the amount equivalent to interest expenses at the end of the consolidated fiscal year

(In millions of yen)

Lease fee payments	6,802
Amount equivalent to depreciation expenses	6,240
Amount equivalent to interest expenses	237

(4) Accounting method for the amount equivalent to depreciation expenses
Calculated by assuming the lease term is the depreciable life and depreciating the remaining amount to zero using the fixed amount method.

(5) Accounting method for the amount equivalent to interest expenses
Interest expense for lease assets is calculated as the difference between the total lease payments and the acquisition price of the leased assets, with the amount allocated to each accounting period using the interest method.

2. Operating lease transactions
Future lease payments

(In millions of yen)

Within one year	109
Over one year	140
Total	250

Current consolidated fiscal year (Apr. 1, 2005 to Mar. 31, 2006)

1. Finance lease transactions except leases under which the title of the leased asset is deemed to be transferred to the lessee are as follows.

(1) Amount equivalent to acquisition cost, accumulated depreciation, accumulated impairment losses, and period ending balance of lease assets

(In millions of yen)

	Acquisition cost	Accumulated depreciation	Period ending balance
Buildings and structures	9	5	4
Machinery and vehicles	95	55	40
Equipment and fixtures	12,878	9,445	3,433
Total	12,983	9,506	3,477

(2) Amount equivalent to outstanding balance of future lease payments at the end of the fiscal year, etc.
Amount equivalent to outstanding balance of future lease payments at the end of the fiscal year

(In millions of yen)

Within one year	2,366
Over one year	1,260
Total	3,626

(3) Amount of lease fee payments, reversal of lease assets impairment account, the amount equivalent to depreciation expenses, and the amount equivalent to interest expenses at the end of the consolidated fiscal year

(In millions of yen)

Lease fee payments	3,939
Amount equivalent to depreciation expenses	3,721
Amount equivalent to interest expenses	121

(4) Accounting method for the amount equivalent to depreciation expenses
As on left

(5) Accounting method for the amount equivalent to interest expenses
As on left

2. Operating lease transactions
Future lease payments

(In millions of yen)

Within one year	349
Over one year	211
Total	560

Impairment losses
There were no impairment losses allocated to lease assets.

E. Marketable Securities

(1) For the Previous Consolidated Fiscal Year (Apr. 1, 2004 to Mar. 31, 2005)

i) Marketable Securities for Trading

(In millions of yen)

Value stated on the consolidated balance sheet at the end of the consolidated fiscal year	Evaluation difference included in consolidated profit and loss for current consolidated fiscal year
1,622	(113)

ii) Other Marketable Securities With Market Value

(In millions of yen)

Segment	Acquisition	Value stated on consolidated balance sheet	Difference
Value stated on the consolidated balance sheet exceeding acquisition cost			
Stocks	7,522	16,591	9,068
Subtotal	7,522	16,591	9,068
Value stated on the consolidated balance sheet not exceeding acquisition cost			
Stocks	1,231	1,030	(201)
Subtotal	1,231	1,030	(201)
Total	8,753	17,621	8,867

Note: In the treatment of impairment losses on marketable securities, when the market price falls to 50% or lower than the acquisition price, this is treated as an impairment loss when there is not considered to be any prospect that the market price will recover to the acquisition price. When the decline is from 30% or more up to anything less than 50%, an amount deemed necessary is treated as an impairment loss, taking into account financial position, business performance and share price trends.

iii) Other Marketable Securities Sold During the Fiscal Year

(In millions of yen)

Sales price	Total gain on sale	Total loss on sale
1,643	712	170

iv) Other Marketable Securities Without Market Price and Value Stated on Consolidated Balance Sheet

(In millions of yen)

Category	Value stated on consolidated balance sheet
1. Non-listed stocks	1,681
2. Investments in limited liability investment partnerships	3,313
3. Other	1,500

Note: In the current consolidated fiscal year, 499 million yen was treated as impairment losses on other marketable securities without market prices.

(2) For the Current Consolidated Fiscal Year (Apr. 1, 2005 to Mar. 31, 2006)

i) Other Marketable Securities with Market Value

(In millions of yen)

Segment	Acquisition	Value stated on consolidated balance sheet	Difference
Value stated on the consolidated balance sheet exceeding acquisition cost			
Stocks	8,146	26,355	18,209
Subtotal	8,146	26,355	18,209
Value stated on the consolidated balance sheet not exceeding acquisition cost			
Stocks	404	372	(32)
Subtotal	404	372	(32)
Total	8,551	26,727	18,176

Note: In the current consolidated fiscal year, 65 million yen was treated as impairment losses on other marketable securities with market prices. In the treatment of impairment losses on marketable securities, when the market price falls to 50% or lower than the acquisition price, this is treated as an impairment loss when there is not considered to be any prospect that the market price will recover to the acquisition price. When the decline is from 30% or more up to anything less than 50%, an amount deemed necessary is treated as an impairment loss, taking into account financial position, business performance and share price trends.

ii) Other Marketable Securities Sold During the Current Fiscal Year

(In millions of yen)

Sales price	Total gain on sale	Total loss on sale
1,194	345	98

iii) Other Marketable Securities Without Market Price and Value Stated on Consolidated Balance Sheet

(In millions of yen)

Category	Value stated on consolidated balance sheet
1. Non-listed stocks	3,513
2. Investments in limited liability investment partnerships	3,789
3. Other	500

Note: In the current consolidated fiscal year, 127 million yen was treated as impairment losses on other marketable securities without market prices.

F. Derivative Transactions

(1) Matters concerning transaction circumstances

Previous consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)	Current consolidated fiscal year (Apr. 1, 2005 to Mar. 31, 2006)
1. Transaction details and purpose of use For borrowings on which it pays a floating interest rate, the Company uses interest swaps for the purpose of avoiding the risk of future fluctuation in the interest rate and interest caps for the purpose of keeping the risk of future fluctuations in the interest rate within certain limits. Moreover, for foreign currency denominated bonds, the Company uses currency swaps for the purpose of avoiding the risk of future fluctuations in the exchange rate. The Company applies hedge accounting to derivative transactions.	1. Transaction details and purpose of use As on left
(1) Hedging methods and hedged transactions a. Hedging methods: Currency swaps Hedged transactions: Foreign currency-denominated bonds b. Hedging methods: Interest caps and interest swaps Hedged transactions: Borrowing that will change the Company’s cash flow depending upon changes in market interest rates (floating rate bank borrowing and corporate bonds)	(1) Hedging methods and hedged transactions a. Hedging methods: As on left Hedged transactions: As on left b. Hedging methods: As on left Hedged transactions: As on left
(2) Hedging Policy The Company uses currency swaps as hedge transactions for exchange rate fluctuation risk related to the payment of principal and interest on foreign currency denominated corporate bonds. The Company uses hedge transactions for interest caps and interest swaps to keep the percentage of fixed interest rate capital at a specified percentage of total capital funds procured.	(2) Hedging policy As on left
(3) Evaluation of hedge effectiveness The Company determines the effectiveness of its hedging transactions based on a method of ratio analysis covering cumulative changes over a ten-year period.	(3) Evaluation of hedge effectiveness As on left
2. Policy on Engaging in Transactions When engaging in derivative transactions, the Company, as a rule, limits such transactions to those that are actually needed. The Company has a policy of not using derivative transactions alone for the purpose of obtaining short-term trading gains.	2. Policy on Engaging in Transactions As on left
3. Details of Risks Involved in Transactions Currency swaps carry risks due to changes in the exchange rate market. Interest swaps carry the risk of changes in market interest rates. The Company concludes it contracts for derivative transactions with creditable major Japanese and overseas financial institutions, and the Company considers there is no credit risk resulting from the failure of the opposite party to execute the contract.	3. Details of Risks Involved in Transactions As on left

Previous consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)	Current consolidated fiscal year (Apr. 1, 2005 to Mar. 31, 2006)
4. Risk Management System for Transactions Based on the Company's Scope of Authority Regulations, the director in charge of the Finance Division drafts currency swaps, interest swaps and interest caps, which are approved and resolved by the board of directors and managed based on the separate specifications of the Risk Management Manual. The Company also determines impact loans with currency contracts on the basis of the authority specified in its Scope of Authority Regulations. These transactions are executed by the Finance Division, and management of the operational status of transactions is conducted through checks and balances within the Finance Department and reporting to the Accounting Department.	4. Risk Management System for Transactions As on left

(2) Matters relating to Market Price of Transactions

End of previous consolidated fiscal year (As of Mar. 31, 2005)	End of current consolidated fiscal year (As of Mar. 31, 2006)
The Company employs hedge accounting to all transactions, so there are no relevant matters.	As on left

G. Retirement Benefits

Previous consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)	Current consolidated fiscal year (Apr. 1, 2005 to Mar. 31, 2006)
1. With the enforcement of the Defined Contribution Pension Law, AIFUL and its consolidated subsidiaries have abolished the employees' pension fund, the approved retirement annuities, and the retirement lump sum grant systems, and shifted to defined contribution pension and advance retirement benefit systems.	1. AIFUL Corporation and some of its consolidated subsidiaries employ both the defined contribution pension system and the advance retirement benefit system.
2. Retirement benefit liabilities (In millions of yen) a. Retirement benefit liabilities (8,236) b. Pension assets 7,032 c. Difference between provisional and actuarial calculations 516 d. Allowance for retirement benefits for employees (a+b+c) (687) The impact of the shift from the employees' pension fund, approved retirement annuities and retirement lump sum grant systems to the defined contribution pension and advance retirement benefit systems is as follows. (In millions of yen) Decrease in retirement benefit liabilities 4,281 Decrease in pension assets (3,605) Difference between provisional and actuarial calculations (467) Decrease in allowance for retirement benefits for employees 208	—
3. Retirement benefit expenses (In millions of yen) Service expenses* 761 Interest expenses 277 Expected investment income (183) Expenses for past service liability 620 Difference between provisional and actuarial calculations 242 Payments relating to advance retirement benefits 149 Installment payments for defined contribution pensions 229 Retirement benefit expenses 2,098 * Employees' contributions to employees' pension funds have been deducted.	2. Retirement benefit expenses (In millions of yen) Service expenses 47 Payments relating to advance retirement benefits 454 Installment payments for defined contribution pensions 782 Retirement benefit expenses 1,284

Previous consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)	Current consolidated fiscal year (Apr. 1, 2005 to Mar. 31, 2006)
4. Calculation standards for retirement benefit liabilities Predicted retirement benefit periodical distribution method: Fixed amount standard Discount rate: 1.5 - 2.5% Expected investment income rate: 1.5 - 2.0% Number of years to treat actuarial differences Mainly collective treatment in fiscal year of accrual AIFUL: Collective treatment in fiscal year of accrual Some subsidiaries: Treatment over ten years from fiscal year following fiscal year of accrual Number of years to treat past service liability Mainly collective treatment in fiscal year of accrual AIFUL: Collective treatment in fiscal year of accrual Some subsidiaries: Treatment over ten years from fiscal year following fiscal year of accrual	—

H. Tax Effect Accounting

End of previous consolidated fiscal year (As of Mar. 31, 2005)

1. Principal cause of deferred tax assets and deferred tax liabilities

Deferred tax assets (current)

	(In millions of yen)
Excess amount transferred to allowance for bad debt accounts	1,583
Denied amount of bad debt depreciation	12,519
Loss carried forward	10,102
Accrued enterprise tax	1,494
Reserve for accrued bonuses	1,724
Unrecorded interest payments due	3,347
Other	921
Sub-total of deferred tax assets (current)	31,693
Valuation allowance	(869)
Amount offset against deferred tax liabilities (current)	(14)
Total deferred tax assets (current)	30,809

Deferred tax assets (fixed)

	(In millions of yen)
Loss carried forward	2,108
Excess amount transferred to allowance for bad debt accounts	669
Excess amount of depreciation and amortization	3,152
Valuation differences of investment securities	1,240
Other	2,283
Sub-total of deferred tax assets (fixed)	9,453
Valuation allowance	(1,534)
Amount offset against deferred tax liabilities (fixed)	(3,631)
Total deferred tax assets (fixed)	4,288
Total deferred tax assets	35,097

Deferred tax liabilities (current)

	(In millions of yen)
Other	(14)
Total deferred tax liabilities (current)	(14)
Amount offset against deferred tax assets (current)	14
Total deferred tax liabilities (current)	—

End of current consolidated fiscal year (As of Mar. 31, 2006)

1. Principal cause of deferred tax assets and deferred tax liabilities

Deferred tax assets (current)

	(In millions of yen)
Reserve for losses on interest repayments	8,562
Excess amount transferred to allowance for bad debt accounts	853
Denied amount of bad debt depreciation	12,291
Loss carried forward	2,183
Accrued enterprise tax	1,736
Reserve for accrued bonuses	1,687
Unrecorded interest payments due	3,804
Other	1,254
Sub-total of deferred tax assets (current)	32,373
Valuation allowance	(111)
Total deferred tax assets (current)	32,262

Deferred tax assets (fixed)

	(In millions of yen)
Loss carried forward	1,459
Excess amount transferred to allowance for bad debt accounts	734
Excess amount of depreciation and amortization	2,837
Valuation differences of other marketable securities	1,168
Other	2,735
Sub-total of deferred tax assets (fixed)	8,935
Valuation allowance	(2,357)
Amount offset against deferred tax liabilities (fixed)	(3,673)
Total deferred tax assets (fixed)	2,904
Total deferred tax assets	35,167

Deferred tax liabilities (fixed)

	(In millions of yen)
Valuation differences of other marketable securities	7,432
Total of deferred tax liabilities (fixed)	7,432
Amount offset against deferred tax assets (fixed)	(3,673)
Total of deferred tax liabilities (fixed)	3,759
Total deferred tax liabilities	3,759

End of previous consolidated fiscal year (As of Mar. 31, 2005)	End of current consolidated fiscal year (As of Mar. 31, 2006)
Deferred tax liabilities (fixed) (In millions of yen) Valuation differences of other marketable securities (3,631) Total of deferred tax liabilities (fixed) (3,631) Amount offset against deferred tax assets (fixed) 3,631 Total of deferred tax liabilities (fixed) — Total deferred tax liabilities —	
2. Principal items which caused differences between statutory effective tax rate and income tax charge rate after adoption of tax effect accounting Statutory effective tariff 40.6% (Adjusted) Per capita inhabitant tax 0.4% Write-down of consolidation adjustment account not included in losses 1.7% Change in valuation reserve (1.4)% Other (0.3)% Charge rate of income tax after adoption of tax effect accounting 41.0%	2. Principal items which caused differences between statutory effective tax rate and income tax charge rate after adoption of tax effect accounting Omitted because the difference between the statutory effective tax rate and income tax charge rate after adoption of tax effect accounting is 5% or less of the statutory effective tax rate.

I. Segment Information

(1) Segment Information by Type of Business, Location, and Foreign Sales

	Previous consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)	Current consolidated fiscal year (Apr. 1, 2005 to Mar. 31, 2006)
By type of business	The Company has omitted segment information by type of business, as the consumer loan business accounts for more than 90% of total operating revenues, operating income and assets in all of the Company's business segments.	As on left
By location	The Company did not report segment information by location, as the Company did not have any consolidated subsidiaries or important offices located in countries or regions outside of Japan during the period.	As on left
Foreign sales	The Company did not have any foreign sales during the period.	As on left

(2) Transactions with Concerned Parties

i) Transactions with Directors and Major Individual Shareholders in Previous Consolidated Fiscal Year (Apr. 1, 2004 to Mar. 31, 2005)

(In millions of yen)

Property	Name	Address	Capital or investment in capital	Operating activities or occupation	Ratio of ownership of voting rights (%)	Transactions	Transaction amounts[5]	Item	Balance at period-end
Director	Yoshitaka Fukuda	–	–	Representative Director, President, AIFUL	Eligible ownership: 19.79% of direct voting rights	Land lease	12[1]	–	–
				Representative Director, President, Kyoto Data Center Co., Ltd.	As above	Payment of fees relating to the provision of personal credit information	184[2]	–	–
						Transfer of shares	0	–	–
	Takashi Komoto	–	–	Director	Eligible ownership: 0.00% of direct voting rights	Loans	9[3]	–	–
	Masami Munetake	–	–	Director	Eligible ownership: 0.00% of direct voting rights	As above	19[3]	–	–
	Masayuki Sato	–	–	Director	Eligible ownership: 0.00% of direct voting rights	As above	28[3]	–	–
	Kazumitsu Oishi	–	–	Director	Eligible ownership: 0.00% of direct voting rights	As above	28[3]	–	–
	Kazuyoshi Wakamatsu	–	–	Director	Eligible ownership: 0.00% of direct voting rights	As above	19[3]	–	–
	Takashi Noda[4]	–	–	Director	–	As above	38[3]	–	–

Notes: 1 Transactions for the use of land for the Saiin Building are based upon values given by real estate appraisers.
2 Transactions with Kyoto Data Center are so-called third-party transactions.
3 The balance of loans is zero as of March 31, 2005.
4 Takashi Noda retired as Director effective June 25, 2004.
5 Transaction amounts do not include consumption tax.

ii) Transactions with Directors and Major Individual Shareholders in Current Consolidated Fiscal Year (Apr. 1, 2005 to Mar. 31, 2006)

(In millions of yen)

Property	Name	Address	Capital or investment in capital	Operating activities or occupation	Ratio of ownership of voting rights (%)	Transactions	Transaction amounts[4]	Item	Balance at period-end
Director	Yoshitaka Fukuda	–	–	Representative Director, President, AIFUL	Eligible ownership: 19.79% of direct voting rights	Land lease	9[1]	–	–
				Representative Director, President, Kyoto Data Center Co., Ltd.	As above	Payment of fees relating to the provision of personal credit information	184[2]	–	–
				Representative Director, Sanko, Inc.	As above	Payment of real estate rentals	12[2]	–	–
						Transfer of real estate	230[3]		

Notes 1 Transactions for the use of land for the Saiin Building are based upon values given by real estate appraisers.
2 Transactions with Kyoto Data Center Co., Ltd., and Sanko, Inc. are so-called transactions on behalf of a third party.
3 Transaction amounts are based upon appraisal values given by real estate appraisers.
4 Transaction amounts do not include consumption tax.

J. Per Share Information

Item	Previous consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)	Current consolidated fiscal year (Apr. 1, 2005 to Mar. 31, 2006)
Net assets per share Net income per share Diluted net income per share	6,538.03 yen 800.36 yen 800.30 yen	4,813.45 yen 464.84 yen 464.69 yen The Company conducted a 1:1.5 stock split on May 23, 2005. Assuming that the stock split was conducted at the beginning of the previous fiscal year, per share information is as follows. (Yen) Previous consolidated fiscal year Net assets per share 4,358.69 Net income per share 533.57 Diluted net income per share 533.53

Basis for calculation of net income per share and diluted income per share

Item	Previous consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)	Current consolidated fiscal year (Apr. 1, 2005 to Mar. 31, 2006)
Net Income	75,723 million yen	65,827 million yen
Amount not attributable to common stock shareholders	126 million yen	–
Includes directors' bonuses distribution of profit	(126 million yen)	(–)
Net income relating to common stock	75,596 million yen	65,827 million yen
Average number of shares of common stock during the period	94,453,068 shares	141,613,814 shares
Diluted net income per share		
Adjusted net income	–	–
Increase in number of common stock	7,336 shares	44,799 shares
(of which stock options through acquisition of treasury stock)	(6,399 shares)	(14,460 shares)
(of which warrants)	(937 shares)	(30,339 shares)
Outline of stock not included in diluted net income per share due to lack of dilutary effect	—	New share subscription-type stock options (No. of shares: 357,900) decided upon at the 28th ordinary general meeting of shareholders (June 24, 2005)

K. Significant Subsequent Events

Previous consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005)	Current consolidated fiscal year (Apr. 1, 2005 to Mar. 31, 2006)
Based on the resolution of the Board of Directors' meeting on February 21, 2005, the Company is issuing new stock through the stock split as follows. 1. A 1:1.5 split as of May 23, 2005. (1) Increase in number of shares due to stock split Common stock 47,345,000 (2) Method of split A 1:1.5 stock split will be applied to the number of shares owned by shareholders listed in the register of shareholders and the register of beneficial shareholders at the close of March 31, 2005. 2. Initial date in reckoning for dividend April 1, 2005. Per share information for the previous consolidated fiscal year assuming that the stock split had been conducted at the beginning of the previous fiscal year and per share information for the current consolidated fiscal year assuming that the stock split had been conducted at the beginning of the current fiscal year are as below. (Yen) | | Previous consolidated fiscal year | Current consolidated fiscal year | | Net assets per share | 3,863.05 | 4,358.69 | | Net income per share | 440.65 | 533.57 | | Diluted net income per share | – | 533.53 |	On April 14, 2006, the Kinki Finance Bureau of the Financial Services Agency imposed penalties based on the provisions of item 1, Article 36 of the Money Lending Business Control and Regulation Law (Law No. 32 of 1983), halting all operations at the Company's branches and business offices for a set period (except for the receipt of repayments and operations related to credit protection.) The impact of the administrative penalties on the Company's consolidated financial position and business performance for the next fiscal year and beyond is not known.

VI. Results of Operations

1. Operating Revenue

(In millions of yen)

Item		Previous consolidated fiscal year (Apr. 1, 2004 to Mar. 31, 2005) Amount	%	Current consolidated fiscal year (Apr. 1, 2005 to Mar. 31, 2006) Amount	%
Interest on loans to customers	Unsecured loans	387,839	74.8	405,061	73.7
	Secured loans	56,531	10.9	56,144	10.2
	Small business loans	22,059	4.3	30,151	5.5
	Sub-total	466,429	90.0	491,357	89.4
Credit card revenue		9,090	1.7	11,275	2.1
Per-item credit revenue		17,200	3.3	17,675	3.2
Credit guarantee revenue		7,087	1.4	8,667	1.6
Other financial revenue	Interest on deposits	2	0.0	2	0.0
	Interest on marketable securities	0	0.0	0	0.0
	Interest on loans	111	0.0	0	0.0
	Other	31	0.0	33	0.0
	Sub-total	144	0.0	35	0.0
Other operating revenue	Sales of real estate	—	—	23	0.0
	Revenue from operational investment securities	664	0.1	436	0.0
	Bad debt write-off recovery	7,719	1.5	8,535	1.6
	Other	10,077	2.0	11,539	2.1
	Sub-total	18,462	3.6	20,535	3.7
Total		518,416	100.0	549,547	100.0

Note: "Other" included in other operating revenue includes collection of purchased claims and card membership fees.

2. Other Operating Indicators

Item	End of previous consolidated fiscal year (As of Mar. 31, 2005)	End of current consolidated fiscal year (As of Mar. 31, 2006)
Total amount of loans outstanding (millions of yen)	2,095,201	2,232,417
Unsecured loans	1,622,032	1,708,118
Secured loans	352,213	357,025
Small business loans	120,955	167,273
Number of customer accounts	3,796,141	3,898,954
Unsecured loans	3,618,577	3,694,796
Secured loans	99,827	104,656
Small business loans	77,737	99,502
Number of branches	2,326	2,722
Staffed branches	884	873
Unstaffed branches	1,442	1,849
Number of automatic loan-contracting machines	2,170	2,249
Number of loan application processing machines	7	310
Number of ATMs	148,705	159,083
Company-owned	2,292	2,361
Partner-owned	146,413	156,722
Number of employees	6,510	6,675
Bad debt write-off (millions of yen)	145,327	149,830
Allowance for bad debts (millions of yen)	159,483	171,715
Net income per share (yen)	800.36	464.84
Net assets per share (yen)	6,538.03	4,813.45

Notes: 1. Total amount of loans outstanding and the number of customer accounts do not include loans and customer accounts related to claims in bankruptcy. Furthermore, off-balance sheet operating loans from the securitization of receivables (99,580 million yen at the end of previous fiscal year and 108,400 million yen at the end of the current fiscal year) have been included.

2. Bad debt write-off does not include losses on claims in bankruptcy, which came to 5,043 million yen in the previous consolidated fiscal year, and 4,808 million yen in the current consolidated fiscal year.